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

FORM 10-K

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended June 30, 1997

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File No. 1-6407

SOUTHERN UNION COMPANY
(Exact name of registrant as specified in its charter)

Delaware	75-0571592
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
504 Lavaca Street, Eighth Floor Austin, Texas	78701
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code:
(512) 477-5852

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $1 per share	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ___

The aggregate market value of the voting stock held by non-affiliates of the registrant on September 12, 1997, was $224,553,757. The number of shares of the registrant's Common Stock outstanding on September 12, 1997 was 17,122,736.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Annual Report to Stockholders for the year ended June 30, 1997, are incorporated by reference in Parts II and IV.

Portions of the registrant's proxy statement for its annual meeting of stockholders to be held on November 11, 1997, are incorporated by reference into Part III.

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PART I

ITEM 1. Business.

Introduction

Southern Union Company (Southern Union and together with its subsidiaries, the Company) was incorporated under the laws of the State of Delaware in 1932. Southern Union is one of the top 15 gas utilities in the United States, as measured by number of customers. The Company's principal line of business is the distribution of natural gas as a public utility through Southern Union Gas and Missouri Gas Energy (MGE), each of which is a division of Southern Union. Southern Union Gas, headquartered in Austin, Texas, serves 497,000 residential, commercial, industrial, agricultural and other customers in Texas (including the cities of Austin, Brownsville, El Paso, Galveston and Port Arthur). MGE, headquartered in Kansas City, Missouri, serves 474,000 customers in central and western Missouri (including the cities of Kansas City, St. Joseph, Joplin and Monett). The diverse geographic area of the Company's natural gas distribution systems reduces the sensitivity of Southern Union's operations to weather risk and local economic conditions.

Subsidiaries of Southern Union have been established to support and expand natural gas sales and to capitalize on the Company's gas energy expertise. These subsidiaries market natural gas to end-users, operate natural gas pipeline systems, distribute propane and sell commercial gas air conditioning and other gas-fired engine-driven applications. By providing "one-stop shopping," the Company can serve its various customers' specific energy needs, which encompass substantially all of the natural gas dis tribution and sales businesses from natural gas sales to specialized energy consulting services. The Company distributes propane to 3,600 customers in western Texas. Certain subsidiaries own or hold interests in real estate and other assets, which are primarily used in the Company's utility business. Central to all of the Company's present businesses and strategies is the sale and transportation of natural gas. See Company Operations.

The Company is a sales and market-driven energy company whose management is committed to achieving profitable growth of its utility businesses in an increasingly competitive business environment. Management's strategies for achieving these objectives principally consist of: (i) promoting new sales opportuni ties and markets for natural gas and propane; (ii) enhancing financial and operating performance; and (iii) expanding the Company through development of existing utility businesses and selective acquisition of new utilities businesses. Management develops and continually evaluates these strategies and their implementation by applying their experience and expertise in analyzing the energy industry, technological advances, market opportunities and general business trends. Each of these strategies, as implemented throughout the Company's existing businesses, reflects the Company's commitment to its core gas utility business.

The Company has a goal of selected growth and expansion, primarily in the utilities industry. To that extent, the Company intends to consider, when appropriate, and if financially practicable to pursue, the acquisition of other utility distribution or transmission businesses. The nature and location of any such properties, the structure of any such acquisitions, and the method of financing any such expansion or growth will be determined by management and the Southern Union Board of Directors. See Management's Discussion and Analysis of Results of Operations and Financial Condition (MD&A) -- Cautionary Statement Regarding Forward-Looking Information contained in the Company's Annual

Report to Stockholders for the year ended June 30, 1997 (the Annual Report), portions of which are filed as Exhibit 13 hereto.

Changes in Capital Structure

On May 17, 1995, Southern Union Financing I (Subsidiary Trust), a consolidated wholly-owned subsidiary of Southern Union, issued $100,000,000 of 9.48% Trust Originated Preferred Securities (Preferred Securities). In connection with the Subsidiary Trust's issuance of the Preferred Securities and the related purchase by Southern Union of all of the Subsidiary Trust's common securities (Common Securities), Southern Union issued to the Subsidiary Trust $103,092,800 principal amount of its 9.48% Subordinated Deferrable Interest Notes, due 2025 (Subordinated Notes). The issuance of the Preferred Securities was part of a $300,000,000 shelf registration filed with the Securities and Exchange Commission on March 29, 1995. Southern Union may sell a combination of preferred securities of financing trusts and senior and subordinated debt securities of Southern Union of up to $196,907,200 (the remaining shelf) from time to time, at prices determined at the time of any offering. The net proceeds from the Preferred Securities offering, along with working capital from operations, were used to repurchase $90,485,000 of 7.60% Senior Debt Securities due 2024 (Senior Notes) through June 1996 with the remaining balance used to provide working capital for seasonal needs. See Preferred Securities of Subsidiary Trust and Debt in the Notes to the Consolidated Financial Statements contained in the Annual Report.

Southern Union has the right under the Subordinated Notes to defer interest payment periods up to 20 consecutive quarters, and, as a consequence, quarterly distributions on the Preferred Securities may be deferred (but will continue to accrue with interest thereon at a per annum rate of 9.48% compounded quarterly) by the Subsidiary Trust during any such extended interest payment period. If interest payments are deferred by Southern Union, Southern Union: (i) may not pay cash dividends, or redeem, purchase or acquire, or make a liquidation payment with respect to, any of its capital stock or the capital stock of any subsidiary of Southern Union; and (ii) shall not make any payment of interest, principal or premium, if any, on or repay, repurchase or redeem any debt securities issued by Southern Union that rank pari passu with or junior to the subordinate debentures.

The following table sets forth the summary capitalization of the Company.

	June 30, 1997		June 30, 1996	
	Amount	Percent	Amount	Percent
	(thousands, except percentages)			
Long-term debt				
Senior Notes..............	$384,515		$384,515	
Other.....................	1,642		879	
	386,157	51.2%	385,394	52.7%
Company-obligated Preferred Securities of Trust........	100,000	13.3	100,000	13.7
Common stockholders' equity..	267,462	35.5	245,915	33.6
Total capitalization.......	$753,619	100.0%	$731,309	100.0%

Company Operations

The Company's principal line of business is the distribution of natural gas through its Southern Union Gas and MGE divisions. Southern Union Gas provides service to a number of communities and rural areas in Texas, including the municipalities of Austin, Brownsville, El Paso, Galveston, Harlingen, McAllen and Port Arthur. MGE provides service to various cities and communities in central and western Missouri including Kansas City, St.

Joseph, Joplin and Monett. The Company's gas utility operations are generally seasonal in nature, with a significant percentage of its annual revenues and earnings occurring in the traditional winter heating season.

Mercado Gas Services Inc. (Mercado), a wholly-owned subsidiary of Southern Union, markets natural gas to commercial and industrial customers. Mercado's sales and purchasing activities are made through short-term and long-term contracts. These contracts and business activities are not subject to direct rate regulation.

Southern Transmission Company (Southern), a wholly-owned subsidiary of Southern Union, owns and operates intrastate pipelines which connect the cities of Lockhart, Luling, Cuero, Shiner, Yoakum, and Gonzales, Texas, as well as a line that provides gas to an industrial customer in Port Arthur, Texas. Southern also owns a transmission line which supplies gas to the community of Sabine Pass, Texas. In September 1997, Southern purchased a 45-mile intrastate pipeline for $305,000 which will augment gas supply to the city of Eagle Pass, Texas, and ultimately into Piedras Negras, Mexico.

Norteno Pipeline Company (Norteno), a wholly-owned subsidiary of Southern Union, operates interstate pipeline systems principally serving the Company's gas distribution properties in the El Paso, Texas area. Norteno transported a combined 17 billion cubic feet (Bcf) for the city of Juarez, Mexico and the Samalayuca Power Plant in north Mexico in fiscal 1997.

SUPro Energy Company (SUPro), a wholly-owned subsidiary of Southern Union formed in August 1996, primarily provided propane gas services to 2,300 customers located principally in El Paso, Texas during 1997 while selling 2,417,000 gallons of propane. On June 30, 1997, SUPro acquired additional propane operations, adding 1,300 customers located in and around Alpine, Texas.

Energy WorX, a wholly-owned subsidiary of Southern Union formed in March 1996, provides interactive computer-based training for the natural gas transmission and distribution industry.

Southern Union Total Energy Systems, Inc., formerly Southern Union Energy Products and Services Company, a wholly-owned subsidiary of Southern Union, markets and sells commercial gas air conditioning, irrigation pumps and other gas-fired engine-driven applications and related services.

Southern Union Energy International, Inc. (SUEI) and Southern Union International Investments, Inc. (Investments), both wholly-owned subsidiaries of Southern Union, participate in energy related projects internationally. Energia Estrella del Sur, S. A. de C. V. (Estrella), a wholly-owned Mexican subsidiary of SUEI and Investments, participate in energy-related projects in Mexico. Subsequent to June 30, 1997, Estrella acquired a 42% equity ownership in a natural gas distribution company which serves 16,000 customers in Piedras Negras, Mexico, across the border from Southern Union Gas' Eagle Pass, Texas service area.

ConTigo, Inc., a wholly-owned subsidiary of Southern Union formed in January 1996, provides centralized call center services for the majority of the Texas service areas.

Econofuel Company (Econofuel), a formerly wholly-owned subsidiary of Southern Union, marketed and sold natural gas for natural gas vehicles (NGVs) as an alternative fuel to gasoline. Econofuel owned fuel dispensing equipment in Austin, El Paso, Port Arthur, and Galveston, Texas, located at independent retail fuel stations for NGVs. In January 1997, Econofuel was dissolved. See MD&A -- Other Income (Expense), Net contained in the Annual Report.

The Company also holds investments principally in commercially developed real estate in Austin, El Paso and Kansas City through Southern Union's wholly-owned subsidiary, Lavaca Realty Company (Lavaca Realty).

Competition

The Company's gas distribution divisions are not currently in significant direct competition with any other distributors of natural gas to residential and small commercial customers within their service areas. However, in recent years, certain large volume customers, primarily industrial and significant commercial customers, have had opportunities to access alternative natural gas supplies and, in some instances, delivery service from other pipeline systems. The Company has offered transportation arrangements to customers who secure their own gas supplies. These transportation arrangements, coupled with the efforts of Southern Union's unregulated marketing subsidiary, Mercado, enable the Company to provide competitively priced gas service to these large volume customers. In addition, the Company has successfully used flexible rate provisions, when needed, to retain customers who may have access to alternative energy sources.

As energy providers, Southern Union Gas and MGE have historically competed with alternative energy sources, particularly electricity and also propane, coal, natural gas liquids and other refined products available in the Company's service areas. At present rates, the cost of electricity to residential and commercial customers in the Company's service areas generally is higher than the effective cost of natural gas service. There can be no assurance, however, that future fluctuations in gas and electric costs will not reduce the cost advantage of natural gas service. The cost of expansion for peak load requirements of electricity in some of Southern Union Gas' and MGE's service areas has historically provided opportunities to allow energy switching to natural gas pursuant to integrated resource planning techniques. Electric competition has responded by offering equipment rebates and incentive rates.

Competition between the use of fuel oils, natural gas and propane, particularly by industrial, electric generation and agricultural customers, has also increased due to the volitility of natural gas prices and increased marketing efforts from various energy companies. While competition between such fuels is generally more intense outside the Company's service areas, this competition affects the nationwide market for natural gas. Additionally, the general economic conditions in its service areas continue to affect certain customers and market areas, thus impacting the results of the Company's operations.

Gas Supply

The low cost of natural gas service is dependent upon the Company's ability to contract for natural gas using favorable mixes of long-term and short-term supply arrangements and favorable transportation contracts. The Company has been directly acquiring its gas supplies since the mid-1980s when interstate pipeline systems opened their systems for transportation service. The Company has the organization, personnel and equipment necessary to dispatch and monitor gas volumes on a daily and even hourly basis to ensure reliable service to customers.

The Federal Energy Regulatory Commission (FERC) required the "unbundling" of services offered by interstate pipeline companies beginning in 1992. As a result, gas purchasing and transportation decisions and associated risks have been shifted from the pipeline companies to the gas distributors. The increased demands on distributors to effectively manage their gas supply in an environment of volatile gas prices provides an advantage to distribution companies such as Southern Union who have demonstrated a history of contracting favorable and efficient gas supply arrangements in an open market system.

The majority of Southern Union Gas' 1997 gas requirements for utility operations were delivered under long-term transportation contracts through four major pipeline companies. The majority of MGE's 1997 gas requirements were delivered under short- and long-term transportation contracts through three major pipeline companies. These contracts have various expiration dates ranging from 1998 through 2016. Southern Union Gas also purchases significant volumes of gas under long-term and short-term arrangements with suppliers. The amounts of such short-term purchases are contingent upon price. Southern Union Gas and MGE both have firm supply commitments for all areas that are supplied with gas purchased under short-term arrangements. MGE also holds contract rights to over 16 Bcf of storage capacity to assist in meeting peak demands.

Gas sales and/or transportation contracts with interruption provisions, whereby large volume users purchase gas with the understanding that they may be forced to shut down or switch to alternate sources of energy at times when the gas is needed for higher priority customers, have been utilized for load management by Southern Union and the gas industry as a whole for many years. In addition, during times of special supply problems, curtailments of deliveries to customers with firm contracts may be made in accordance with guidelines established by appropriate federal and state regulatory agencies. There have been no supply-related curtailments of deliveries to Southern Union Gas or MGE utility sales customers during the last ten years.

During 1997, the Company was impacted by significant increases in natural gas prices. The following table shows, for each of the Company's principal utility service areas, the percentage of gas utility revenues and sales volume for the years ended June 30, 1997 and 1996 and the average cost per thousand cubic feet (Mcf) of gas in 1997.

Service Area	Percent of Gas Utility Revenues		Percent of Gas Utility Sales Volume		Average Cost Per Mcf	
	1997	1996	1997	1996	1997	1996
Southern Union Gas						
Austin and South Texas....	12	11	11	11	$3.47	$2.43
El Paso and West Texas....	13	10	16	15	3.36	2.02
Rio Grande Valley.........	4	5	3	4	3.90	3.73
Other....................	6	7	6	6	3.33	2.49
	35	33	36	36		
Missouri Gas Energy.........	65	67	64	64	4.03	3.42
	100	100	100	100		

The Company is committed under various agreements to purchase certain quantities of gas in the future. At June 30, 1997, the Company has purchase commitments for nominal quantities of gas at fixed prices. These fixed price commitments have an annual value of $2,500,000 for Southern Union Gas. MGE currently does not have any fixed price commitment contracts for the 1997/1998 winter heating season. At June 30, 1997, the Company also has purchase commitments for certain quantities of gas at variable, market-based prices. These market-based price commitments have an annual value of $49,700,000 for Southern Union Gas and $72,100,000 for MGE. The Company's purchase commitments may extend over a period of several years depending upon when the required quantity is purchased. The Company has purchase gas tariffs in effect for all its utility service areas that provide for recovery of its purchase gas costs under defined methodologies.

In August 1997, the Missouri Public Service Commission (MPSC) issued an order authorizing MGE to begin making semi-annual purchase gas adjustments in November and April, instead of more frequent adjustments as in the past. Additionally, the order authorized MGE to establish an Experimental Price Stabilization Fund for purposes of procuring natural gas financial instruments to hedge a portion of its gas purchase costs for the 1997/1998 winter heating season. The Company anticipates that these procedures will help stabilize the monthly heating bills for Missouri customers and, depending on market conditions, could ultimately reduce the cost of gas which is traditionally passed on to customers. The Company believes it bears minimal risk under the authorized transactions.

The MPSC approved a gas supply incentive plan for MGE effective July 1, 1996. Under the plan, the Company and MGE's customers share in certain savings below benchmark levels of gas costs achieved as a result of the Company's gas procurement activities. Likewise, if natural gas is acquired above benchmark levels, both the Company and customers share in such costs. For the year ended June 30, 1997, the incentive plan achieved a reduction of overall gas costs of $10,200,000, resulting in savings to Missouri customers of $5,600,000. The Company recorded revenues of $4,600,000 in 1997 under this program.

Utility Regulation and Rates

The Company's rates and operations are subject to regulation by federal, state and local authorities. In Texas, municipalities have primary jurisdiction over rates within their respective incorporated areas. Rates in adjacent environs and appellate matters are the responsibility of the Railroad Commission of Texas. In Missouri, rates are established by the MPSC on a system-wide basis. The FERC and the Railroad Commission of Texas have jurisdiction over rates, facilities and services of Norteno and Southern, respectively.

