

NATIONAL FUEL GAS CO

FORM 10-K (Annual Report)

Filed 12/17/01 for the Period Ending 09/30/01

Address	6363 MAIN STREET WILLIAMSVILLE, NY 14221-5887
Telephone	716-857-7000
CIK	0000070145
Symbol	NFG
SIC Code	4924 - Natural Gas Distribution
Industry	Natural Gas Utilities
Sector	Utilities
Fiscal Year	09/30

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**United States
Securities and Exchange Commission
Washington, D.C. 20549**

**Form 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended September 30, 2001

Commission File Number 1-3880

National Fuel Gas Company
(Exact name of registrant as specified in its charter)

New Jersey
(State or other jurisdiction of
incorporation or organization)

13-1086010
(I.R.S. Employer
Identification No.)

**10 Lafayette Square
Buffalo, New York**

14203
(Zip Code)

(Address of principal executive offices)

(716) 857-7000
Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
Common Stock, \$1 Par Value, and Common Stock Purchase Rights	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 and (2) has been subject to such filing requirements for the past 90 days. YES 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 the 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 nonaffiliates of the registrant amounted to \$1,759,487,000 as of November 30, 2001.

Common Stock, \$1 Par Value, outstanding as of November 30, 2001: 79,480,675 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Annual Report to Shareholders for 2001 are incorporated by reference into Part I of this report. Portions of the registrant's definitive Proxy Statement for the Annual Meeting of Shareholders to be held February 21, 2002 are incorporated by reference into Part III of this report.

For the Fiscal Year Ended September 30, 2001

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This Form 10-K contains “forward-looking statements” as defined by the Private Securities Litigation Reform Act of 1995. Forward-looking statements should be read with the cautionary statements included in this Form 10-K at Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations (MD&A), under the heading “Safe Harbor for Forward-Looking Statements.” Forward-looking statements are all statements other than statements of historical fact, including, without limitation, those statements that are designated with an asterisk (“*”) following the statement, as well as those statements that are identified by the use of the words “anticipates,” “estimates,” “expects,” “intends,” “plans,” “predicts,” “projects,” and similar expressions.

PART I

ITEM 1 Business

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The Company and its Subsidiaries

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National Fuel Gas Company (the Registrant), a holding company registered under the Public Utility Holding Company Act of 1935, as amended (the Holding Company Act), was organized under the laws of the State of New Jersey in 1902. The Company is engaged in the business of owning and holding securities issued by its twelve directly owned subsidiary companies. Except as otherwise indicated below, the Company owns all of the outstanding securities of its subsidiaries. Reference to “the Company” in this report means the Registrant, the Registrant and its subsidiaries or the Registrant’s subsidiaries as appropriate in the context of the disclosure. Also, all references to a certain year in this report relate to the Company’s fiscal year ended September 30 of that year unless otherwise noted.

The Company is a diversified energy company consisting of six reportable business segments.

1. The Utility segment operations are carried out by National Fuel Gas Distribution Corporation (Distribution Corporation), a New York corporation. Distribution Corporation sells natural gas or provides natural gas transportation services to approximately 732,000 customers through a local distribution system located in western New York and northwestern Pennsylvania. The principal metropolitan areas served by Distribution Corporation include Buffalo, Niagara Falls and Jamestown, New York and Erie and Sharon, Pennsylvania.

2. The Pipeline and Storage segment operations are carried out by National Fuel Gas Supply Corporation (Supply Corporation), a Pennsylvania corporation, and by Seneca Independence Pipeline Company (SIP), a Delaware corporation. Supply Corporation provides interstate natural gas transportation and storage services for affiliated and nonaffiliated companies through (i) an integrated gas pipeline system extending from southwestern Pennsylvania to the New York-Canadian border at the Niagara River and (ii) 27 underground natural gas storage fields owned and operated by Supply Corporation as well as four other underground natural gas storage fields operated jointly with various other interstate gas pipeline companies. SIP holds a one-third general partnership interest in Independence Pipeline Company (Independence), a Delaware general partnership proposing to construct and operate a 400-mile pipeline to transport natural gas from Defiance, Ohio to Leidy, Pennsylvania (the Independence Pipeline).