The Company holds non-exclusive franchises with varying expiration dates in all incorporated communities where it is necessary to carry on its business as it is now being conducted. In the five largest cities in which the Company's utility customers are located, such franchises expire as follows: Kansas City, Missouri in 1998; El Paso, Texas in 2000; Austin, Texas in 2006; and Port Arthur, Texas in 2013. The franchise in St. Joseph, Missouri is perpetual. The Company fully expects these franchises to be renewed upon their expiration.

Gas service rates are established by regulatory authorities to permit utilities to recover operating, administrative and financing costs, and the opportunity to earn a reasonable return on equity. Gas costs are billed to customers through purchase gas adjustment clauses which permit the Company to adjust its sales price as the cost of purchased gas changes. This is important because the cost of natural gas accounts for a significant portion of the Company's total expenses. The appropriate regulatory authority must receive notice of such adjustments prior to billing implementation.

The Company must support any service rate changes to its regulators using a historic test year of operating results adjusted to normal conditions and for any known and measurable revenue or expense changes. Because the rate regulatory process has certain inherent time delays, rate orders may not reflect the operating costs at the time new rates are put into effect.

The monthly customer bill contains a fixed service charge, a usage charge for service to deliver gas, and a charge for the amount of natural gas used. While the monthly fixed charge provides an even revenue stream, the usage charge increases the Company's annual revenue and earnings in the traditional heating load months when usage of natural gas increases. In recent years, the majority of the Company's rate increases in Texas have resulted in increased monthly fixed charges which help stabilize earnings. Weather normalization clauses, in place in Austin, El Paso service area cities other than the City of El Paso (effective September 1, 1996), Galveston, Port Arthur (effective September 1, 1996) and two other service areas in Texas, also help stabilize earnings. The city of El Paso also approved implementation of a weather normalization clause effective September 1, 1996, but rescinded the clause effective February 1, 1997.

On January 22, 1997, MGE was notified by the MPSC of its decision to grant an $8,847,000 annual increase to revenue effective on February 1, 1997. Pursuant to a 1989 MPSC order, MGE is engaged in a major gas safety program in its service area (Missouri Safety Program). In connection with this program, the MPSC issued an accounting authority order (AAO) in Case No. GO-92-234 in 1994 which authorized MGE to defer depreciation expenses, property taxes and carrying costs at a rate of 10.54% on the costs incurred in the Missouri Safety Program. This AAO was consistent with those which were issued by the MPSC from 1990 to 1993 to MGE's prior owner. The MPSC rate order of January 22, 1997, however, retroactively reduced the carrying cost rate applied by the Company on the expenditures incurred on the Missouri Safety Program since early 1994 to an Allowance for Funds Used During Construction (AFUDC) rate. The Company has filed an appeal of that portion of the rate order in the Missouri State Court of Appeals, Western District. The Company intends to vigorously pursue this appeal since it believes this portion of the rate order is unlawful. The Company believes it will ultimately be successful in litigating this matter and, therefore, will not have a material adverse affect on its financial position, results of operations or cash flows. Accordingly, the Company has not provided for any potential disallowance relative to this matter in its financial statements. Absent a reversal of this part of the rate order, the Company will have to record a one-time $5,600,000 pre-tax write-off of the previously deferred carrying costs. See MD&A -- Cautionary Statement Regarding Forward-Looking Information and Commitments and Contingencies in the Notes to the Consolidated Financial Statements contained in the Annual Report.

Subsequent to June 30, 1997, the Company, the Missouri Office of Public Counsel (OPC) and MPSC staff proposed global settlements to resolve complaints brought by the OPC and the MPSC staff regarding billing errors during the past two winters. The settlements call for credits to gas bills by MGE totaling approximately $1,575,000 to those customers overbilled and a $550,000 contribution by MGE to a social service organization for the express purpose of assisting needy MGE customers in paying their gas bills. The settlement is currently pending final approval by the MPSC. These balances were accrued as of June 30, 1997.

The approval of the January 31, 1994 acquisition of the Missouri properties by the MPSC was subject to the terms of a stipulation and settlement agreement which, among other things, requires MGE to reduce rate base by $30,000,000 (amortized over a ten-year period on a straight-line basis) to compensate rate payers for rate base reductions that were eliminated as a result of the acquisition.

During the three-year period ended June 30, 1997, the Company did not file for any other rate increases in any of its major service areas other than several annual cost of service adjustments. In addition to the regulation of its utility and pipeline businesses, the Company is affected by numerous other regulatory controls, including, among others, pipeline safety requirements of the United States Department of Transportation, safety regulations under the Occupational Safety and Health Act, and various state and federal environmental statutes and regulations. The Company believes that its operations are in compliance with applicable safety and environmental statutes and regulations.

Environmental

The Company has been named as a potentially responsible party in a special notice letter from the United States Environmental Protection Agency for costs associated with removing hazardous substances from the site of a former coal gasification plant in Vermont. The Company also assumed responsibility for certain environmental matters in connection with the acquisition of MGE. Additionally, the Company is investigating the possibility that the Company or predecessor companies may have been associated with Manufactured Gas Plant sites in other of its past, principally in Arizona and New Mexico, and present service areas in Texas. See MD&A -- Cautionary Statement Regarding Forward-Looking Information and Commitments and Contingencies in the Notes to the Consolidated Financial Statements contained in the Annual Report.

Statistics of Utility and Related Operations

	Gas Utility Customers as of June 30,		
	1997	1996	1995
Southern Union Gas:			
Austin and South Texas..........	163,938	159,129	152,382
El Paso and West Texas..........	173,825	169,861	168,526
Galveston and Port Arthur........	50,856	51,392	51,241
Panhandle and North Texas (a)....	24,903	24,777	31,384
Rio Grande Valley...............	76,704	76,707	77,105
	490,226	481,866	480,638
Missouri Gas Energy:			
Kansas City, Missouri Metropolitan Area.............	346,060	340,248	337,689
St. Joseph, Joplin, Monett and others.......................	122,946	119,878	120,038
	469,006	460,126	457,627
SUPro............................	3,647	--	--
Total............................	962,879	941,992	938,265

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(a) Effective May 1, 1996, the Company sold certain gas distribution operations in the Texas and Oklahoma Panhandles.

Southern Union Gas, Mercado, Norteno and Southern. The following table shows certain operating statistics of the Company's gas distribution, transportation, marketing and transmission operations principally in Texas, the Oklahoma Panhandle and Arizona:

	Year Ended June 30,		
	1997	1996	1995
Average number of gas sales customers served (a):			
Residential.....................	456,972	457,187	457,052
Commercial......................	29,030	29,873	29,549
Industrial and irrigation........	274	346	382
Public authorities and other.....	2,673	2,812	2,798
Pipeline and marketing..........	189	165	150
Total average customers served.	489,138	490,383	489,931
Gas sales in millions of cubic feet (MMcf):			
Residential.....................	23,135	22,945	21,596
Commercial......................	9,759	9,990	9,927
Industrial and irrigation........	1,562	1,992	2,112
Public authorities and other.....	2,756	2,708	2,798
Pipeline and marketing..........	18,485	11,848	7,596
Gas sales billed..............	55,697	49,483	44,029
Net change in unbilled gas sales.	(70)	(5)	(10)
Total gas sales...............	55,627	49,478	44,019
Gas sales revenues (thousands of dollars):			
Residential.....................	$152,737	$127,255	$118,818
Commercial......................	51,392	42,353	42,112

Industrial and irrigation........	6,122	6,315	6,746
Public authorities and other.....	12,975	9,338	7,938
Pipeline and marketing...........	47,664	27,688	16,409
Gas revenues billed...........	270,890	212,949	192,023
Net change in unbilled gas sales revenues..................	(150)	856	(204)
Total gas sales revenues.......	$270,740	$213,805	$191,819
Gas sales margin (thousands of dollars) (b):.....................	$ 98,225	$ 97,718	$ 95,399
Gas sales revenue per Mcf billed (c):			
Residential.....................	$ 6.602	$ 5.546	$ 5.502
Commercial......................	5.266	4.240	4.242
Industrial and irrigation........	3.920	3.170	3.194
Public authorities and other.....	4.708	3.448	2.837
Pipeline and marketing...........	2.579	2.337	2.160
Weather effect:			
Degree days (d)..................	1,962	1,901	1,669
Percent of 30-year measure (e)...	100%	96%	83%
Gas transported in MMcf...........	32,895	31,906	34,133
Gas transportation revenues (thousands of dollars)............	$ 9,103	$ 9,008	$ 8,378

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(a) Variances in the average number of customers served is primarily due to the divestiture of the Texas and Oklahoma Panhandle distribution operations in May 1996 involving 7,000 customers.
(b) Gas sales margin is equal to gas sales revenues less purchased gas costs.
(c) Fluctuations in gas price billed between each period reflect changes in the average cost of purchased gas and the effect of rate adjustments.
(d) "Degree days" are a measure of the coldness of the weather experienced. A degree day is equivalent to each degree that the daily mean temperature for a day falls below 65 degrees Fahrenheit.
(e) Information with respect to weather conditions is provided by the National Oceanic and Atmospheric Administration. Percentages of 30-year measure are computed based on the weighted average volumes of gas sales billed.

Missouri Gas Energy. The following table shows certain operating statistics of the gas distribution and transportation operations in Missouri:

	Year Ended June 30,		
	1997	1996	1995
Average number of gas sales customers served:			
Residential....................	407,505	405,782	401,641
Commercial.....................	56,988	56,448	55,825
Industrial.....................	348	321	294
Total average customers served.......................	464,841	462,551	457,760
Gas sales in MMcf:			
Residential....................	45,566	46,775	41,354
Commercial.....................	21,121	21,578	18,863
Industrial.....................	496	592	241
Gas sales billed.............	67,183	68,945	60,458

Net change in unbilled gas sales	(88)	31	(19)
Total gas sales	67,095	68,976	60,439
Gas sales revenues (thousands of dollars):			
Residential	$284,803	$259,401	$186,716
Commercial	123,684	111,840	77,101
Industrial	3,539	4,294	1,731
Gas sales revenues billed	412,026	375,535	265,548
Net change in unbilled gas sales revenues	(1,745)	2,090	(740)
Total gas sales revenues	$410,281	$377,625	$264,808
Gas sales margin (thousands of dollars) (a)	$134,656	$131,462	$116,353
Gas sales revenue per Mcf billed:(b)			
Residential	$ 6.250	$ 5.546	$ 4.515
Commercial	5.856	5.183	4.087
Industrial	7.135	7.253	7.183
Weather effect:			
Degree days (c)	5,506	5,495	4,779
Percent of 30-year measure: (d)	105%	105%	90%
Gas transported in MMcf	30,439	30,269	30,464
Gas transportation revenues (thousands of dollars)	$ 11,970	$ 10,299	$ 8,336

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(a) Gas sales margin is equal to gas sales revenues less purchased gas.
(b) Fluctuations in gas price billed between each period reflect changes in the average cost of purchased gas and the effect of rate adjustments.
(c) "Degree days" are a measure of the coldness of the weather experienced. A degree day is equivalent to each degree that the daily mean temperature for a day falls below 65 degrees Fahrenheit.
(d) Information with respect to weather conditions is provided by the National Oceanic and Atmospheric Administration. Percentages of 30-year measure are computed based on the weighted average volumes of gas sales billed.

Investments in Real Estate

Lavaca Realty owns a commercially developed tract of land in the central business district of Austin, Texas, containing a combined 11-story office building, parking garage and drive-through bank (Lavaca Plaza). Approximately 51% of the office space at Lavaca Plaza is used in the Company's business while the remainder is leased to non-affiliated entities. Lavaca Realty also owns a 2-story office building in El Paso, Texas. Other significant real estate investments held at June 30, 1997 include 190,500 square feet of undeveloped land in Harlingen, Texas, and 36,000 square feet of improved property in Kansas City, Missouri, which is leased to a non-affiliated entity.

Employees

As of August 31, 1997, the Company has 1,561 employees, of whom 1,214 are paid on an hourly basis, 321 are paid on a salary basis and 26 are paid on a commission basis. Of the 1,214 hourly paid employees, 49% are represented by unions. Of those employees represented by unions, 95% are employed by Missouri Gas Energy.

On June 4, 1997, Southern Union Gas employees in Austin, Texas covered by a collective bargaining agreement voted to decertify their representing union. From time to time the Company may be subject to labor disputes; however, such disputes have not previously disrupted its business. The Company believes that its relations with its employees are good.

ITEM 2. Properties.

See Item 1, Business, for information concerning the general location and characteristics of the important physical properties and assets of the Company.

Southern Union Gas has 7,669 miles of mains, 4,369 miles of service lines and 105 miles of transmission lines. Southern and Norteno have 122.8 miles and 6.7 miles, respectively, of trans- mission lines.

MGE has 7,354 miles of mains, 4,509 miles of service lines and 47 miles of transmission lines. MGE is engaged in the Missouri Safety Program in its service territories. At the direction of the MPSC, the Company deferred depreciation expense, property taxes and carrying costs of $3,729,000, $7,703,000 and $4,154,000 for 1997, 1996 and 1995, respectively, relative to this program. See Utility Regulation and Rates and Commitments and Contingencies in the Notes to Consolidated Financial Statements contained in the Annual Report.

The Company considers its systems to be in good condition and well-maintained, and it has continuing replacement programs based on historical performance and system surveillance.

ITEM 3. Legal Proceedings.

See Commitments and Contingencies in the Notes to Consolidated Financial Statements contained in the Annual Report for a discussion of the Company's legal proceedings. See MD&A -- Cautionary Statement Regarding Forward-Looking Information contained in the Annual Report.

ITEM 4. Submission of Matters to a Vote of Security Holders.

There were no matters submitted to a vote of security holders of Southern Union during the quarter ended June 30, 1997.

PART II

ITEM 5. Market for the Registrant's Common Stock and Related Stockholder Matters.

Market Information

Southern Union's common stock is traded on the New York Stock Exchange under the symbol "SUG". The high and low sales prices (adjusted for any stock dividends and stock splits) for shares of Southern Union common stock since July 1, 1995 are set forth below:

	$/Share	
	High	Low
July 1 to September 12, 1997	23 7/8	21 3/4
(Quarter Ended)		
June 30, 1997	25 1/4	22
March 31, 1997	24 3/8	21 1/4
December 31, 1996	24 7/8	21
September 30, 1996	26 3/8	19 1/8
(Quarter Ended)		

June 30, 1996	24 1/4	19 1/4
March 31, 1996	21 3/8	15 7/8
December 31, 1995	18 7/8	12
September 30, 1995	13 1/4	11 3/4

Holders

As of September 12, 1997, there were 645 holders of record of Southern Union's common stock. This number does not include persons whose shares are held of record by a bank, brokerage house or clearing agency, but does include any such bank, brokerage house or clearing agency.

There were 17,122,736 shares of Southern Union's common stock outstanding on September 12, 1997 of which 9,555,479 shares were held by non-affiliates.

Dividends

Southern Union paid no cash dividends on its common stock during the two years ended June 30, 1997. Provisions in certain of Southern Union's long-term notes and its bank credit facilities limit the payment of cash or asset dividends on capital stock. Under the most restrictive provisions in effect, Southern Union may not declare or pay any cash or asset dividends on its common stock or acquire or retire any of Southern Union's common stock, unless no event of default exists and the Company meets certain financial ratio requirements.

On March 11, 1996, Southern Union distributed a stock split as a stock dividend of 33 1/3%. On December 10, 1996 and November 27, 1995, the Company distributed its annual 5% common stock dividend to stockholders of record on November 22, 1996 and November 15, 1995, respectively. The 5% stock dividends are consistent with Southern Union's Board of Directors' February 1994 decision to commence regular stock dividends of approximately 5% each year. The specific amount and declaration, record and distribution dates for an annual stock dividend will be determined by the Board and announced at a date that is not expected to be later than the annual stockholders meeting each year. The next annual stock dividend is expected to be declared in connection with the Company's annual meeting of stockholders to be held on November 11, 1997. A portion of the 5% stock dividend distributed on November 27, 1995 was characterized as a distribution of capital due to the level of the Company's retained earnings available for distribution as of the date of declaration.

ITEM 6. Selected Financial Data.

	Years Ended June 30,				Year Ended December 31,
	1997(a)(b)	1996(a)(b)	1995(a)	1994(a)(c)	1993(c)(d)
	(thousands of dollars, except per share amounts)				
Total operating revenues	$717,031	$620,391	$479,983	$372,043	$209,393
Earnings from continuing operations	19,032	20,839	16,069	8,378	7,733
Earnings per common and common share equivalents (e)	1.07	1.19	.93	.56	.56
Total assets	990,403	964,460	992,597	887,807	416,207
Common stock-					

holders' equity...	267,462	245,915	225,664	208,975	201,938
Short-term debt.....	687	615	770	889	40,655
Long-term debt, excluding current maturities.....	386,157	385,394	462,503	479,048	89,019
Company-obligated mandatorily redeemable preferred securities of subsidiary trust....	100,000	100,000	100,000	--	--
Average customers served...	955,895	952,934	947,691	653,102	421,233

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(a) Missouri Gas Energy, a division of Southern Union, was acquired on January 31, 1994 and was accounted for as a purchase. Missouri Gas Energy's assets were included in the Company's consolidated balance sheet at January 31, 1994 and its results of operations were included in the Company's consolidated results of operations beginning February 1, 1994. For these reasons, the consolidated results of operations of the Company for the periods subsequent to the acquisition are not comparable to prior periods.

(b) Certain Texas and Oklahoma Panhandle distribution operations and WGI, exclusive of the Del Norte interconnect, were sold on May 1, 1996.

(c) During 1994, the Company changed its fiscal year-end from December 31 to June 30. The Company believes the June 30 fiscal year-end more closely conforms its financial condition and results of operations to its natural business cycle. The consolidated results of operations for the year ended June 30, 1994 and the year ended December 31, 1993 include the effects of the following which occurred in the two quarters in common during the six-month period ended December 31, 1993: (i) a non-recurring adjustment of $2,489,000 to reverse a tax reserve upon the final settlement of prior period federal income tax audits; (ii) a pre-tax gain of $494,000 on the sale of undeveloped real estate; and (iii) the write-off of $357,000 of acquisition-related costs as a result of the termination of negotiations for various acquisitions.

(d) The Company completed the Berry Gas, Eagle Pass and Rio Grande Valley Gas Company acquisitions during 1993.

(e) Earnings per share for all periods presented were computed based on the weighted average number of shares of common stock outstanding during the year adjusted for (i) the 5% stock dividends distributed on December 10, 1996, November 27, 1995 and June 30, 1994, and (ii) the 33 1/3% stock dividend distributed on March 11, 1996 and the 50% stock dividend distributed on March 9, 1994.

ITEM 7. Management's Discussion and Analysis of Results of Operations and Financial Condition.

"Management's Discussion and Analysis of Results of Operations and Financial Condition" on pages 20 through 27 of the Company's Annual Report to Stockholders for the year ended June 30, 1997, is incorporated herein by reference.

ITEM 8. Financial Statements and Supplementary Data.

The following consolidated financial statements of Southern Union and its consolidated subsidiaries, included in the Company's Annual Report to Stockholders for the year ended June 30, 1997, are incorporated herein by reference:

Consolidated statement of operations -- years ended June 30, 1997, 1996 and 1995.

Consolidated balance sheet -- June 30, 1997 and 1996.

Consolidated statement of cash flows -- years ended June 30, 1997, 1996 and 1995.

Consolidated statement of common stockholders' equity -- years ended June 30, 1997, 1996 and 1995.

Notes to consolidated financial statements.

Report of independent accountants.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

PART III

ITEM 10. Directors and Executive Officers of Registrant.

There is incorporated in this Item 10 by reference the information in the Company's definitive proxy statement for the 1997 Annual Meeting of Stockholders under the captions Board of Directors -- Board Size and Composition and Executive Officers and Compensation -- Executive Officers Who Are Not Directors.

ITEM 11. Executive Compensation.

There is incorporated in this Item 11 by reference the information in the Company's definitive proxy statement for the 1997 Annual Meeting of Stockholders under the captions Executive Officers and Compensation -- Executive Compensation and Certain Relationships.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management.

There is incorporated in this Item 12 by reference the information in the Company's definitive proxy statement for the 1997 Annual Meeting of Stockholders under the caption Security Ownership.

ITEM 13. Certain Relationships and Related Transactions.

There is incorporated in this Item 13 by reference the information in the Company's definitive proxy statement for the 1997 Annual Meeting of Stockholders under the caption Certain Relationships.

PART IV

ITEM 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(a)(1) Financial Statements. The following consolidated financial statements of Southern Union and its consolidated subsidiaries, included in the Company's Annual Report to Stockholders for the year ended June 30, 1997, are incorporated by reference in Part II, Item 8:

Consolidated statement of operations -- years ended June 30, 1997, 1996 and 1995.

Consolidated balance sheet -- June 30, 1997 and 1996.

Consolidated statement of cash flows -- years ended June 30, 1997, 1996 and 1995.

Consolidated statement of common stockholders' equity -- years ended June 30, 1997, 1996 and 1995.

Notes to consolidated financial statements.

Report of independent accountants.

(a)(2) Financial Statement Schedules. All schedules are omitted as the required information is not applicable or the information is presented in the consolidated financial statements or related notes.

(a)(3) Exhibits.

3(a) Restated Certificate of Incorporation of Southern Union Company. (Filed as Exhibit 3(a) to Southern Union's Transition Report on Form 10-K for the year ended June 30, 1994 and incorporated herein by reference.)

3(b) Southern Union Company Bylaws, as amended. (Filed as Exhibit 3(b) to Southern Union's Transition Report on Form 10-K for the year ended June 30, 1994 and incorporated herein by reference.)

4(a) Specimen Common Stock Certificate. (Filed as Exhibit 4(a) to Southern Union's Annual Report on Form 10-K for the year ended December 31, 1989 and incorporated herein by reference.)

4(b) Indenture between Chase Manhattan Bank, N.A., as trustee, and Southern Union Company dated January 31, 1994. (Filed as Exhibit 4.1 to Southern Union's Current Report on Form 8-K dated February 15, 1994 and incorporated herein by reference.)

4(c) Officers' Certificate dated January 31, 1994 setting forth the terms of the 7.60% Senior Debt Securities due 2024. (Filed as Exhibit 4.2 to Southern Union's Current Report on Form 8-K dated February 15, 1994 and incorporated herein by reference.)

4(d) Certificate of Trust of Southern Union Financing I. (Filed as Exhibit 4-A to Southern Union's Registration Statement on Form S-3 (No. 33-58297) and incorporated herein by reference.)

4(e) Certificate of Trust of Southern Union Financing II. (Filed as Exhibit 4-B to Southern Union's Registration Statement on Form S-3 (No. 33-58297) and incorporated herein by reference.)

4(f) Certificate of Trust of Southern Union Financing III. (Filed as Exhibit 4-C to Southern Union's Registration Statement on Form S-3 (No. 33-58297) and incorporated herein by reference.)

4(g) Form of Amended and Restated Declaration of Trust of Southern Union Financing I. (Filed as Exhibit 4-D to Southern Union's Registration Statement on Form S-3 (No. 33-58297) and incorporated herein by reference.)

4(h) Form of Subordinated Debt Securities Indenture among Southern Union Company and The Chase Manhattan Bank, N. A., as Trustee. (Filed as Exhibit 4-G to Southern Union's Registration Statement on Form S-3 (No. 33-58297) and incorporated herein by reference.)

4(i) Form of Supplemental Indenture to Subordinated Debt Securities Indenture with respect to the Subordinated Debt Securities issued in connection with the Southern Union Financing I Preferred Securities. (Filed as Exhibit 4-H to Southern Union's Registration Statement on Form S-3 (No. 33-58297) and incorporated herein by reference.)

4(j) Form of Southern Union Financing I Preferred Security (included in 4(g) above.) (Filed as Exhibit 4-I to Southern Union's Registration Statement on Form S-3 (No. 33-58297) and incorporated herein by reference.)

4(k) Form of Subordinated Debt Security (included in 4(i) above.) (Filed as Exhibit 4-J to Southern Union's Registration Statement on Form S-3 (No. 33-58297) and incorporated herein by reference.)

4(l) Form of Guarantee with respect to Southern Union Financing I Preferred Securities. (Filed as Exhibit 4-K to Southern Union's Registration Statement on Form S-3 (No. 33-58297) and incorporated herein by reference.)

4(m) The Company is a party to other debt instruments, none of which authorizes the issuance of debt securities in an amount which exceeds 10% of the total assets of the Company. The Company hereby agrees to furnish a copy of any of these instruments to the Commission upon request.

10(a) Revolving Credit Agreement, Revolving Note and Loan Documents between Southern Union Company and the Banks named therein dated September 30, 1993. (Filed as Exhibit 99.2 to Southern Union's Current Report on Form 8-K dated October 13, 1993 and incorporated herein by reference.)

10(b) First Amendment to Revolving Credit Agreement, Revolving Notes and Loan Documents dated as of November 15, 1993. (Filed as Exhibit 10.1 to Southern Union's Registration Statement on Form S-3 (No. 33-70604) and incorporated herein by reference.)

10(c) Second Amendment to Revolving Credit Agreement dated August 31, 1994. (Filed as Exhibit 10(c) to Southern Union's Transition Report on Form 10-K for the year ended June 30, 1994 and incorporated herein by reference.)

10(d) Third Amendment to Revolving Credit Agreement dated April 28, 1995. (Filed as Exhibit 10.1 to Southern Union's Quarterly Report on Form 10-Q for the quarter ended March 31, 1995 and incorporated herein by reference.)

10(e) Asset Purchase Agreement between Southern Union Company and Western Resources, Inc. dated July 9, 1993. (Filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated July 12, 1993 and incorporated herein by reference.)

10(f) Southern Union Company 1982 Incentive Stock Option Plan and form of related Stock Option Agreement.

(Filed as Exhibits 4.1 and 4.2 to Form S-8, File No. 2-79612 and incorporated herein by reference.)(*)

10(g) Form of Indemnification Agreement between Southern Union Company and each of the Directors of Southern Union Company. (Filed as Exhibit 10(i) to Southern Union's Annual Report on Form 10-K for the year ended December 31, 1986 and incorporated herein by reference.)

10(h) Southern Union Company 1992 Long-Term Stock Incentive Plan. (Filed as Exhibit 10(i) to Southern Union's Annual Report on Form 10-K for the year ended December 31, 1992 and incorporated herein by reference.)(*)

10(i) Southern Union Company Director's Deferred Compensation Plan. (Filed as Exhibit 10(g) to Southern Union's Annual Report on Form 10-K for the year ended December 31, 1993 and incorporated herein by reference.)(*)

10(j) Southern Union Company Supplemental Deferred Compensation Plan. (Filed as Exhibit 10(h) to Southern Union's Annual Report on Form 10-K for the year ended December 31, 1993 and incorporated herein by reference.)(*)

10(k) Form of warrant granted to Fleischman and Walsh L.L.P. (Filed as Exhibit 10(j) to Southern Union's Transition Report on Form 10-K for the year ended June 30, 1994 and incorporated herein by reference.)

10(l) Renewal Promissory Note Agreement between Peter H. Kelley and Southern Union Company dated May 31, 1995. (Filed as Exhibit 10(I) to Southern Union's Annual Report on Form 10-K for the year ended June 30, 1995 and incorporated herein by reference.)

11 Computation of Per Share Earnings.

13 Portions of the Company's Annual Report to Stockholders for the year ended June 30, 1997, are incorporated by reference herein: Pages 20 - 50.

21 Subsidiaries of the Company.

23 Consent of Independent Accountants.

24 Power of Attorney.

27 Financial Data Schedule.

(b) Reports on Form 8-K. Southern Union filed no current reports on Form 8-K during the three months ended June 30, 1997.

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(*) Indicates a Management Compensation Plan.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Southern Union has duly caused this report to be signed by the undersigned, thereunto duly authorized, on September 19, 1997.

SOUTHERN UNION COMPANY

By PETER H. KELLEY

Peter H. Kelley
President and Chief Operating Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of Southern Union and in the capacities indicated as of September 19, 1997.

Signature/Name	Title
GEORGE L. LINDEMANN*	Chairman of the Board, Chief Executive Officer and Director
JOHN E. BRENNAN*	Director
FRANK W. DENIUS*	Director
AARON I. FLEISCHMAN*	Director
KURT A. GITTER, M.D.*	Director
PETER H. KELLEY Peter H. Kelley	Director
ADAM M. LINDEMANN*	Director
ROGER J. PEARSON*	Director
GEORGE ROUNTREE, III*	Director
DAN K. WASSONG*	Director
RONALD J. ENDRES Ronald J. Endres	Executive Vice President and Chief Financial Officer
DAVID J. KVAPIL David J. Kvapil	Vice President and Controller (Principal Accounting Officer)

*By PETER H. KELLEY

Peter H. Kelley
Attorney-in-fact

INDEX TO EXHIBITS

Exhibit No.	
11	Computation of Per Share Earnings
13	Portions of Company's Annual Report to Stockholders
21	Subsidiaries of the Company
23	Consent of Independent Accountants
24	Power of Attorney

27 Financial Data Schedule

EXHIBIT 11

COMPUTATION OF PER SHARE EARNINGS

COMPUTATION OF PER SHARE EARNINGS Exhibit 11

	Years Ended June 30,		
	1997	1996	1995
	(thousands of dollars, except per share amounts)		
Net earnings available for common stock..................	$ 19,032	$ 20,839	$ 16,069
Primary earnings per share:			
Average shares outstanding....	17,071	16,990	16,874
Common stock equivalents......	674	532	375
Average shares outstanding....	17,745	17,522	17,249
Primary earnings per share....	$ 1.07	$ 1.19	$ 0.93
Fully diluted earnings per share:			
Average shares outstanding....	17,071	16,990	16,874
Common stock equivalents......	682	572	398
Average shares outstanding....	17,753	17,562	17,272
Fully diluted earnings per share.....................	$ 1.07	$ 1.19	$ .93

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Note: All periods have been adjusted for each of the 5% stock dividends distributed on December 10, 1996 and November 27, 1995 and the four-for-three stock split distributed in the form of a 33 1/3% stock dividend on March 11, 1996.

EXHIBIT 13

PORTIONS OF COMPANY'S ANNUAL REPORT TO STOCKHOLDERS

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

<u>Overview</u> Southern Union Company's principal business is the distribution of natural gas as a public utility through Southern Union Gas, serving 497,000 customers in Texas (including the cities of Austin, Brownsville, El Paso, Galveston and Port Arthur), and Missouri Gas Energy (MGE), acquired on January 31, 1994, serving 474,000 customers in central and western Missouri (including the cities of Kansas City, St. Joseph, Joplin and Monett). The Company also operates natural gas pipeline systems, markets natural gas to end-users, distributes propane and holds investments in real estate and other assets.

To achieve profitability and continued growth, the Company continues to emphasize gas sales in nontraditional markets, operating efficiencies of existing systems, and expansion through selective acquisitions of new systems.

Results of Operations

<u>Net Earnings</u> Southern Union Company's 1997 (fiscal year ended June 30) net earnings were $19,032,000 ($1.07 per share), com pared with $20,839,000 ($1.19 per share) in 1996. The decrease was primarily due to $5,763,000 in additional bad debt expense in 1997 as a result of significant increases in delinquent customer accounts, principally at MGE. The significant increase in natural gas prices during 1997 caused many customers to receive considerably higher heating bills. Additionally, certain billing errors were discovered in MGE's billing practices and procedures. As a result of the customer's increased bills and negative media coverage over the high gas costs and billing errors, more custo mers than usual failed to pay their bills causing an unanticipated increase in aged receivables, primarily in Missouri. MGE also responded to a Missouri Public Service Commission (MPSC) directive to delay collection efforts by suspending the disconnection of customers for non-payment until July 1997. Also impacting 1997 net earnings was $2,125,000 in various settlement fees in connection with complaints brought by the Missouri Office of Public Counsel and the MPSC for the billing errors. Contributing to 1997 net earnings were additional revenues of $4,600,000 under a gas supply incentive plan approved by the MPSC in July 1996. Under the plan, Southern Union and its Missouri customers shared in certain savings below benchmark levels of gas costs incurred as a result of the Company's gas procurement activities. The incentive plan achieved a reduction of overall gas costs of $10,200,000, resulting in savings to Missouri customers of $5,600,000. Average common and common share equivalents outstanding increased 1.1% in 1997. The Company earned 7.4% on average common equity in 1997.