3. The Exploration and Production segment operations are carried out by Seneca Resources Corporation (Seneca), a Pennsylvania corporation. Seneca is engaged in the exploration for, and the development and purchase of, natural gas and oil reserves in the Gulf Coast region of Texas and Louisiana, in California, in Wyoming, and in the Appalachian region of the United States. Also, exploration and production operations are conducted in the provinces of Manitoba,

Alberta and Saskatchewan in Canada by Seneca's wholly-owned subsidiary, National Fuel Exploration Corp. (NFE), an Alberta, Canada corporation.

4. The International segment operations are carried out by Horizon Energy Development, Inc. (Horizon), a New York corporation. Horizon engages in foreign and domestic energy projects through investments as a sole or substantial owner in various business entities. These entities include Horizon Energy Holdings, Inc., a New York corporation, which owns 100% of Horizon Energy Development B.V. (Horizon B.V.). Horizon B.V. is a Dutch company whose principal assets are majority ownership of (i) United Energy, a.s. (UE), a wholesale power and district heating company located in the northern part of the Czech Republic, and (ii) Teplárna Kroměříž, a.s. (TK), a district heating company located in the southeast region of the Czech Republic.

5. The Energy Marketing segment operations are carried out by National Fuel Resources, Inc. (NFR), a New York corporation engaged in the marketing and brokerage of natural gas and the performance of energy management services for industrial, commercial, public authority and residential end-users in the northeastern United States.

6. The Timber segment operations are carried out by Highland Forest Resources, Inc. (Highland), a Pennsylvania corporation, and by a division of Seneca known as its Northeast Division. This segment markets timber from its New York and Pennsylvania land holdings, owns four sawmill operations in northwestern Pennsylvania and processes timber consisting primarily of high quality hardwoods.

Financial information about each of the Company's business segments can be found in Item 7, MD&A and also in Item 8 at Note I - Business Segment Information.

The Company's other wholly-owned subsidiaries are not included in any of the six reportable business segments and consist of the following:

- Upstate Energy Inc. (Upstate), a New York corporation engaged in wholesale natural gas marketing and other energy-related activities;
- Niagara Independence Marketing Company (NIM), a Delaware corporation which owns a one-third general partnership interest in DirectLink Gas Marketing Company (DirectLink), a Delaware general partnership. DirectLink was formed to engage in natural gas marketing and related businesses in part by subscribing for firm transportation capacity on the proposed Independence Pipeline (see Pipeline and Storage segment discussion below);
- Leidy Hub, Inc. (Leidy), a New York corporation formed to provide various natural gas hub services to customers in the eastern United States;
- Data-Track Account Services, Inc. (Data-Track), a New York corporation which provides collection services principally for the Company's subsidiaries; and
- Horizon Power, Inc. (Horizon Power), a New York corporation formerly known as NFR Power, Inc., which is designated as an "exempt wholesale generator" under the Holding Company Act and is developing or operating mid-range independent power production facilities.

No single customer, or group of customers under common control, accounted for more than 10% of the Company's consolidated revenues in 2001.

Rates and Regulation

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The Company is subject to regulation by the Securities and Exchange Commission (SEC) under the broad regulatory provisions of the Holding Company Act, including provisions relating to issuance of securities, sales and acquisitions of securities and utility assets, intra-Company transactions and limitations on diversification. The SEC and some members of Congress have advocated, on either a stand-alone basis or in conjunction with legislation which would deregulate the electric industry, the repeal of the Holding Company Act. Thus far, the proposed legislation would transfer certain oversight responsibilities to the various state public utility regulatory commissions and the Federal Energy Regulatory Commission (FERC) and would expand the access of these bodies to the books and records of companies in a holding company system. The proposed legislation could increase regulation, especially at the state level.* By contrast, previous SEC rule changes have reduced the number of applications required to be filed under the Holding Company Act, exempted some routine financings and expanded diversification opportunities. The Company is unable to predict at this time what the ultimate outcome of legislative or regulatory changes will be and, therefore, what

impact such efforts might have on the Company.*

The Utility segment's rates, services and other matters are regulated by the State of New York Public Service Commission (NYPS) with respect to services provided within New York and by the Pennsylvania Public Utility Commission (PaPUC) with respect to services provided within Pennsylvania. For additional discussion of the Utility segment's rates and regulation, see Item 7, MD&A under the heading "Rate Matters" and Item 8 at Note B-Regulatory Matters.

The Pipeline and Storage segment's rates, services and other matters are regulated by the FERC. SIP is not itself regulated by the FERC, but its sole business is the ownership of an interest in Independence, whose construction, rates, services and other matters are or will be regulated by the FERC. For additional discussion of the Pipeline and Storage segment's rates and regulation, see Item 7, MD&A under the heading "Rate Matters" and Item 8 at Note B-Regulatory Matters.

The discussion under Item 8 at Note B-Regulatory Matters includes a description of the regulatory assets and liabilities reflected on the Company's Consolidated Balance Sheets in accordance with applicable accounting standards. To the extent that the criteria set forth in such accounting standards are not met by the operations of the Utility segment or the Pipeline and Storage segment, as the case may be, the related regulatory assets and liabilities would be eliminated from the Company's Consolidated Balance Sheets and such accounting treatment would be discontinued.

In the International segment, rates charged for the sale of thermal energy and electric energy at the retail level are subject to regulation and audit in the Czech Republic by the Czech Ministry of Finance. The regulation of electric energy rates at the retail level indirectly impacts the rates charged by the International segment for its electric energy sales at the wholesale level.

In addition, the Company and its subsidiaries are subject to the same federal, state and local regulations on various subjects as other companies doing similar business in the same locations.

The Utility Segment

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The Utility segment contributed approximately 35.8% of the Company's 2001 net income available for common stock, exclusive of the Exploration and Production segment's non-cash asset impairment.

Additional discussion of the Utility segment appears below in this Item 1 under the headings "Sources and Availability of Raw Materials," "Competition" and "Seasonality," in Item 7, MD&A and in Item 8, Financial Statements and Supplementary Data.

The Pipeline and Storage Segment

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The Pipeline and Storage segment contributed approximately 23.8% of the Company's 2001 net income available for common stock, exclusive of the Exploration and Production segment's non-cash asset impairment.

Supply Corporation currently has service agreements for substantially all of its firm transportation capacity, which totals approximately 2,036 thousand dekatherms (MDth) per day. The Utility segment accounts for approximately 1,179 MDth per day or 57.9% of the total capacity, and the Energy Marketing segment represents another 70 MDth per day or 3.5% of the total capacity. The remaining 787 MDth or 38.6% of Supply Corporation's firm transportation capacity is subject to firm contracts with nonaffiliated customers.

Supply Corporation has available for sale approximately 67,843 MDth of firm storage capacity. The Utility segment has contracted for 31,395 MDth or 46.3% of the total capacity and the Energy Marketing segment accounts for another 4,305 MDth or 6.3% of the total capacity. Nonaffiliated customers have contracted for the remaining 32,143 MDth or 47.4% of the firm storage capacity. Supply Corporation has been successful in marketing and obtaining executed contracts for storage service (at discounted rates) as it becomes available and expects to continue to do so.*

Additional discussion of the Pipeline and Storage segment appears below under the headings "Sources and Availability of Raw Materials," "Competition" and "Seasonality," in Item 7, MD&A and in Item 8, Financial Statements and Supplementary Data.

The Exploration and Production Segment

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The Exploration and Production segment contributed approximately 42.3% of the Company's 2001 net income available for common stock, exclusive of this segment's non-cash asset impairment.

In June 2001, Seneca, through its wholly-owned subsidiary, NFE, acquired the stock of Player Petroleum Corporation (Player), an oil and gas exploration and development company, with operations based primarily in the Province of Alberta, Canada.

Additional discussion of the Exploration and Production segment appears below under the headings "Sources and Availability of Raw

Materials" and "Competition," in Item 7, MD&A and in Item 8, Financial Statements and Supplementary Data.

The International Segment

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The International segment incurred a net loss in 2001. The impact of this segment's net loss in relation to the Company's 2001 net income available for common stock, exclusive of the Exploration and Production segment's non-cash asset impairment, was negative 1.8%.

Additional discussion of the International segment appears below under the heading "Sources and Availability of Raw Materials," "Competition" and "Seasonality," in Item 7, MD&A and in Item 8, Financial Statements and Supplementary Data.

The Energy Marketing Segment

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The Energy Marketing segment incurred a net loss in 2001. The impact of this segment's net loss in relation to the Company's 2001 net income available for common stock, exclusive of the Exploration and Production segment's non-cash asset impairment, was negative 2.0%.

Additional discussion of the Energy Marketing segment appears below under the headings "Sources and Availability of Raw Materials," "Competition" and "Seasonality," in Item 7, MD&A and in Item 8, Financial Statements and Supplementary Data.