The Company's 1996 net earnings increased to $20,839,000 ($1.19 per share), compared with $16,069,000 ($.93 per share) in 1995. The increase primarily was due to the colder winter throughout most of the Company's service territories. Also contributing to the increase was a reduction of interest expense after the repurchase of $90,485,000 of the Company's 7.60% Senior Debt Securities (Senior Notes) from June 1995 to June 1996. Certain gains on the repurchase of the Senior Notes also contributed to an increase in other income. These positive factors were partially offset by the May 1995 issuance of $100,000,000 of 9.48% Trust

Originated Preferred Securities (Preferred Securities) which increased dividend expense by $8,321,000 in 1996. Average common and common share equivalents outstanding increased 1.7% in 1996. The Company earned 8.8% and 7.4% on average common equity in 1996 and 1995, respectively.

Operating Revenues Operating revenues in 1997 increased $96,640,000, or 16%, to $717,031,000, while gas purchase costs increased $87,649,000, or 24%, to $449,188,000.

Operating revenues and gas purchase costs in 1997 were affected by an increase in the average cost of gas and greater gas sales volumes. The average cost of gas increased $.60 to $3.65 per Mcf in 1997 due to increases in spot market gas prices as a result of the increased demand for natural gas during the past winter season. The average spot market price of natural gas increased 38% to $2.32, per million British thermal units (MMBtu), in 1997. Gas sales volumes increased 4% in 1997 to 122,722 million cubic feet (MMcf) due to growth in pipeline and marketing sales which typically have lower margins. This was partially offset by a reduction in volumes of 878 MMcf from the sale of certain operations in the Texas and Oklahoma Panhandles on May 1, 1996. Additionally impacting operating revenues was an $8,847,000 annual increase to revenues granted by the MPSC effective as of February 1, 1997, and increased revenues under the gas supply incentive plan, previously discussed. Also contributing to the increase in operating revenues was a $4,616,000 increase in gross receipt taxes that are levied on sales revenues, then collected from the customers and remitted to the various taxing authorities.

Southern Union Gas and MGE contributed 33% and 60%, respectively, of the Company's consolidated 1997 operating revenues. Four suppliers provided 44% of gas purchases in 1997.

Gas purchase costs generally do not directly affect earnings since these costs are generally passed on to customers pursuant to purchase gas adjustment clauses. Accordingly, while changes in the cost of gas may cause the Company's operating revenues to fluctuate, net operating margin is generally not affected by increases or decreases in the cost of gas.

Gas transportation volumes in 1997 increased 1,159 MMcf to 63,334 MMcf at an average transportation rate per Mcf of $.33 compared with $.31 in 1996. Transportation volumes increased from 30,269 MMcf to 30,439 MMcf in 1997 for MGE and increased from 31,906 MMcf to 32,895 MMcf in 1997 for Southern Union Gas and the Company's pipeline subsidiaries. This was partially offset by a reduction in volumes of 2,452 MMcf from the sale of certain operations, previously discussed.

Operating revenues in 1996 increased $140,408,000, or 29%, to $620,391,000, while gas purchase costs increased $119,700,000, or 49%, to $361,539,000.

Operating revenues and gas purchase costs in 1996 were affected by greater gas sales volumes and increases in the cost of gas. Gas sales volumes increased 13% in 1996 to 118,454 MMcf due to the demands of the colder winter weather. The average cost of gas increased $.74 to $3.05 per Mcf in 1996 due to increases in spot market gas prices as a result of the increased demand for natural gas during the 1995/1996 winter season. The average spot market price of natural gas, per MMBtu, increased 17% to $1.68 in 1996. Also contributing to the increase in operating revenues was a $7,729,000 increase in gross receipt taxes.

Southern Union Gas and MGE contributed 32% and 63%, respectively, of the Company's consolidated 1996 operating revenues. Four suppliers provided 43% of gas purchases in 1996.

Gas transportation volumes in 1996 decreased 4% to 62,175 MMcf at an average transportation rate per Mcf of $.31 compared with $.26 in 1995. Transportation volumes decreased from 30,464 MMcf to 30,269 MMcf in 1996 for MGE and decreased 7% in 1996 for Southern

Union Gas and the Company's pipeline subsidiaries. This decrease was mainly caused by a 66% decrease, or 10,855 MMcf, in volumes transported into Mexico by Norteno Pipeline Company (Norteno), a subsidiary of the Company.

<u>Net Operating Margin</u> Net operating margin in 1997 (operating revenues less gas purchase costs and revenue-related taxes) increased by $4,375,000, or 2%, compared with an increase of $12,979,000, or 6%, in 1996. Operating margins and earnings are primarily dependent upon gas sales volumes and gas service rates. The level of gas sales volumes is sensitive to the variability of the weather. Southern Union Gas and MGE accounted for 42% and 55%, respectively, of the Company's net operating margin in 1997.

<u>Weather</u> Weather in the Missouri service territories in 1997 was 105% of a 30-year measure. Weather in 1997 in Southern Union Gas service territories was 100% of a 30-year measure which was 4% colder than in 1996. Weather in Missouri in 1996 was 105% of the 30-year measure which was 17% colder than in 1995, while weather in the Southern Union Gas service territories in 1996 was 96% of the 30-year measure which was 16% colder than in 1995.

<u>Customers</u> The average number of customers served in 1997, 1996 and 1995 was 955,895, 952,934 and 947,691, respectively. Southern Union Gas served 489,138 residential, commercial, industrial, agricultural and other gas utility customers in the State of Texas during 1997. The 1997 gas utility customer base in Texas decreased slightly due to the divestiture of certain Texas and Oklahoma Panhandle distribution operations in May 1996 involving 7,000 customers. MGE served 464,841 customers in central and western Missouri during 1997. SUPro Energy Company (SUPro), a subsidiary of the Company, served 1,916 propane customers in Texas during 1997.

<u>Operating Expenses</u> Operating, maintenance and general expenses in 1997 increased $2,367,000, or 2%, to $109,888,000. Included in this increase were $5,763,000 in additional bad debt expense due to significant increases in delinquent customer accounts principally at MGE, previously discussed; increased media advertising, travel and call center labor costs as a result of and in response to the significant price spikes in natural gas during the past winter heating season; and increased field and call center labor and other costs to improve customer service at MGE. Partially offsetting these factors was a decrease in medical, dental, pension and injury and damage claims.

Depreciation and amortization expense in 1997 increased $1,847,000 to $34,829,000 as a result of including certain costs into rate base that were previously deferred as provided in the MGE rate case effective as of February 1, 1997 and normal growth in plant. Taxes other than on income and revenues, principally consisting of property, payroll and state franchise taxes, in 1997 decreased $1,505,000 to $12,154,000. The decrease was primarily due to decreases in assessed property tax values in several Texas taxing jurisdictions, a decrease in Missouri state franchise tax and a reduction in payroll taxes from the decrease in employees.

Operating, maintenance and general expenses in 1996 increased $5,150,000, or 5%, to $107,521,000. Included in this increase were the effects of increased bad debt expense, increased provisions for workers compensation obligations, increased medical costs provided to employees and certain severance costs at MGE. Partially offsetting these factors was a decrease in payroll and related benefits due to a 6% reduction in employees, as well as other cost-cutting measures.

Depreciation and amortization expense in 1996 increased $899,000 to $32,982,000, due to growth in plant. Taxes, other than on income and revenues in 1996 increased $1,535,000 to $13,659,000. This increase was primarily due to general increases in property tax assessments in Texas and Missouri by various local taxing authorities. Offsetting this increase was a reduction in payroll taxes from the decrease in employees, previously discussed.

Employees The Company employed 1,595, 1,611, and 1,720 individuals as of June 30, 1997, 1996, and 1995, respectively. After gas purchases and taxes, employee costs and related benefits are the Company's most significant expense. Such expense includes salaries, payroll and related taxes and employee benefits such as health, savings, retirement and educational assistance. On June 4, 1997, Southern Union Gas employees in Austin, Texas covered by a collective bargaining agreement voted to decertify their representing union. On May 1, 1996, the Company agreed to three-year contracts with each of the four unions that represent the bargaining-unit employees of MGE.

Interest Expense and Dividends on Preferred Securities Total interest expense in 1997 declined by $2,367,000, or 7%, to $33,465,000. Interest expense on long-term debt decreased by $4,205,000 in 1997 primarily due to the timing of the repurchase of $90,485,000 of the Senior Notes at various dates from June 1995 to June 1996. The funds used for the various repurchases of debt were obtained, in part, from the May 17, 1995 issuance of the Preferred Securities and working capital.

Interest expense on short-term debt in 1997 increased $1,629,000 to $1,833,000, due to the average short-term debt outstanding during 1997 increasing $27,093,000 to $29,772,000. The average short-term debt balance outstanding during 1996 of $2,679,000 was the result of the available cash balance on hand from the sale of the Preferred Securities. The average rate of interest on short-term debt was 6.1% in 1997 compared with 7.4% in 1996.

Total interest expense in 1996 declined by $4,052,000, or 10%, to $35,832,000. Interest expense on long-term debt decreased by $2,817,000 in 1996 primarily due to the repurchase of Senior Notes, previously discussed. As a result of the timing of the issuance of the Preferred Securities, preferred dividend expense increased in 1996 by $8,321,000 to $9,480,000.

Interest expense on short-term debt in 1996 decreased $1,583,000 to $204,000, due to the average short-term debt outstanding during 1996 decreasing $24,480,000 to $2,679,000 as a result of initially utilizing the Preferred Securities proceeds for working capital needs. The average rate of interest on short-term debt was 7.4% in 1996 compared with 6.5% in 1995.

Other Income (Expense), Net Other income, net, in 1997 decreased by $8,446,000 to $2,880,000. Other income in 1997 included $3,729,000 in deferral of interest and other expenses associated with the MGE Safety Program; realized gains on the sale of investment securities of $2,545,000; and net rental income of Lavaca Realty Company, (Lavaca Realty), the Company's real estate subsidiary, of $1,329,000. This was partially offset by $2,125,000 for the settlement of certain billing errors, previously discussed; the write-off of $1,750,000 acquisition-related costs from the termination of various acquisition activities; and a $257,000 expense associated with the donation of emissions analysis equipment and software to a Texas university.

Other income in 1996 included $5,664,000 in deferral of interest and other expenses associated with the MGE Safety Program; a $2,300,000 pre-tax gain on the sale of Western Gas Interstate Company (WGI), a former subsidiary of the Company, and other distribution operations on May 1, 1996; investment interest and interest on notes receivable of $2,051,000; net rental income of Lavaca Realty of $1,392,000; and gains on the repurchase of Senior Notes of $1,581,000. This was partially offset by losses of $470,000 on the sale of undeveloped real estate.

Other income in 1995 included $2,619,000 related to the deferral of interest and other expenses associated with the MGE Safety

Program; net rental income of Lavaca Realty of $1,403,000; and $244,000 from gas appliance merchandising. This was partially offset by $750,000 for the write-down to estimated fair market value of certain real estate held for sale.

Federal and State Income Taxes Federal and state income tax expense in 1997, 1996, and 1995 was $12,373,000, $14,979,000, and $10,974,000, respectively. The decrease in income taxes during 1997 was due to the decrease in pre-tax income, previously discussed. The increase in income taxes in 1996 was the result of an increase in pre-tax income attributable to the earnings contributions of previous acquisitions and the sale of WGI and certain distribution properties.

Liquidity and Capital Resources

Operating Activities The seasonal nature of Southern Union's business results in a high level of cash flow needs to finance gas purchases, outstanding customer accounts receivable and certain tax payments. To provide these funds, as well as funds for its continuing construction and maintenance programs, the Company has historically used its credit facilities along with internally-generated funds. Because of available short-term credit and the ability to obtain various market financing, management believes it has adequate financial flexibility to meet its cash needs.

Cash flow from operating activities in 1997 decreased by $19,471,000 to $47,994,000, and increased by $25,823,000 to $67,465,000 in 1996. Operating activities were impacted by a reduction in net earnings in 1997, increased accounts receivable balances due to increases in delinquent customer accounts discussed above and general changes in other operating accounts. Increased net earnings positively impacted cash flow from operating activities in 1996 as well as an increase in deferred gas purchase costs due to market fluctuations in the spot market price of natural gas.

At June 30, 1997, 1996 and 1995, the Company's primary sources of liquidity included cash, cash equivalents and short-term investments of nil, $2,887,000 and $58,597,000, respectively, and borrowings available under the Company's credit facilities. A balance of $1,600,000 and nil was outstanding under the credit facilities at June 30, 1997 and 1996, respectively. A balance of $19,000,000 was outstanding under the facilities at July 31, 1997.

Investing Activities Cash flow used in investing activities in 1997 increased by $22,556,000 to $54,015,000, and decreased by $57,657,000 to $31,459,000 in 1996. Investing activity cash flow was primarily affected by additions to property, plant and equipment, the sale of various properties and sales and purchases of investment securities.

During 1997, 1996 and 1995, the Company expended $64,463,000, $59,376,000 and $67,442,000, respectively, for capital expenditures excluding acquisitions. These expenditures primarily related to distribution system replacement and expansion. Included in these capital expenditures were $20,972,000, $19,761,000 and $24,476,000 for the MGE Safety Program in 1997, 1996 and 1995, respectively. Cash flow from operations has historically been utilized to finance capital expenditures and is expected to be the primary source for future capital expenditures.

On May 1, 1996, the Company consummated the sale of various operations for $15,900,000. The operations included certain gas distribution operations of the Company in the Texas and Oklahoma Panhandles and WGI, exclusive of the Del Norte interconnect which transports natural gas into Mexico.

During 1997, the Company purchased investment securities of

$5,363,000 and had proceeds from the sale of investment securities of $13,327,000. During 1996, the Company purchased $10,763,000 in investment securities. As of June 30, 1997, the investment securities had a fair value of $6,432,000 and are classified as available for sale. At June 30, 1997, the adjustment to unrealized holding gain, net of related income tax and included as a separate component of common stockholders' equity, totaled $664,000. Subsequent to June 30, 1997, all of the investment securities were used to satisfy short sale positions of investment securities. Proceeds and realized gains from this transaction, to be recorded in fiscal 1998, are $6,599,000 and $1,088,000, respectively.

The Company is in the process of installing an Automated Meter Reading (AMR) system at MGE. The installation of the AMR system will involve an investment of $27,000,000. This system will improve meter reading accuracy and provide electronic accessibility to meters in residential customers' basements, thereby assisting in the reduction of the number of estimated bills.

Financing Activities Cash flow from financing activities in 1997 was $3,134,000, while cash flow used in financing activities was $72,134,000 in 1996. Cash flow from financing activities in 1995 was $80,608,000. Financing activity cash flow changes were primarily due to the various financing transactions during the past three years. As a result of these financing transactions, the Company's total debt to total capital ratio at June 30, 1997 was 51.2%, compared with 52.7% and 58.7% at June 30, 1996 and 1995, respectively. The Company's effective debt cost rate under the current debt structure is 8.1% (which includes interest and the amortization of debt issuance costs and redemption premiums on refinanced debt).

On May 17, 1995, Southern Union Financing I (Subsidiary Trust), a consolidated wholly-owned subsidiary of Southern Union, issued $100,000,000 of Preferred Securities. The issuance of the Preferred Securities was part of a $300,000,000 shelf registration filed with the Securities and Exchange Commission on March 29, 1995. Southern Union may sell a combination of preferred securities of financing trusts and senior and subordinated debt securities of Southern Union of up to $196,907,200 (the remaining shelf) from time to time, at prices determined at the time of any offering. The net proceeds from the Preferred Securities offering, along with working capital from operations, were used to repurchase $90,485,000 of the Senior Notes through June 1996 with the remaining balance used to provide working capital for seasonal needs. Depending upon market conditions and available cash balances, the Company may repurchase additional Senior Notes in the future. See Preferred Securities of Subsidiary Trust and Debt in the Notes to the Consolidated Financial Statements.

Southern Union has availability under a $100,000,000 revolving credit facility (Revolving Credit Facility) underwritten by a syndicate of banks. The Company has additional availability under uncommitted line of credit facilities (Uncommitted Facilities) with various banks. Covenants under the Revolving Credit Facility allow for up to $35,000,000 of borrowings under Uncommitted Facilities at any one time. Borrowings under these facilities are available for Southern Union's working capital, letter of credit requirements and other general corporate purposes. The facilities are uncollateralized and have no borrowing base limitations as long as the Company's Senior Notes meet certain rating criteria. The Company may use up to $40,000,000 of the Revolving Credit Facility to finance future acquisitions. These facilities contain certain financial covenants that, among other things, restrict cash or asset dividends, share repurchases, certain investments and additional debt. The facility expires on December 31, 1999 but may be extended annually for periods of one year with the consent of each of the banks. The Revolving Credit Facility is subject to a commitment fee based on the rating of the Company's Senior Notes. As of June 30, 1997 the commitment fee was an annualized .15% on the unused balance.

The Company had standby letters of credit outstanding of

$2,947,000 at both June 30, 1997 and 1996, which guarantee payment of various insurance premiums and state taxes.

Other Matters

Propane Operations On August 30, 1996, SUPro purchased certain propane distribution operations in El Paso, Texas and on June 30, 1997 acquired additional propane operations in and around Alpine, Texas. SUPro sold 2,417,000 gallons of propane during 1997. These operations serve 3,600 customers and allow the Company to provide a greater scope of energy services.

Foreign Operations Subsequent to June 30, 1997, Energia Estrella del Sur, S. A. de C. V., a wholly-owned subsidiary of Southern Union Energy International, Inc. and Southern Union International Investments, Inc., both subsidiaries of the Company, acquired a 42% equity ownership in a natural gas distribution company which serves 16,000 customers in Piedras Negras, Mexico, which is across the border from the Company's Eagle Pass, Texas service area. In September 1997, Southern Transmission Company, another subsidiary of the Company, purchased a 45-mile intrastate pipeline for $305,000 which will augment the Company's gas supply to the city of Eagle Pass and ultimately Piedras Negras.

Stock Splits and Dividends On March 11, 1996, a four-for-three stock split was distributed in the form of a 33 1/3% stock dividend. Additionally, Southern Union distributed annual 5% common stock dividends on December 10, 1996 and November 27, 1995. A portion of the 5% stock dividend distributed on November 27, 1995 was characterized as a distribution of capital due to the level of the Company's retained earnings available for distribution as of such date of declaration. Unless otherwise stated, all per share data included herein and in the accompanying Consolidated Financial Statements and Notes thereto have been restated to give effect to the stock splits and stock dividends.

Contingencies   The Company has been named as a potentially responsible party in a special notice letter from the United States Environmental Protection Agency for costs associated with removing hazardous substances from the site of a former coal gasification plant in Vermont. The Company also assumed responsibility for certain environmental matters in connection with the acquisition of MGE. Additionally, the Company is investigating the possibility that the Company or predecessor companies may have been associated with Manufactured Gas Plant sites in other of its past, principally in Arizona and New Mexico, and present service areas in Texas.

In connection with MGE's $8,847,000 annual revenue increase from the rate case as approved by the MPSC, the rate order also retroactively reduced the carrying cost rate applied by the Company on expenditures incurred on the MGE Safety Program. The Company has appealed this decision to the Missouri Court of Appeals, Western District. Absent a reversal of this part of the rate order, the Company will have to record a one-time $5,600,000 pre-tax write-off of the previously deferred carrying costs. The Company has not provided for any potential disallowance relative to this matter in its financial statements, as the Company believes it will ultimately be successful in litigating this matter as it believes this portion of the rate order is unlawful. See Commitments and Contingencies in the Notes to Consolidated Financial Statements.

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

Regulatory The majority of the Company's business activities are subject to various regulatory authorities. The Company's financial condition and results of operations have been and will continue to be dependent upon the receipt of adequate and timely adjustments in rates. Gas service rates, which consist of a monthly fixed charge and a gas usage charge, are established by regulatory authorities and are intended to permit utilities to recover operating, administrative and financing costs and to have the opportunity to earn a reasonable return on equity. The monthly fixed charge provides a base revenue stream while the usage charge increases the Company's revenues and earnings in colder weather when natural gas usage increases.

Subsequent to June 30, 1997, the Company, the Missouri Office of Public Counsel (OPC) and MPSC staff proposed global settlements to resolve complaints brought by the OPC and the MPSC staff regarding billing errors during the past two winters. The settlements call for credits to gas bills by MGE totaling approximately $1,575,000 to those customers overbilled and a $550,000 contribution by MGE to a social service organization for the express purpose of assisting needy MGE customers in paying their gas bills. The settlement is currently pending final approval by the MPSC. These balances were accrued as of June 30, 1997.

In August 1997, the MPSC issued an order authorizing MGE to begin making semi-annual purchase gas adjustments in November and April, instead of more frequent adjustments as in the past. Additionally, the order authorized MGE to establish an Experimental Price Stabilization Fund for purposes of procuring natural gas financial instruments to hedge a portion of its gas purchase costs for the 1997/1998 winter heating season. The Company anticipates that these procedures will help stabilize the monthly heating bills for Missouri customers and, depending on market conditions, could ultimately reduce the cost of gas which is traditionally passed on to customers. The Company believes it bears minimal risk under the authorized transactions.

The MPSC also approved a gas supply incentive plan for MGE effective July 1, 1996. Under the plan, the Company and MGE's customers share in certain savings below benchmark levels of gas costs achieved as a result of the Company's gas procurement activities. Likewise, if natural gas is acquired above benchmark levels, both the Company and customers share in such costs. For the year ended June 30, 1997, the incentive plan achieved a reduction of overall gas costs of $10,200,000, resulting in savings to Missouri customers of $5,600,000. The Company recorded revenues of $4,600,000 in 1997 under this program.

On January 22, 1997, Missouri Gas Energy was notified by the MPSC of its decision to grant an $8,847,000 annual increase to revenue effective as of February 1, 1997. Southern Union Gas also received several annual cost of service adjustments in 1997, 1996 and 1995. See Utility Regulation and Rates and Commitments and Contingencies in the Notes to Consolidated Financial Statements.

Pursuant to a 1989 MPSC order, MGE is engaged in a major gas safety program in its service territories. This program includes replacement of company- and customer-owned gas service and yard lines, the movement and resetting of meters, the replacement of cast iron mains and the replacement and cathodic protection of bare steel mains. In recognition of the significant capital expenditures associated with this safety program, the MPSC permits the deferral, and subsequent recovery through rates, of depreciation expense, property taxes and associated carrying costs. The continuation of the MGE Safety Program will result in significant levels of future capital expenditures. The Company estimates incurring capital expenditures of $20,000,000 in fiscal 1998 related to this program which are expected to be financed through cash flow from operations. See Utility Regulation and Rates and Commitments and Contingencies in the Notes to Consolidated Financial Statements.

The Company is continuing to pursue certain changes to rates and rate structures that are intended to reduce the sensitivity of earnings to weather including weather normalization clauses and higher minimum monthly service charges. Southern Union Gas has weather normalization clauses in Austin, certain El Paso service area cities , Port Arthur, Galveston and in two other service areas in Texas. These clauses allow for the adjustments that help stabilize customers' monthly bills and the Company's earnings from the varying effects of weather.

Accounting Pronouncements The Financial Accounting Standards Board (FASB) recently issued Earnings per Share and Disclosure of Information About Capital Structure standards which establish computation and presentation of earnings per share and disclosure of information concerning an entity's capital structure, respectively. The Company is required to adopt the provisions of these standards for periods ending after December 15, 1997, and does not expect the adoption thereof to have a material effect on the Company's financial position, results of operations or cash flows.

The FASB also recently issued Reporting Comprehensive Income and Disclosures about Segments of an Enterprise and Related Information, which establish procedures for reporting and display of comprehensive income and its components, and certain disclosures about segment information in interim and annual financial statements and related information about products, services, geographic areas and major customers, respectively. The Company will adopt the provisions of these standards for the fiscal year ending June 30, 1998, but does not expect the adoption thereof to have a material effect on the Company's financial position, results of operations or cash flows.

See the Notes to Consolidated Financial Statements for other accounting pronouncements followed by the Company.

Cautionary Statement Regarding Forward-Looking Information This Management's Discussion and Analysis of Results of Operations and Financial Condition and other sections of this Annual Report contain forward-looking statements that are based on current expectations, estimates and projections about the industry in which the Company operates, management's beliefs and assumptions made by management. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions, which are difficult to predict and many of which are outside the Company's control. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. The Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Readers are cautioned not to put undue reliance on such forward-looking statements. Stockholders may review the Company's reports filed in the future with the Securities and Exchange Commission for more current descriptions of developments that could cause actual results to differ materially from such forward-looking statements.

Factors that could cause or contribute to actual results differing materially from such forward-looking statements include the following: cost of gas; gas sales volumes; weather conditions in the Company's service territories; the achievement of operating efficiencies and the purchases and implementation of new technologies for attaining such efficiencies; impact of relations with labor unions of bargaining-unit employees; the receipt of timely and adequate rate relief; the outcome of pending and future litigation; governmental regulations and proceedings affecting or involving the Company; and the nature and impact of any extraordinary transactions such as any acquisition or divestiture of a business unit or any assets. These are representative of the factors that could affect the outcome of the forward-looking statements. In addition, such statements could be affected by general industry and market conditions, and general economic conditions, including interest rate fluctuations, federal, state and local laws and regulations affecting the retail gas industry or the energy industry generally, and other factors.

SOUTHERN UNION COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS

	Years Ended June 30,		
	1997	1996	1995
	(thousands of dollars, except shares and per share amounts)		
Operating revenues	$ 717,031	$ 620,391	$ 479,983
Gas purchase costs	449,188	361,539	241,839
Operating margin	267,843	258,852	238,144
Revenue related taxes	(39,502)	(34,886)	(27,157)
Net operating margin	228,341	223,966	210,987
Operating expenses:			
Operating, maintenance and general	109,888	107,521	102,371
Depreciation and amortization	34,829	32,982	32,083
Taxes, other than on income and revenues	12,154	13,659	12,124
Total operating expenses	156,871	154,162	146,578
Net operating revenues	71,470	69,804	64,409
Other income (expenses):			
Interest	(33,465)	(35,832)	(39,884)
Dividends on preferred securities of subsidiary trust	(9,480)	(9,480)	(1,159)
Other, net	2,880	11,326	3,677
Total other expenses, net	(40,065)	(33,986)	(37,366)
Earnings before income taxes	31,405	35,818	27,043
Federal and state income taxes	12,373	14,979	10,974
Net earnings available for common stock	$ 19,032	$ 20,839	$ 16,069
Earnings per common and common share equivalents	$ 1.07	$ 1.19	$ .93
Weighted average common and common share equivalents outstanding	17,752,399	17,562,317	17,271,839

See accompanying notes.

SOUTHERN UNION COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

ASSETS

	June 30, 1997	June 30, 1996
	(thousands of dollars)	
Property, plant and equipment:		
Plant in service..................	$ 963,269	$ 912,552
Construction work in progress.......	7,970	8,411
	971,239	920,963
Less accumulated depreciation and amortization.....................	(329,182)	(310,289)
	642,057	610,674
Additional purchase cost assigned to utility plant, net of accumulated amortization of $23,082,000 and $19,305,000, respectively.........	131,539	133,780
Net property, plant and equipment.	773,596	744,454
Current assets:		
Cash and cash equivalents..........	--	2,887
Accounts receivable, billed and unbilled........................	58,659	47,846
Inventories, principally at average cost............................	21,523	27,023
Deferred gas purchase costs.........	--	2,650
Investment securities..............	6,432	--
Prepayments and other..............	9,609	1,947
Total current assets.............	96,223	82,353
Deferred charges.....................	109,512	116,286
Investment securities................	--	8,848
Real estate..........................	9,046	9,513
Other................................	2,026	3,006
Total assets......................	$ 990,403	$ 964,460

See accompanying notes.

SOUTHERN UNION COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET (Continued)

STOCKHOLDERS' EQUITY AND LIABILITIES

	June 30, 1997	June 30, 1996
	(thousands of dollars)	
Common stockholders' equity:		
Common stock, $1 par value; authorized 50,000,000 shares; issued 17,170,861 shares at June 30, 1997....................	$ 17,171	$ 16,275
Premium on capital stock...........	225,252	206,047
Less treasury stock: 51,625 shares at cost..........................	(794)	(794)
Retained earnings...................	25,169	25,631
Unrealized holding gain (loss)......	664	(1,244)
	267,462	245,915
Company-obligated mandatorily redeemable preferred securities of subsidiary trust holding solely $103,093,000 principal amount of 9.48% subordinated notes of Southern Union due 2025.............	100,000	100,000
Long-term debt.......................	386,157	385,394
Total capitalization.............	753,619	731,309
Current liabilities:		
Long-term debt due within one year..	687	615
Notes payable......................	1,600	--
Accounts payable...................	33,827	39,238
Federal, state and local taxes......	13,699	16,741
Accrued interest...................	12,840	12,773
Accrued dividends on preferred securities of subsidiary trust....	--	2,370
Customer deposits..................	17,214	15,656
Deferred gas purchase costs.........	3,565	--
Other.............................	22,291	15,937
Total current liabilities.........	105,723	103,330
Deferred credits and other	77,083	86,287
Accumulated deferred income taxes.....	53,978	43,534
Commitments and contingencies.........	--	--
Total stockholders' equity and liabilities.....................	$ 990,403	$ 964,460

See accompanying notes.

SOUTHERN UNION COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

Years Ended June 30,

	1997	1996	1995
	(thousands of dollars)		
Cash flows from operating activities:			
Net earnings................	$ 19,032	$ 20,839	$ 16,069
Adjustments to reconcile net earnings to net cash flows from operating activities:			
Depreciation and amortization...........	34,829	32,982	32,083
Deferred income taxes....	7,340	9,413	5,909
Provision for bad debts..	11,298	5,535	4,162
Deferral of interest expense................	(3,729)	(5,664)	(2,619)
Gain on sale of investment securities..	(2,545)	--	--
Gain on sale of various operations............	--	(2,300)	--
Other....................	1,077	621	1,952
Changes in assets and liabilities, net of acquisitions and dispositions:			
Accounts receivable, billed and unbilled...........	(22,111)	(17,743)	11,051
Accounts payable.....	(6,978)	10,048	(7,255)
Taxes and other liabilities........	(2,975)	11,021	(7,187)
Customer deposits....	1,558	1,489	1,137
Deferred gas purchase costs.....	6,215	4,991	(22,537)
Inventories..........	5,691	(3,607)	7,975
Other................	(708)	(160)	902
Net cash flows from operating activities...	47,994	67,465	41,642
Cash flows from (used in) investing activities:			
Additions to property, plant and equipment.............	(64,463)	(59,376)	(67,442)
Acquisition of operations, net of cash received.......	(1,861)	--	(750)
Purchase of investment securities................	(5,363)	(10,763)	--
Litigation settlement proceeds..................	--	4,250	--
Maturity (purchase) of short-term investments.....	--	19,582	(19,582)
Increase in customer advances..................	2,470	3,547	725
Increase (decrease) in deferred charges and credits...................	6	(3,811)	(3,868)
Proceeds from sale of various operations.........	1,130	14,770	--
Proceeds from sale of land...	1,096	--	--
Proceeds from sale of investment securities......	13,327	--	--
Other.......................	(357)	342	1,801
Net cash flows used in investing activities.....	(54,015)	(31,459)	(89,116)
Cash flows from (used in) financing activities:			
Repayment of debt...........	(640)	(72,790)	(16,212)
Net borrowings under revolving credit facility..	1,600	--	--
Increase in cash overdrafts..	1,567	--	--
Issuance of preferred securities of subsidiary trust.....................	--	--	100,000

Issuance cost of preferred securities of subsidiary trust.....................	--	--	(3,799)
Other.......................	607	656	619
Net cash flows from (used in) financing activities.	3,134	(72,134)	80,608
Increase (decrease) in cash and cash equivalents..............	(2,887)	(36,128)	33,134
Cash and cash equivalents at beginning of year.............	2,887	39,015	5,881
Cash and cash equivalents at end of year...................	$ --	$ 2,887	$ 39,015

Cash paid for interest, net of amounts capitalized, in 1997, 1996, and 1995 was $32,282,000, $36,893,000, and $38,987,000, respectively. Cash paid for income taxes in 1997, 1996, and 1995 was $5,871,000, $11,000, and $2,533,000, respectively.

See accompanying notes.