The Timber Segment

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The Timber segment contributed approximately 4.6% of the Company's 2001 net income available for common stock, exclusive of the Exploration and Production segment's non-cash asset impairment.

Additional discussion of the Timber segment appears below under the headings "Sources and Availability of Raw Materials," "Competition" and "Seasonality," in Item 7, MD&A and in Item 8, Financial Statements and Supplementary Data.

All Other Category and Corporate Operations

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The All Other category and Corporate operations incurred a net loss in 2001. The impact of this net loss in relation to the Company's 2001 net income available for common stock, exclusive of the Exploration and Production segment's non-cash asset impairment, was 2.7%.

Additional discussion of the All Other category and Corporate operations appears below in Item 7, MD&A.

Sources and Availability of Raw Materials

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Natural gas is the principal raw material for the Utility segment. In 2001, the Utility segment purchased 117.3 billion cubic feet (Bcf) of gas. Gas purchases from various producers and marketers in the southwestern United States and Canada under long-term (two years or longer) contracts accounted for 63% of these purchases. Purchases of gas on the spot market (contracts of less than a year) accounted for 34% of the Utility segment's 2001 gas purchases. Gas purchases from Dynegey Marketing and Trade and BP Energy Co. (both providing gas from the southwestern United States under long-term contracts) represented 23% and 13% , respectively, of total 2001 gas purchases by the Utility segment. No other producer or marketer provided the Utility segment with 10% or more of its gas requirements in 2001.

Supply Corporation transports and stores gas owned by its customers, whose gas originates in the southwestern and Appalachian regions of the United States as well as in Canada. SIP, through Independence, proposes to transport natural gas produced in Canada and in the continental United States. Additional discussion of proposed pipeline projects appears below in Item 7, MD&A.

The Exploration and Production segment seeks to discover and produce raw materials (natural gas, oil and hydrocarbon liquids) as further described in this report in Item 7, MD&A and Item 8 at Notes I-Business Segment Information and M - Supplementary Information for Oil and Gas Producing Activities.

Coal is the principal raw material for the International segment, constituting 50% of the cost of raw materials needed in 2001 to operate the boilers which produce steam or hot water. Natural gas, oil, limestone and water combined accounted for the remaining 50% of such materials. Coal is purchased and delivered directly from the Mostecka Uhelna Spolecnost, a.s. mine for Horizon's largest coal-fired plant under a contract where price and quantity are the subject of negotiation each year. Based on the current extraction rate, this mine has proven reserves through

2030. The Czech Republic government imports natural gas from sources in Russia and the North Sea and transports the gas through its majority-owned Transgas pipeline system. The International segment purchases natural gas from two of the eight regional gas distribution companies in the Czech Republic. The Czech Republic government also imports oil. The International segment purchases oil from domestic and foreign refineries.

With respect to the Timber segment, Highland requires an adequate supply of timber to process in its sawmill and kiln operations. Seventy percent of the timber processed comes from land owned by Seneca; therefore, the source and availability of this segment's primary raw material are generally known in advance.

The Energy Marketing segment depends on an adequate supply of natural gas to deliver to its customers. In 2001, this segment purchased 39.7 Bcf of natural gas.

Competition

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Competition in the natural gas industry exists among providers of natural gas, as well as between natural gas and other sources of energy. The continuing deregulation of the natural gas industry should enhance the competitive position of natural gas relative to other energy sources, such as fuel oil or electricity, by removing some of the regulatory impediments to adding customers and responding to market forces.* In addition, the environmental advantages of natural gas compared with other fuels should increase the role of natural gas as an energy source.* Moreover, while demand for natural gas is increasing, the production of natural gas also continues to increase making it a dependable alternative to imported oil.*

The electric industry is moving toward a more competitive environment as a result of the Federal Energy Policy Act of 1992 and initiatives undertaken by the FERC and various states. It is unclear at this point what impact this restructuring will have on the Company.*

The Company competes on the basis of price, service and reliability, product performance and other factors. Sources and providers of energy, other than those described under this "Competition" heading, do not compete with the Company to any significant extent.*

Competition: The Utility Segment

The changes precipitated by the FERC's restructuring of the gas industry in Order No. 636 are redefining the roles of the gas utility industry and the state regulatory commissions. Regulators in both New York and Pennsylvania have adopted retail competition for natural gas supply purchases. However, the Utility segment's traditional distribution function remains largely unchanged. For further discussion of state restructuring initiatives refer to Item 7, MD&A under the heading "Rate Matters."