SOUTHERN UNION COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	Common Stock, $ Par Value	Premium on Capital Stock	Treasury Stock, at Cost	Retained Earnings	Unrealized Holding Gain/ (Loss)	Total
Balance July 1, 1994........	$11,497	$198,272	$(794)	$ --	$ --	$208,975
Net earnings..	--	--	--	16,069	--	16,069
Exercise of stock options...	73	547	--	--	--	620
Balance June 30, 1995........	11,570	198,819	(794)	16,069	--	225,664
Net earnings..	--	--	--	20,839	--	20,839
5% stock dividend..	576	10,701	--	(11,277)	--	--
Four-for-three stock split.....	4,054	(4,054)	--	--	--	--
Unrealized holding loss......	--	--	--	--	(1,244)	(1,244)
Exercise of stock options...	75	581	--	--	--	656
Balance June 30, 1996........	16,275	206,047	(794)	25,631	(1,244)	245,915
Net earnings..	--	--	--	19,032	--	19,032
5% stock dividend..	813	18,681	--	(19,494)	--	--
Unrealized						

holding gain......	--	--	--	--	1,908	1,908
Exercise of stock options...	83	524	--	--	--	607
Balance June 30, 1997........	$17,171	$225,252	$(794)	$ 25,169	$ 664	$267,462

See accompanying notes.

SOUTHERN UNION COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

I Summary of Significant Accounting Policies

Operations Southern Union Company (Southern Union and, together with its wholly-owned subsidiaries, the Company), is a public utility primarily engaged in the distribution and sale of natural gas to residential, commercial and industrial customers. Subsidiaries of Southern Union also market natural gas to end-users, distribute propane, operate natural gas pipeline systems and sell commercial gas air conditioning and other gas-fired engine-driven applications. Certain subsidiaries own or hold interests in real estate and other assets, which are primarily used in the Company's utility business. Substantial operations of the Company are subject to regulation.

Principles of Consolidation The consolidated financial statements include the accounts of Southern Union and its wholly-owned subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation. All dollar amounts in the tables herein, except per share amounts, are stated in thousands unless otherwise indicated. Certain reclassifications have been made to prior years' financial statements to conform with the current year's presentation.

Gas Utility Revenues and Gas Purchase Costs Gas utility customers are billed on a monthly-cycle basis. The related cost of gas is matched with cycle-billed revenues through operation of purchased gas adjustment provisions in tariffs approved by the regulatory agencies having jurisdiction. Revenues from gas delivered but not yet billed are accrued, along with the related gas purchase costs and revenue-related taxes. The distribution and sale of natural gas in Texas and Missouri contributed in excess of 90% of the Company's total revenue, net earnings and identifiable assets in both 1997 and 1996. Four suppliers provided 44% and 43% of the Company's gas purchases in 1997 and 1996, respectively.

Credit Risk Concentrations of credit risk in trade receivables are limited due to the large customer base with relatively small individual account balances. In addition, Company policy requires a deposit from certain customers. The Company has recorded an allowance for doubtful accounts totaling $10,986,000, $4,000,000, $2,100,000 and $1,600,000 at June 30, 1997, 1996, 1995 and 1994, respectively. The allowance for doubtful accounts is increased for estimated uncollectible accounts and reduced for the write-off of trade receivables.

Missouri initiated a special payment plan in 1997 known as Relief Now to help ease the impact of last winter's high gas bills. Customers on this plan are allowed to pay their outstanding trade receivable balance over two years. Imputed interest on the carrying cost of this plan has been recorded at June 30, 1997, which was not significant.

Fair Value of Financial Instruments The carrying amounts reported in the balance sheet for cash and cash equivalents, accounts receivable, investment securities, accounts payable and notes payable approximates their fair value. The fair value of the Company's investment securities and long-term debt is estimated using current market quotes and other estimation techniques.

Inventories Inventories consist of natural gas in underground storage and materials and supplies. Natural gas in underground storage of $17,171,000 and $22,784,000 at June 30, 1997 and 1996, respectively, consists of 7,785,000 and 9,844,000 British thermal units, respectively.

Earnings Per Share The computation of earnings per common and common share equivalents is based on the weighted average number of outstanding common shares during the period plus, when their effect is dilutive, common share equivalents consisting of certain shares subject to stock options and warrants. Primary and fully diluted earnings per share are identical for all periods presented and, therefore, earnings per common and common share equivalents represent fully diluted earnings per share.

New Pronouncements The Financial Accounting Standards Board (FASB) recently issued Earnings Per Share and Disclosure of Information About Capital Structure standards which establish computation and presentation of earnings per share and disclosure of information concerning an entity's capital structure, respectively. The Company is required

to adopt the provisions of these standards for periods ending after December 15, 1997, and does not expect the adoption thereof to have a material affect on the Company's financial position, results of operations or cash flows.

The FASB also recently issued Reporting Comprehensive Income and Disclosures about Segments of an Enterprise and Related Information, which establish procedures for reporting and displaying comprehensive income and its components, and certain disclosures about segment information in interim and annual financial statements and related information about products, services, geographic areas and major customers, respectively. The Company intends to adopt the provisions of these standards for the fiscal year ending June 30, 1998, but does not expect the adoption thereof to have a material effect on the Company's financial position, results of operations or cash flows.

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

II Acquisitions and Divestiture

On August 30, 1996, SUPro Energy Company, a wholly-owned subsidiary of the Company, purchased certain propane distribution operations in El Paso, Texas and on June 30, 1997, acquired propane operations located in and around Alpine, Texas. These acquisitions which serve 3,600 customers were for $1,861,000 in cash and the assumption of $1,475,000 in long-term debt. Subsequent to June 30, 1997, Southern Union Energy International, Inc., another wholly-owned subsidiary, acquired a 42% equity ownership in a natural gas distribution company which serves 16,000 customers in Piedras Negras, Mexico for $2,700,000.

On May 1, 1996, Southern Union Company sold certain gas distribution operations of the Company in the Texas and Oklahoma Panhandles and Western Gas Interstate Company (WGI), a former wholly-owned subsidiary of the Company, exclusive of the Del Norte interconnect operation which transports natural gas into Mexico, for $15,900,000.

III Other Income, Net

Other income, net in 1997, 1996, and 1995 was $2,880,000, $11,326,000, and $3,677,000, respectively.

Other income of $2,880,000 in 1997 included: $3,729,000 related to the deferral of interest and other expenses associated with the Missouri Gas Energy Safety Program; realized gains on the sale of investment securities of $2,545,000; and net rental income of Lavaca Realty Company (Lavaca Realty), the Company's real estate subsidiary, of $1,329,000. This was partially offset by $2,125,000 for the settlement of complaints brought by the Missouri Office of Public Counsel and the Missouri Public Service Commission (MPSC) for certain billing errors primarily from this past winter heating season; the write-off of $1,750,000 of acquisition-related costs as a result of termination of various acquisition activities; and a $257,000 expense associated with the donation of emissions analysis equipment and software to a Texas university.

Other income of $11,326,000 in 1996 included: $5,664,000 related to the deferral of interest and other expenses associated with the Missouri Gas Energy Safety Program; $2,300,000 pre-tax gain on the sale of WGI and other operations; investment interest and interest on notes receivable of $2,051,000; net rental income of Lavaca Realty of $1,392,000; and $1,581,000 in net gains from the repurchase of Senior Notes. This was partially offset by losses of $470,000 on the sale of undeveloped real estate.

Other income of $3,677,000 in 1995 included: $2,619,000 related to the deferral of interest and other expenses associated with the Missouri Gas Energy Safety Program; net rental income of Lavaca Realty of $1,403,000; and $244,000 from gas appliance merchandising. This was partially offset by $750,000 for the write-down to estimated fair market value of certain real estate held for sale.

IV Cash Flow Information

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Short-term investments are highly liquid investments with maturities of more than three months when purchased, and are carried at cost, which approximates market. The Company places its temporary cash investments with a high credit quality financial institution which, in turn, invests the temporary funds in a variety of high-quality short-term financial securities.

Under the Company's cash management system, checks issued but not presented to banks frequently result in overdraft balances for accounting purposes and are classifed in accounts payable in the consolidated balance sheet.

V Property, Plant and Equipment

Plant Plant in service and construction work in progress are stated at original cost net of contributions in aid of construction. The cost of additions includes an allowance for funds used during construction and applicable overhead charges. Gain or loss is recognized upon the disposition of significant utility properties and other property constituting operating units. Gain or loss from minor dispositions of property is charged to accumulated depreciation and amortization. The Company capitalizes the cost of significant internally-developed computer software systems and amortizes the cost over the expected useful life.

	June 30, 1997	June 30, 1996
Distribution plant....................	$ 919,998	$ 870,820
General plant.........................	74,375	71,127
Other.................................	15,872	14,636
Total plant.........................	1,010,245	956,583
Less contributions in aid of construction........................	(46,976)	(44,031)
Plant in service....................	963,269	912,552
Construction work in progress..........	7,970	8,411
	971,239	920,963
Less accumulated depreciation and amortization........................	(329,182)	(310,289)
	642,057	610,674
Additional purchase cost assigned to utility plant, net...................	131,539	133,780
Net property, plant and equipment......	$ 773,596	$ 744,454

During 1996 WGI and certain distribution operations were sold in which utility plant and equipment had a cost and accumulated depreciation and amortization of $21,111,000 and $10,356,000, respectively.

Acquisitions are recorded at the historical book carrying value of utility plant. Additional purchase cost assigned to utility plant is the excess of the purchase price over the book carrying value of the net assets acquired. In general, the Company has not been allowed recovery of additional purchase cost assigned to utility plant in rates. Periodically, the Company evaluates the carrying value of its additional purchase cost assigned to utility plant, long-lived assets, capital leases and other identifiable intangibles by comparing the anticipated future operating income from the businesses giving rise to the respective asset with the original cost or unamortized balance. No impairment has been indicated or is expected at June 30, 1997.

Depreciation and Amortization Depreciation of utility plant is provided at an average straight-line rate of approximately 3% per annum of the cost of such depreciable properties less applicable salvage. Franchises are amortized over their respective lives. Depreciation and amortization of other property is provided at straight-line rates estimated to recover the costs of the properties, after allowance for salvage, over their respective lives. Internally-developed computer software system costs are amortized over various regulatory-approved periods. Amortization of additional purchase cost assigned to utility plant is provided on a straight-line basis over forty years unless the Company's regulators have provided for the recovery of the additional purchase cost in rates, in which case the Company's policy is to utilize the amortization period which follows the rate recovery period.

Depreciation of property, plant and equipment in 1997, 1996, and 1995 was $31,051,000, $29,264,000, and $27,815,000, respectively.

VI Investment Securities

At June 30, 1997, all securities owned by the Company were classified as available for sale. Accordingly, these securities are stated at fair value, with unrealized gains and losses reported in a separate component of common stockholders' equity. Realized gains and losses on sales of investments, as determined on a specific identification basis, are included in the Consolidated Statement of Operations when incurred.

As of June 30, 1997, investment securities consisted of common stock with a specific cost of $5,443,000 and a fair value of $6,432,000. The unrealized holding gain, net of related income taxes and included as a separate component of common stockholders' equity, totaled, $643,000 at June 30, 1997.

As of June 30, 1997, the Company had short sales of investment securities and recorded a prepayment for the anticipated proceeds of $6,599,000. The related payable of $6,566,000, based on fair value of the investment securities, was recorded in other current liabilities. The unrealized holding gain, net of related income taxes and included as a separate component of common stockholders' equity, totaled $21,000 at June 30, 1997.

Subsequent to June 30, 1997, the outstanding investment securities were used to satisfy the previously-mentioned short sales of investment securities. Proceeds and realized gains from this transaction, to be recorded in fiscal 1998, are $6,599,000 and $1,088,000, respectively.

VII Stockholders' Equity

Stock Dividends and Splits On December 10, 1996 and November 27, 1995, Southern Union distributed its annual 5% common stock dividend to stockholders of record on November 22, 1996 and November 15, 1995, respectively. A portion of the 5% stock dividend distributed on November 27, 1995 was characterized as a distribution of capital due to the level of the Company's retained earnings available for distribution as of the declaration date. On February 13, 1996, the Board of Directors declared a four-for-three stock split distributed in the form of a 33 1/3% stock dividend on March 11, 1996, to stockholders of record on February 23, 1996. Unless otherwise stated, all per share and share data included herein have been restated to give effect to the dividends and split.

Common Stock The Company maintains its 1992 Long-Term Stock Incentive Plan (1992 Plan) under which options to purchase 1,203,930 shares were provided to be granted to officers and key employees at prices not less than the fair market value on the date of grant. The 1992 Plan allows for the granting of stock appreciation rights, dividend equivalents, performance shares and restricted stock. The Company also had an incentive stock option plan (1982 Plan) which provided for the granting of 787,500 options, until December 31, 1991. Upon exercise of an option granted under the 1982 Plan, the Company may elect, instead of issuing shares, to make a cash payment equal to the difference at the date of exercise between the option price and the market price of the shares as to which such option is being exercised. Options granted under both the 1992 Plan and the 1982 Plan are exercisable for periods of ten years from the date of grant or such lesser period as may be designated for particular options, and become exercisable after a specified period of time from the date of grant in cumulative annual installments. Options typically vest 20% per year for five years but may be a lesser or greater period as designated for particular options.

The Company accounts for its incentive plans under an Accounting Principles Board opinion, Accounting for Stock Issued to Employees. As a result, the Company recorded no compensation expense for 1997, 1996 and 1995. During 1997, the Company adopted the FASB standard, Accounting for Stock-Based Compensation, for footnote disclosure

purposes only. Had compensation cost for these incentive plans been determined consistent with this standard, the Company's net income and earnings per share would have been $18,135,000 and $1.02, respectively, in 1997 and $20,455,000 and $1.16, respectively, in 1996. Because this standard has not been applied to options granted prior to July 1, 1995, the resulting pro forma compensation cost may not be representative of that to be expected in future years.

The fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions used for grants in 1997 and 1996, respectively: dividend yield of nil for both years; volatility of 21% and 25%; risk-free interest rate of 6.2% and 6.6%; and expected life outstanding of 5.5 to 7.2 years and 3.5 to 7.0 years.

	1992 Plan		1982 Plan	
	Shares Under Option	Weighted Average Exercise Price	Shares Under Option	Weighted Average Exercise Price
Outstanding July 1, 1994...	664,477	$ 9.34	483,887	$ 5.43
Exercised...............	(1,621)	6.90	(105,950)	5.75
Canceled................	(4,171)	11.14	--	--
Outstanding June 30, 1995..	658,685	9.33	377,937	5.34
Granted.................	302,159	15.24	--	--
Exercised...............	(35,655)	8.62	(67,197)	5.29
Canceled................	(47,501)	10.50	--	--
Outstanding June 30, 1996..	877,688	11.33	310,740	5.34
Granted.................	283,300	22.72	--	--
Exercised...............	(35,234)	9.86	(49,302)	5.34
Canceled................	(6,414)	11.31	--	--
Outstanding June 30, 1997..	1,119,340	14.26	261,438	5.35

The following table summarizes information about stock options outstanding under the 1992 Plan at June 30, 1997:

Options Outstanding				Options Exercisable	
Exercise Prices	Number of Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price

$ 5.00 - $ 7.00	278,059	5.71 years	$ 6.75	230,598	$ 6.72
7.01 - 15.00	513,125	7.60 years	13.42	195,698	12.58
15.01 - 24.00	328,156	9.77 years	21.94	8,971	17.04
	1,119,340			435,267	

The shares exercisable under the 1992 Plan and the corresponding weighted average exercise price at June 30, 1997, 1996 and 1995 were 435,267 at $9.57; 304,687 at $8.61; and 200,732 at $8.45, respectively. The shares exercisable under the 1982 Plan and the corresponding weighted average exercise price at June 30, 1997, 1996 and 1995 were 261,438 at $5.35; 306,110 at $5.34; and 308,480 at $5.34, respectively. The weighted average remaining contractual life of options outstanding under the 1982 Plan at June 30, 1997 was 2.94 years. There were 2,008 shares available for future option grants under the 1992 Plan at June 30, 1997. No shares were available for future option grants under the 1982 Plan at June 30, 1997.

On February 10, 1994, Southern Union granted a warrant which expires on February 10, 2004, to purchase up to 57,881 shares of Common Stock at an exercise price of $11.99 to the Company's outside legal counsel.

Retained Earnings Under the most restrictive provisions in effect, as a result of the sale of Senior Notes, Southern Union will not declare or pay any cash or asset dividends on common stock (other than dividends and distributions

payable solely in shares of its common stock or in rights to acquire its common stock) or acquire or retire any shares of Southern Union's common stock, unless no event of default exists and the Company meets certain financial ratio requirements. In addition, Southern Union's charter relating to the issuance of preferred stock limits the payment of cash or asset dividends on capital stock.

VIII Preferred Securities of Subsidiary Trust

On May 17, 1995, Southern Union Financing I (Subsidiary Trust), a consolidated wholly-owned subsidiary of Southern Union, issued $100,000,000 of 9.48% Trust Originated Preferred Securities (Preferred Securities). In connection with the Subsidiary Trust's issuance of the Preferred Securities and the related purchase by Southern Union of all of the Subsidiary Trust's common securities (Common Securities), Southern Union issued to the Subsidiary Trust $103,092,800 principal amount of its 9.48% Subordinated Deferrable Interest Notes, due 2025 (Subordinated Notes). The sole assets of the Subsidiary Trust are the Subordinated Notes. The interest and other payment dates on the Subordinated Notes correspond to the distribution and other payment dates on the Preferred Securities and the Common Securities. Under certain circumstances, the Subordinated Notes may be distributed to holders of the Preferred Securities and holders of the Common Securities in liquidation of the Subsidiary Trust. The Subordinated Notes are redeemable at the option of the Company on or after May 17, 2000, at a redemption price of $25 per Subordinated Note plus accrued and unpaid interest. The Preferred Securities and the Common Securities will be redeemed on a pro rata basis to the same extent as the Subordinated Notes are repaid, at $25 per Preferred Security and Common Security plus accumulated and unpaid distributions. Southern Union's obligations under the Subordinated Notes and related agreements, taken together, constitute a full and unconditional guarantee by Southern Union of payments due on the Preferred Securities. As of June 30, 1997 and 1996, 4,000,000 shares of Preferred Securities were outstanding.

IX Debt

	June 30, 1997	June 30, 1996
7.60% Senior Notes, due 2024..........	$ 384,515	$ 384,515
Other................................	2,329	1,494
Total long-term debt..................	$ 386,844	$ 386,009

The maturities of long-term debt for each of the next five years ending June 30 are: 1998 -- $687,000; 1999 -- $431,000; 2000 -- $144,000; 2001 -- $145,000; 2002 -- $160,000; and thereafter -- $385,277,000.

Senior Notes On January 31, 1994, Southern Union completed the sale of the 7.60% Senior Debt Securities (Senior Notes). The net proceeds from the sale, together with the net proceeds from a $50,000,000 common stock subscription rights offering (Rights Offering) completed on December 31, 1993 and working capital from operations, were used to: (i) fund the acquisition of Missouri Gas Energy; (ii) repay $59,300,000 of borrowings under the revolving credit facility; and (iii) refinance $105,000,000 aggregate principal amount of various notes and debentures and the related premiums of $13,700,000 resulting from the early extinguishment of such notes and debentures.

During 1996, $75,485,000 of Senior Notes were repurchased at prices ranging from $922 to $985 per $1,000 note resulting in a net pre-tax gain of $1,581,000. In June 1995, $15,000,000 of Senior Notes were repurchased at prices ranging from $993 to $995 per $1,000 note resulting in a net pre-tax loss of $33,000. Debt issuance costs and premiums on the early extinguishment of debt are accounted for in accordance with that required by its various regulatory bodies having jurisdiction over the Company's operations. The Company recognizes gains or losses on the early extinguishment of debt to the extent it is provided for by its regulatory authorities and in some cases such costs are deferred and amortized over the term of the new or replacement debt issues.

The Senior Notes traded at $966 and $1,020 (per $1,000 note) on June 30 and July 31, 1997, respectively, as quoted by a major brokerage firm. The carrying amount of long-term debt at June 30, 1997 and 1996 was $386,844,000 and

$386,009,000, respectively. The fair value of long-term debt at June 30, 1997 and 1996 was $373,770,000 and $366,783,000, respectively.

Credit Facilities The Company has availability under a $100,000,000 revolving credit facility (Revolving Credit Facility) underwritten by a syndicate of banks. The Company has additional availability under uncommitted line of credit facilities (Uncommitted Facilities) with various banks. Covenants under the Revolving Credit Facility allow for up to $35,000,000 of borrowings under Uncommitted Facilities at any one time. Borrowings under these facilities are available for Southern Union's working capital, letter of credit requirements and other general corporate purposes. The facilities are uncollateralized and have no borrowing base limitations as long as the Senior Notes meet certain rating criteria. The Company may use up to $40,000,000 of the Revolving Credit Facility to finance future acquisitions. These facilities contain covenants with respect to financial parameters and ratios, total debt limitations, restrictions as to dividend payments, stock reacquisitions, certain investments and additional liens. The facilities expire on December 31, 1999. The Revolving Credit Facility is subject to a commitment fee based on the rating of the Senior Notes. As of June 30, 1997, the commitment fee was an annualized .15% on the unused balance. The interest rate on borrowings on the Revolving Credit Facility is calculated based on a formula using the LIBOR or prime interest rates. The average interest rate under the facilities was 6.1% and 7.4% for the years ended June 30, 1997 and 1996, respectively. A $1,600,000 balance was outstanding under the facilities as of June 30, 1997 but no balance was outstanding at June 30, 1996. A balance of $19,000,000 was outstanding under the facilities at July 31, 1997.

X Employee Benefits

Defined Contribution Plan The Company provides a Savings Plan available to all employees. Since January 1, 1997, the Company contributes $.50 of Company stock for each $1.00 contributed by a non-Missouri Gas Energy participant up to 5% of the employee's salary. Additionally, the Company contributes $.75 of Company stock for each $1.00 contributed by a non-Missouri Gas Energy participant from 6% to 10% of the employee's salary. For Missouri Gas Energy non-union employees, the Company contributes $.50 of Company stock for each $1.00 contributed by such a participant up to 5% of the employee's salary and the Company contributes $.75 of Company stock for each $1.00 contributed by such a participant from 6% to 8% of the employee's salary. For Missouri Gas Energy union employees, the Company contributes $.50 of Company stock for each $1.00 contributed by such a participant up to 7% of the employee's salary. Company contributions are 100% vested after six years of continuous service. Company contributions to the plan during 1997, 1996, and 1995, were $1,476,000, $1,425,000, and $1,344,000, respectively.

Postemployment Benefits Certain postemployment benefits such as disability and health care continuation coverage provided to former or inactive employees after employment but before retirement, are accrued if attributable to an employee's previously rendered service. The Company has recorded a regulatory asset to the extent it intends to file rate applications to include such costs in rates and such recovery is probable. As of both June 30, 1997 and 1996, the Company has recorded a regulatory asset and a related liability of $1,100,000.

Postretirement Benefits Other than Pensions

	1997	1996	1995
Service cost of benefits earned during the year....................	$ 282	$ 313	$ 303
Interest cost on benefit obligations..	2,772	2,982	3,389
Actual return on plan assets..........	(31)	(24)	(21)
Amortization of transition obligation.	224	224	224
Net amortization and deferral.........	(1,115)	(195)	--
Net postretirement benefit cost.......	$ 2,132	$ 3,300	$ 3,895

	1997	1996

Accumulated postretirement benefit obligation:		
Retirees..........................	$ 28,713	$ 29,080
Other fully eligible participants..	2,424	2,037
Other active participants..........	4,811	4,738
Accumulated benefit obligation.........	35,948	35,855
Plan assets at fair value.............	(863)	(383)
Accumulated benefit obligations in excess of plan assets...............	35,085	35,472
Unrecognized net transition obligation.	(3,412)	(3,636)
Unrecognized prior service cost........	1,207	1,347
Unrecognized net gain..................	7,552	10,531
Accrued postretirement benefit cost....	$ 40,432	$ 43,714

Postretirement medical and other benefit liabilities are accrued on an actuarial basis during the years an employee provides services. Prior to 1997, Missouri Gas Energy recorded a deferral of postretirement medical expense in excess of cash paid per an accounting authority order approved by the MPSC. These deferrals were to be amortized to expense and were to be fully offset by the net income stream generated from a company-owned life insurance (COLI) plan. Legislation passed in 1996 by Congress eliminated the tax advantages afforded to COLI plans, and the Missouri Gas Energy COLI program was terminated in February 1997. Additionally, the State of Missouri passed legislation which provides for prospective recognition by the MPSC of postretirement medical and benefit costs on an accrual basis when funded. Amortization of deferrals recorded prior to the termination of the COLI are currently included in Missouri Gas Energy rates. The Company amortizes the transition obligation over an allowed 20-year period. Fluctuations in the stock market could impact future plan asset investment returns and ultimately net pension expense.

The significant features of the plan include the payment of a portion of the medical benefit costs for individuals (and their dependents) who are: (i) employees or retirees of Missouri Gas Energy; (ii) non-Missouri Gas Energy retirees who retired prior to January 1, 1993; and (iii) non-Missouri Gas Energy employees (and their dependents) who elected to retire during the first quarter of 1993. For active non-Missouri Gas Energy employees hired prior to January 1, 1993, benefits are provided only to retirees and only until eligibility for Medicare (age 65). The cost-sharing provisions for medical care benefits include an escalation in the non-Missouri Gas Energy retirees' share of claims obligations that is expected to follow the trend of claims net of Medicare reimbursements. The non-Missouri Gas Energy employees plan was amended during 1993 to substantially modify the cost-sharing provisions to decrease the employer's share of expected future claims and make certain other plan changes. The plan for Missouri Gas Energy employees and retirees provides payment of a portion of the medical benefit costs for individuals and their dependents. The cost sharing provisions include an escalation in the Missouri Gas Energy retirees share of claims that is expected to follow the trend of claims net of Medicare, subject to an overall limit on employer expenditures.

The weighted average assumed discount rate used to measure the accumulated postretirement benefit obligation was 7.75% for the year ended June 30, 1997 and 1996. The weighted average expected long-term rate of return on plan assets was assumed to be 8% on an after-tax basis. The annual assumed rate of increase in the health care cost trend rate for 1998 was 7.5% per year, gradually decreasing thereafter to 6% in year eight and thereafter, of the projection. The health care cost trend rate assumption has a significant effect on the amounts reported. Increasing the assumed health care cost trend rate by one percent for each future year would increase the aggregate of the service and interest cost components of the net periodic postretirement health care benefit cost by $42,000 and would increase the accumulated postretirement benefit obligation for health care benefits by $430,000. Assets held in the separate account within the retirement plan include cash and bond and stock funds. Non-benefit liabilities are limited to expenses associated with plan operation and administration.

Defined Benefit Plan The Company maintains two trusteed non-contributory defined benefit retirement plans which cover substantially all employees. Plan A covers those Company employees who are not employed by Missouri Gas Energy and Plan B covers those employees who are employed by Missouri Gas Energy. The Company funds the plans' cost in accordance with federal regulations, not to exceed the amounts deductible for income tax purposes. The plans' assets are invested in cash and bond and stock funds.

Net pension expense for the years ended June 30, 1997, 1996 and 1995 consisted of the following:

	Plan A			Plan B		
	1997	1996	1995	1997	1996	1995
Service cost of benefits earned during the year........	$1,405	$1,442	$1,220	$ 1,509	$ 1,640	$ 1,125
Interest cost on projected benefit obligations...	2,759	2,483	2,394	7,487	7,355	7,289
Actual return on plan assets......	(6,473)	(4,204)	(2,768)	(20,797)	(18,669)	(10,318)
Net amortization and deferral....	4,121	2,277	949	12,025	11,556	3,363
Net pension expense.....	$1,812	$1,998	$1,795	$ 224	$ 1,882	$ 1,459

	Plan A		Plan B	
	1997	1996	1997	1996
Actuarial present value of benefit obligations:				
Vested benefits.........	$29,738	$26,150	$88,541	$87,790
Nonvested benefits......	1,184	1,092	1,086	1,149
Accumulated benefit obligations.............	30,922	27,242	89,627	88,939
Effect of future salary increases...............	5,933	6,573	7,113	7,381
Projected benefit obligation..............	36,855	33,815	96,740	96,320
Plan assets at fair value.	(36,931)	(30,161)	(112,574)	(100,506)
Projected benefit obligation less plan assets....	(76)	3,654	(15,834)	(4,186)
Unrecognized net transition asset.........	427	524	--	--
Unrecognized prior service cost............	(1,515)	(1,627)	(1,103)	(828)
Unrecognized net gain.....	4,555	853	17,324	5,468

Accrued retirement plan liabilities	$ 3,391	$ 3,404	$ 387	$ 454
Actuarial assumptions:				
Weighted average discount rate	7.75%	7.75%	7.75%	7.75%
Rate of increase in future compensation levels	5.62%	5.62%	5.8%	5.8%
Weighted average expected long-term rate of return	8%	7.75%	8%	7.75%

The actuarial computations for the determination of accumulated and projected benefit obligations are based on the projected unit credit method. Prior service cost is being amortized on a straight-line basis over the average remaining expected future service of participants present at the time of amendment.

The Company was required by the MPSC in 1994 to contribute $3,000,000 to the Company's employee's qualified defined benefits plan applicable to Missouri Gas Energy's employees and retirees earlier than what would be required under the Internal Revenue Code as determined by the plan's actuaries. As of June 30, 1996 the Company had contributed the full amount required.

The Company also maintains a supplemental non-contributory defined benefit retirement plan which covers certain executive employees. The purpose of the supplemental plan is to provide part or all of those defined benefit plan benefits which are not payable to certain employees under the primary plan. The net pension cost of the supplemental plan for each of the three years ended June 30, 1997 was not significant.

XI Taxes on Income

	Year Ended June 30,		
	1997	1996	1995
Current:			
Federal	$ 4,437	$ 4,960	$ 4,694
State	596	606	371
	5,033	5,566	5,065
Deferred:			
Federal	6,690	8,563	5,218
State	650	850	691
	7,340	9,413	5,909
Total provision	$12,373	$14,979	$10,974

Deferred credits and other liabilities also include $629,000 and $665,000 of unamortized deferred investment tax credit as of June 30, 1997 and 1996, respectively.

Deferred income taxes result from temporary differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities.

June 30,

	1997	1996
Deferred tax assets:		
Postretirement benefits.............	$ 2,053	$ 1,392
Bad debt reserves...................	2,643	713
Estimated alternative minimum tax credit........................	7,890	2,044
Insurance accruals..................	2,599	1,552
Unrealized holding (gain) loss on securities.....................	(357)	670
Other...............................	1,266	1,609
Total deferred tax assets..........	16,094	7,980
Deferred tax liabilities:		
Property, plant and equipment........	(57,839)	(41,771)
Unamortized debt expense............	(5,492)	(5,712)
Other...............................	(3,955)	(3,154)
Total deferred tax liabilities.....	(67,286)	(50,637)
Net deferred tax liability............	(51,192)	(42,657)
Less current tax assets................	2,786	877
Accumulated deferred income taxes......	$ (53,978)	$ (43,534)

The Company accounts for income taxes utilizing the liability method which bases the amounts of current and future tax assets and liabilities on events recognized in the financial statements and on income tax laws and rates existing at the balance sheet date.

	Year Ended June 30,		
	1997	1996	1995
Computed statutory tax expense at 35%.........................	$ 10,992	$ 12,536	$ 9,465
Changes in taxes resulting from:			
State income taxes, net of federal income tax benefit....	811	947	690
Acquisition adjustment related to assets sold...............	--	1,096	--
Amortization of acquisition adjustment....................	724	884	920
Research and experimentation credit.........................	--	(400)	--
Other..........................	(154)	(84)	(101)
Actual tax expense...............	$ 12,373	$ 14,979	$10,974

XII Utility Regulation and Rates

On January 22, 1997, Missouri Gas Energy was notified by the MPSC of its decision to grant an $8,847,000 annual increase to revenue effective on February 1, 1997. See Commitments and Contingencies.

The MPSC approved a gas supply incentive plan for Missouri Gas Energy effective July 1, 1996. Under the plan, the Company and Missouri Gas Energy's customers share in certain savings below benchmark levels of gas costs achieved as a result of the Company's gas procurement activities. Likewise, if natural gas is acquired above benchmark levels, both the Company and customers share in such costs. For the year ended June 30, 1997, the incentive plan achieved a reduction of overall gas costs of $10,200,000, resulting in savings to Missouri customers of $5,600,000. The Company recorded revenues of $4,600,000 under this program.