Competition for large-volume customers continues with local producers or pipeline companies attempting to sell or transport gas directly to end-users located within the Utility segment's service territories (i.e., bypass). In addition, competition continues with fuel oil suppliers and may increase with electric utilities making retail energy sales.*

The Utility segment is now better able to compete, through its unbundled flexible services, in its most vulnerable markets (the large commercial and industrial markets).* The Utility segment continues to (i) develop or promote new sources and uses of natural gas or new services, rates and contracts and (ii) emphasize and provide high quality service to its customers.

Competition: The Pipeline and Storage Segment

Supply Corporation competes for market growth in the natural gas market with other pipeline companies transporting gas in the northeastern United States and with other companies providing gas storage services. Supply Corporation has some unique characteristics which enhance its competitive position. Its facilities are located adjacent to Canada and the northeastern United States and provide part of the link between gas-consuming regions of the eastern United States and gas-producing regions of Canada and the southwestern, southern and other continental regions of the United States. This location offers the opportunity for increased transportation and storage services in the future.*

Supply Corporation and TransCanada PipeLines Limited together are pursuing a proposal to construct a pipeline to transport natural gas from Kirkwall, Ontario to the storage and market hub at Leidy, Pennsylvania. This project, called the Northwinds Pipeline, is competing for customers with other proposed pipeline projects that would bring natural gas from Canada to the growing markets in the northeast and mid-Atlantic regions of the United States. Similarly, SIP, through Independence, is competing for customers with other proposed pipeline projects that would bring natural gas from the Chicago area to the northeast and mid-Atlantic regions of the United States. In combination with expansion projects of Transcontinental Gas Pipe Line Corporation and ANR Pipeline Company, Independence intends to provide a service that will access the storage and market hub at Leidy, Pennsylvania.* It is likely that not all of the proposed pipelines will go forward, and that the first project built will have an advantage over other proposed projects.* If completed, the Independence Pipeline and the Northwinds Pipeline would likely create opportunities for increased transportation and storage services by Supply Corporation.* For further discussion of the

Independence Pipeline and Northwinds Pipeline projects, refer to Item 7, MD&A under the heading "Investing Cash Flow."

Competition: The Exploration and Production Segment

The Exploration and Production segment competes with other gas and oil producers and marketers with respect to sales of oil and gas. The Exploration and Production segment also competes, by competitive bidding and otherwise, with other oil and natural gas exploration and production companies of various sizes for leases and drilling rights for exploration and development prospects.

To compete in this environment, Seneca and its wholly-owned subsidiary, NFE, each originate and act as operator on most prospects, minimize risk of exploratory efforts through partnership-type arrangements, apply the latest technology for both exploratory studies and drilling operations, and focus on market niches that suit their size, operating expertise and financial criteria.

Competition: The International Segment

Horizon competes with other entities seeking to develop and/or acquire foreign and domestic energy projects. Horizon, through UE, faces competition in the sale of thermal energy to large industrial customers. In addition, UE faces competition in the sale of electricity to the regional electric distribution company. A large percentage of the electricity purchased by the regional electric distribution companies is produced by the Czech Republic's dominant state-owned energy producer. The Czech cabinet approved a plan put forward by the Ministry of Industry and Trade to privatize this producer and six regional electricity distributors. It is unclear at this point what impact this privatization will have on the wholesale electric energy market.* UE sells electricity at the wholesale level.

Competition: The Energy Marketing Segment

The Energy Marketing segment competes with other marketers of natural gas and with other providers of energy management services. Although the deregulation of natural gas utilities is a relatively new occurrence, the competition in this area is well developed with regard to price and services and derives from both local and regional marketers.

Competition: The Timber Segment

With respect to the Timber segment, Highland competes with other sawmill operations and with other suppliers of timber, logs and lumber. These competitors may be local, regional, national or international in scope. This competition, however, is primarily limited to those entities which either process or supply high quality hardwoods species such as cherry, oak and maple as veneer, saw logs or export logs ultimately used in the production of high-end furniture, cabinetry and flooring. The Timber segment markets its products both nationally and internationally.

Seasonality

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Variations in weather conditions can materially affect the volume of gas delivered by the Utility segment, as virtually all of its residential and commercial customers use gas for space heating. The effect on the Utility segment in New York is mitigated by a weather normalization clause which is designed to adjust the rates of retail customers to reflect the impact of deviations from normal weather. Weather that is more than 2.2% warmer than normal results in a surcharge being added to customers' current bills, while weather that is more than 2.2% colder than normal results in a refund being credited to customers' current bills.

Volumes transported and stored by Supply Corporation may vary materially depending on weather, without materially affecting its earnings. Supply Corporation's rates are based on a straight fixed-variable rate design which allows recovery of fixed costs in fixed monthly reservation charges. Variable charges based on volumes are designed only to reimburse the variable costs caused by actual transportation or storage of gas.

Variations in weather conditions can materially affect the volume of gas consumed by customers of the Energy Marketing segment and the amount of thermal energy consumed by the heating customers of the International segment.

The activities of the Timber segment vary on a seasonal basis and are subject to weather constraints. The timber harvesting and processing season occurs when timber growth is dormant and runs from approximately September to March. The operations conducted in the summer months focus on pulpwood and on thinning out lower-grade species from the timber stands to encourage the growth of higher-grade species.

Capital Expenditures

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A discussion of capital expenditures by business segment is included in Item 7, MD&A under the heading "Investing Cash Flow."

Environmental Matters

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A discussion of material environmental matters involving the Company is included in Item 7, MD&A under the heading "Other Matters" and in Item 8, Note H-Commitments and Contingencies.

Miscellaneous

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The Company and its wholly-owned subsidiaries had a total of 3,235 full-time employees at September 30, 2001, with 2,244 employees in all of its U.S. operations and 991 employees in its international operations. This is a decrease of 10% from the 3,597 total employed at September 30, 2000.

Agreements covering employees in collective bargaining units in New York were renegotiated in November 2000, effective beginning November 26, 2000, and are scheduled to expire in February 2006. Agreements covering most employees in collective bargaining units in Pennsylvania were renegotiated, effective November 1998, and are scheduled to expire in April and May 2003.

The Company has numerous municipal franchises under which it uses public roads and certain other rights-of-way and public property for the location of facilities. When necessary, the Company renews such franchises.

Executive Officers of the Company as of November 15, 2001 ⁽¹⁾

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On September 19, 2001, the Board of Directors elected Philip C. Ackerman as Chief Executive Officer of the Company, effective October 1, 2001. Mr. Ackerman joined the Company in 1968 and has served as President since July 1999, as a Director since 1994 and as Chief Financial Officer since 1981. Mr. Ackerman succeeds Bernard J. Kennedy as Chief Executive Officer. Mr. Kennedy will continue to serve as Chairman of the Board of Directors through January 2, 2002 and as a Director thereafter. Mr. Kennedy has also agreed to serve as a consultant to the Company for 30 months commencing January 2, 2002. On December 13, 2001, the Board of Directors elected Philip C. Ackerman as Chairman of the Board effective January 3, 2002.

Name and Age(2)	Current Company Positions and Other Material Business Experience During Past Five Years(3)
Bernard J. Kennedy (70)	Chairman of the Board of Directors since March 1989. Mr. Kennedy as a Director since March 1978 and previously served as Chief Officer from August 1988 to October 2001 and as President from Ja to July 1999.
Philip C. Ackerman (57)	Chief Executive Officer since October 2001; President since Executive Vice President of Supply Corporation since October President of Horizon since September 1995. Mr. Ackerman has s Director since March 1994, and previously served as Senior Vice from June 1989 to July 1999 and President of Distribution Corpora October 1995 to July 1999.
Dennis J. Seeley (58)	President of Supply Corporation since March 2000. Mr. Seeley has Vice President of the Company from January 2000 to April 2000, S President of Distribution Corporation from February 1997 to Marc Senior Vice President of Supply Corporation from January 1993 t 1997.
David F. Smith (48)	President of Distribution Corporation since July 1999. Mr. Smith Senior Vice President of Distribution Corporation from January 19 1999.

James A. Beck
(54)

President of Seneca since October 1996 and President of Highland s
1998. Mr. Beck previously served as Vice President of Seneca fr
1994 to April 1995 and Executive Vice President of Seneca from M
September 1996.

Gerald T. Wehrlin
(63)

President of NFR since May 2001; Controller of the Company since D
and Vice President of Horizon since February 1997. Mr. Wehrli
served as Senior Vice President of Distribution Corporation fr
to May 2001 and as Secretary and Treasurer of Horizon from Sept
February 1997.