Under the order of the Federal Energy Regulatory Commission, a major supplier of gas to Missouri Gas Energy is allowed recovery of certain previously unrecovered deferred gas costs with a remaining balance of $10,200,000 at June 30, 1997. Missouri Gas Energy filed a mechanism to recover these costs with the MPSC which was approved and allows recovery of these costs from its Missouri customers. The receivable and liability associated with these costs have been recorded as a deferred charge and a deferred credit, respectively, on the consolidated balance sheet as of June 30, 1997 and 1996.

As a result of the January 31, 1994 acquisition of Missouri Gas Energy, the MPSC required Missouri Gas Energy to reduce rate base by $30,000,000 to compensate Missouri rate payers for rate base reductions that were eliminated as a result of the acquisition. This is amortized over a ten-year period on a straight-line basis since the date of acquisition.

XIII Leases

The Company leases certain facilities, equipment and office space under cancelable and noncancelable operating leases. The minimum annual rentals under operating leases for the next five years ending June 30 are as follows: 1998 -- $5,440,000; 1999 -- $5,613,000; 2000 -- $4,639,000; 2001 -- $4,356,000; 2002 -- $4,411,000; and thereafter $7,793,000. Rental expense was $6,797,000, $8,098,000 and $7,268,000 for the years ended June 30, 1997, 1996 and 1995, respectively.

XIV Commitments and Contingencies

Southern Union is aware of the possibility that it may become a defendant in an action brought by the United States Environmental Protection Agency (EPA) for damages associated with the site of a former coal gasification plant (Pine Street Canal Site) in Burlington, Vermont. This knowledge arises out of the existence of a prior action, United States v. Green Mountain Power Corp., et al, (Green Mountain Power) in which Southern Union became involved as a

third-party defendant in January 1989. Green Mountain Power was an action under 42 U.S.C. Section 9607(a) by the federal government to recover clean-up costs associated with the Maltex Pond, which is part of the Pine Street Canal Site. Two defendants in Green Mountain Power, Vermont Gas Systems and Green Mountain Power Corp., claimed that Southern Union is the corporate successor to People's Light and Power Corporation, an upstream corporate parent of Green Mountain Power Corp. during the years 1928-1931. Green Mountain Power was settled without admission or determination of liability with respect to Southern Union by order dated December 26, 1990. The EPA has since conducted studies of the clean-up costs for the remainder of the Pine Street Canal Site, but the ultimate costs are unknown at this time. On November 30, 1992, Southern Union was named as a potentially responsible party in a special notice letter from the EPA. The Company has denied liability for any clean-up costs for various reasons, including that it is not a successor to any entity that owned or operated the site in question. Should Southern Union be made party to any action seeking recovery of remaining clean-up costs, the Company intends to vigorously defend against such an action. The Company has made demands of the appropriate insurers that they assume the defense of and liability for any such claim that may be asserted. The Company does not believe the outcome of this matter will have a material adverse effect on its financial position, results of operations or cash flows.

Southern Union and Western Resources, Inc. entered into an Environmental Liability Agreement (Environmental Liability Agreement) at the time of the closing of the acquisition of Missouri Gas Energy. Subject to the accuracy of certain representations made by Western Resources in the Missouri Asset Purchase Agreement, the Environmental Liability Agreement provides for a tiered approach to the allocation of certain liabilities under environmental laws that may exist or arise with respect to Missouri Gas Energy. The Environmental Liability Agreement contemplates Southern Union first seeking reimbursement from other potentially responsible parties, or recovery of such costs under insurance or through rates charged to customers. To the extent certain environmental liabilities were discovered by Southern Union prior to January 31, 1996, and are not so reimbursed or recovered, Southern Union will be responsible for the first $3,000,000, if any, of out-of-pocket costs and expenses incurred to respond to and remediate any such environmental claim. Thereafter, Western Resources would share one-half of the next $15,000,000 of any such costs and expenses, and Southern Union would be solely liable for any such costs and expenses in excess of $18,000,000. Missouri Gas Energy owns or is otherwise associated with a number of sites where manufactured gas plants were previously operated. These plants were commonly used to supply gas service in the late 19th and early 20th centuries, in certain cases by corporate predecessors to Western Resources. By-products and residues from manufactured gas could be located at these sites and at some time in the future may require remediation by the EPA or delegated state regulatory authority. By virtue of notice under the Missouri Asset Purchase Agreement and its preliminary, non-invasive review, the Company became aware prior to closing of eleven such sites in the service territory of Missouri Gas Energy. Based on information reviewed thus far, it appears that not all of these sites may have been owned or operated by Western Resources or its predecessors in interest. Subsequent to the closing of the acquisition of Missouri Gas Energy, as a result of an environmental audit, the Company has discovered the existence of possibly eight additional sites in the service territory of Missouri Gas Energy. Southern Union has so informed Western Resources. The Company does not know if any of these additional sites were ever owned or operated by Western Resources or any of its predecessors in interest. Western Resources has informed the Company that it was notified in 1991 by the EPA that it was evaluating one of the sites (in St. Joseph, Missouri) for any potential threat to human health and the environment. Western Resources has also advised the Company, as of September 15, 1994, the EPA had not notified it that any further action may be required. Evaluation of the remainder of the sites by appropriate federal and state regulatory authorities may occur in the future. At the present time and based upon information available to management, the Company believes that the costs of any remediation efforts that may be required for these sites for which it may ultimately have responsibility will not exceed the aggregate amount subject to substantial sharing by Western Resources.

In addition to the Pine Street Canal Site and various Missouri Gas Energy sites described above, the Company is investigating the possibility that the Company or predecessor companies may have been associated with Manufactured Gas Plant (MGP) sites in other of its past, principally in Arizona and New Mexico, and present service areas in Texas. At the present time, the Company is aware of certain plant sites in some of these areas and is investigating those and certain other locations.

The municipal owner of a property adjacent to one of the Company's service locations has raised concerns over the continued operation of that property as a park due to its former use as a portion of an MGP site. The Texas Water Commission (TWC), in cooperation with the EPA, conducted a site inspection and preliminary assessment of this MGP site. Correspondence received from the TWC in 1989 concluded that the site "did not appear at the time of our inspection to pose an apparent threat to the public or the environment." In April 1996 the city closed the park pending the performance of a risk assessment report. Although this site was previously listed in the Comprehensive Environmental Response, Compensation and Liability Information System (CERCLIS) data base, in a letter dated December 30, 1996, the United States Environmental Protection Agency removed the site from the CERCLIS data base. Based upon currently available information, Southern Union does not believe the outcome of this matter will have a material adverse effect on its financial position, results of operations or cash flows.

While the Company's evaluation of these Texas, Arizona and New Mexico MGP sites is in its preliminary stages, it is likely that some compliance costs may be identified and become subject to reasonable quantification. To the extent that such potential costs are quantified, the Company expects to provide any appropriate accruals and seek recovery for such remediation costs through all appropriate means, including insurance and regulatory relief. Although significant charges to earnings could be required prior to rate recovery, management does not believe that environmental expenditures for such MGP sites will have a material adverse effect on the Company's financial position, results of operations or cash flows.

Pursuant to a 1989 MPSC order, Missouri Gas Energy is engaged in a major gas safety program in its service area. This program includes replacement of company- and customer-owned gas service and yard lines, the movement and resetting of meters, the replacement of cast iron mains and the replacement and cathodic protection of bare steel mains (Missouri Safety Program). In connection with this program, the MPSC issued an accounting authority order (AAO) in Case No. GO-92-234 in 1994 which authorized MGE to defer depreciation expenses, property taxes and carrying costs at a specified rate of 10.54% on the costs incurred in the Missouri Safety Program. This AAO was consistent with those which were issued by the MPSC from 1990 through 1993 to the predecessor owner of Missouri Gas Energy. Since February 1, 1994, the Company has followed the specifications of the AAO as provided for by generally accepted accounting principles. The MPSC rate order of January 22, 1997, however, retroactively reduced the carrying cost rate applied by the Company on the expenditures incurred on the Missouri Safety Program since early 1994 to an Allowance for Funds Used During Construction (AFUDC) rate which ranged from 6% to 7% from October 1993 to January 1997. The Company has filed an appeal of that portion of the rate order in the Missouri State Court of Appeals, Western District. Absent a reversal of this part of the rate order, the Company will have to record a one-time $5,600,000 pre-tax write-ff of the previously deferred carrying costs. Associated carrying costs deferred by the Company were $3,956,000 for the twelve months ended June 30, 1997. Had the Company applied the AFUDC rate, as now suggested by the MPSC, the carrying costs would have been $2,583,000 for the twelve months ended June 30, 1997, respectively. The Company has not provided for any potential disallowance relative to this matter in its financial statements because it believes this part of the order is not lawful and that the related regulatory asset ultimately will be recovered in the future. The Company believes it will ultimately be successful in litigating this matter and, therefore, will not have a material adverse affect on its financial position, results of operations or cash flows.

The continuation of the Missouri Safety Program will result in significant levels of future capital expenditures. The Company estimates incurring capital expenditures of $20,000,000 in fiscal 1998 related to this program.

Southern Union and its subsidiaries are parties to other legal proceedings that management considers to be normal actions to which an enterprise of its size and nature might be subject, and not to be material to the Company's overall business or financial condition, results of operations or cash flows.

As a result of the acquisition of Missouri Gas Energy, the Company assumed certain obligations related to a 1990 settlement of a Wyoming Tight Sands anti-trust claim. To secure the refund of the settlement proceeds, the MPSC authorized the establishment of an independently administered trust to collect cash receipts under the Tight Sands settlement and repay credit-facility borrowings used for the lump sum payment. In the event the trust does not receive cash payments from the gas suppliers as provided by the Tight Sands settlement agreements, the Company is

committed to pay its applicable portion of the amount owed the lender of the credit-facility borrowings. The Company's allocable unpaid portion of the amount the trust owes the lender at June 30, 1997 and 1996 was $5,116,000 and $6,723,000, respectively.

The Company is committed under various agreements to purchase certain quantities of gas in the future. At June 30, 1997, the Company has purchase commitments for nominal quantities of gas at fixed prices. These fixed price commitments have an annual value of $2,500,000 for Southern Union Gas. Missouri Gas Energy currently does not have fixed price commitment contracts for the 1997/1998 winter heating season. At June 30, 1997, the Company also has purchase commitments for certain quantities of gas at variable, market-based prices. These market-based price commitments have an annual value of $49,700,000 for Southern Union Gas and $72,100,000 for Missouri Gas Energy. The Company's purchase commitments may extend over a period of several years depending upon when the required quantity is purchased. The Company has purchase gas tariffs in effect for all its utility service areas that provide for recovery of its purchase gas costs under defined methodologies.

The Company is in the process of installing an Automated Meter Reading (AMR) system at Missouri Gas Energy. The installation of the AMR system will involve an investment of $27,000,000. This system will improve meter reading accuracy and provide electronic accessibility to meters in residential customers' basements, thereby reducing the number of estimated bills.

On May 1, 1996, the Company agreed to three-year contracts with the bargaining-unit Missouri employees. Of the Company's employees represented by unions, 84% are employed by Missouri Gas Energy.

The Company had standby letters of credit outstanding of $2,947,000 at both June 30, 1997 and 1996, which guarantee payment of various insurance premiums and state taxes.

The Company follows the provisions of an American Institute of Certified Public Accountants Statement of Position, Environmental Remediation Liabilities, for recognition, measurement, display and disclosure of environmental remediation liabilities.

XV Quarterly Operations (Unaudited)

Year Ended June 30, 1997	Quarter Ended September 30	December 31	March 31	June 30	Total
Total operating revenues(1).	$ 80,830	$ 231,462	$316,916	$87,823	$717,031
Operating margin(1)...	41,415	76,517	100,922	48,989	267,843
Net operating revenues(1).	439	25,565	37,000	8,466	71,470
Net earnings (loss) available for common stock.......	(5,405)	9,661	17,678	(2,902)	19,032
Earnings (loss) per common and common share equivalents(2)....	(.32)	.54	1.00	(.17)	1.07

Year Ended June 30, 1997	Quarter Ended September 30	December 31	March 31	June 30	Total
Total operating revenues(1).	$ 70,228	$ 180,939	$275,028	$94,196	$620,391
Operating margin(1)...	42,398	74,337	96,575	45,542	258,852
Net operating revenues(1).	1,581	24,262	43,130	831	69,804
Net earnings (loss) available for common stock.......	(5,598)	8,746	20,549	(2,858)	20,839
Earnings (loss) per common and common share equivalents(2)....	(.33)	.50	1.16	(.17)	1.19

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(1) Certain amounts may vary from those previously reported due to reclassifications to conform with the current years' presentation.
(2) The sum of earnings per share by quarter may not equal the net earnings per common and common share equivalents for the year due to variations in the weighted average common and common share equivalents outstanding used in computing such amounts.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholders and
Board of Directors of
Southern Union Company:

We have audited the accompanying consolidated balance sheets of Southern Union Company and Subsidiaries as of June 30, 1997 and 1996, and the related consolidated results of operations, cash flows and stockholders' equity for each of the three years in the period ended June 30, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Southern Union Company and Subsidiaries as of June 30, 1997 and 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended June 30, 1997, in conformity with generally accepted accounting principles.

COOPERS & LYBRAND L.L.P.

Austin, Texas
August 13, 1997

EXHIBIT 21

SUBSIDIARIES OF THE COMPANY

SUBSIDIARIES OF THE COMPANY Exhibit 21

Name	State or Country of Incorporation
ConTigo, Inc.	Delaware
Energia Estrella del Sur, S. A. de C. V.	Mexico
Energy WorX, Inc.	Delaware
KellAir Aviation Company	Delaware
Lavaca Realty Company	Delaware
Mercado Gas Services Inc.	Delaware
Norteno Pipeline Company	Delaware
Southern Union Energy International, Inc.	Delaware
Southern Union Financing I	Delaware
Southern Union International Investments, Inc.	Delaware
Southern Union Total Energy Systems, Inc. (formerly Southern Union Energy Products and Services Company)	Delaware
Southern Transmission Company	Delaware
SUPro Energy Company	Delaware

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Note: Six other wholly-owned subsidiaries of Southern Union Company, Southern Union Financing II (a Delaware corporation), Southern Union Financing III (a Delaware corporation), Southern Union Gas Company, Inc. (a Delaware corporation), Southern Union Gas Company, Inc. (a Texas corporation), Western Utilities, Inc. (a Delaware corporation) and Western Utilities, Inc. (a New Mexico corporation), conduct no business except to the extent necessary to hold their name.

EXHIBIT 23

CONSENT OF INDEPENDENT ACCOUNTANTS

CONSENT OF INDEPENDENT ACCOUNTANTS Exhibit 23

We consent to the incorporation by reference in the registration statements of Southern Union Company and Subsidiaries (the "Company") on Form S-3 (File Nos. 33-58297, 333-02965 and 333-10585) and Form S-8 (File Nos. 2-79612, 33-37261, 33-69596 and 33-69598) of our report dated August 13, 1997, on our audits of the consolidated financial statements of the Company as of June 30, 1997 and 1996, and for the years ended June 30, 1997, 1996, and 1995, which report is incorporated by reference in this Annual Report on Form 10-K.

COOPERS & LYBRAND L.L.P.

Austin, Texas
September 19, 1997

EXHIBIT 24

POWER OF ATTORNEY

POWER OF ATTORNEY Exhibit 24

KNOW ALL PERSONS BY THESE PRESENTS that each person whose signature appears below constitutes and appoints Peter H. Kelley, Ronald J. Endres and David J. Kvapil, or any of them, as such person's true and lawful attorney-in-fact and agent, with full power of substitution and revocation, for such person and in such person's name, place and stead, in any and all capacities, to sign the Annual Report on Form 10-K for the fiscal year ended June 30, 1997 of Southern Union Company, a Delaware corporation, and any amendments thereto, and to file the same with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission and the New York Stock Exchange.

Dated: September 15, 1997

JOHN E. BRENNAN - --------------- John E. Brennan	GEORGE L. LINDEMANN ------------------- George L. Lindemann
FRANK W. DENIUS - --------------- Frank W. Denius	ROGER J. PEARSON ---------------- Roger J. Pearson
AARON I. FLEISCHMAN - ------------------- Aaron I. Fleischman	GEORGE ROUNTREE, III -------------------- George Rountree, III
ADAM M. LINDEMANN - ----------------- Adam M. Lindemann	DAN K. WASSONG -------------- Dan K. Wassong
KURT A. GITTER, M.D. - -------------------- Kurt A. Gitter	

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