Bruce H. Hale
(52)

President of Horizon Power since March 2001; Senior Vice President
Corporation since February 1997; and Vice President of Hori
September 1995. Mr. Hale previously served as Senior Vice Pre
Distribution Corporation from January 1993 to February 1997.

Name and Age(2)

Current Company Positions and Other Material
Business Experience During Past Five Years(3)

Joseph P. Pawlowski
(60)

Treasurer since December 1980; Senior Vice President of Di
Corporation since February 1992 and Treasurer of Distribution C
since January 1981; Treasurer of Supply Corporation since June
Secretary of Supply Corporation since October 1995.

Walter E. DeForest
(60)

Senior Vice President of Distribution Corporation since August
Senior Vice President of Supply Corporation from January 1992 to Au

Anna Marie Cellino
(48)

Senior Vice President of Distribution Corporation since July 2
President of Distribution Corporation from June 1994 to July
Secretary of the Company since October 1995.

Ronald J. Tanski
(49)

Senior Vice President of Distribution Corporation since J
Controller of Distribution Corporation since February 1997; Sec
Treasurer of Horizon since February 1997; and Vice President of Di
Corporation from April 1993 to July 2001.

John R. Pustulka
(49)

Senior Vice President of Supply Corporation since July 2001;
President of Supply Corporation from April 1993 to July 2001.

(1) The Company has been advised that there are no family relationships among any of the officers listed, and that there is no arrangement or understanding among any one of them and any other persons pursuant to which he or she was elected as an officer. The executive officers serve at the pleasure of the Board of Directors.

(2) Ages are as of September 30, 2001.

(3) The information provided relates to the principal subsidiaries of the Company. Many of the executive officers have served or currently serve as officers or directors for other subsidiaries of the Company.

ITEM 2 Properties

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General Information on Facilities

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The investment of the Company in net property, plant and equipment was \$2.8 billion at September 30, 2001. Approximately 51% of this investment was in the Utility and Pipeline and Storage segments, which are primarily located in western New York and northwestern Pennsylvania. The Exploration and Production segment, which is the next largest investment in net property, plant and equipment (39%), is primarily located in the Gulf Coast region of Texas and Louisiana, in California, in Wyoming, in the Appalachian region of the United States and in the provinces of Manitoba, Alberta and Saskatchewan in Canada. The remaining investment in net property, plant and equipment consisted primarily of the International segment (6%) which is located in the Czech Republic and the Timber segment (4%) which is located primarily in northwestern Pennsylvania. During the past five years, the Company has made significant additions to property, plant and equipment in order to expand and improve transmission and distribution facilities for both retail and transportation customers, to augment the reserve base of oil and gas in the United States and Canada, and to purchase district heating and power generation facilities in the Czech Republic. Net property, plant and equipment has increased \$1.071 billion, or 63%, since 1996.

The Utility segment had a net investment in property, plant and equipment of \$945.7 million at September 30, 2001. The net investment in its gas distribution network (including 14,778 miles of distribution pipeline) and its services represent approximately 57% and 29%, respectively, of the Utility segment's net investment in property, plant and equipment at September 30, 2001.

The Pipeline and Storage segment had a net investment of \$483.2 million in property, plant and equipment at September 30, 2001. Transmission pipeline, with a net cost of \$138.1 million, represents 29% of this segment's total net investment and includes 2,543 miles of pipeline required to move large volumes of gas throughout its service area. Storage facilities consist of 31 storage fields, four of which are jointly operated with certain pipeline suppliers, and 446 miles of pipeline. Net investment in storage facilities includes \$87.2 million of gas stored underground-noncurrent, representing the cost of the gas required to maintain pressure levels for normal operating purposes as well as gas maintained for system balancing and other purposes, including that needed for no-notice transportation service. The Pipeline and Storage segment has 29 compressor stations with 75,006 installed compressor horsepower.

The Exploration and Production segment had a net investment in property, plant and equipment of \$1.082 billion at September 30, 2001. Of this amount, \$828.3 million relates to properties located in the United States. The remaining net investment of \$253.4 million relates to properties located in Canada.

The International segment had a net investment in property, plant and equipment of \$178.2 million at September 30, 2001. This represents UE's net investment in district heating and electric generation facilities.

The Timber segment had a net investment in property, plant and equipment of \$90.5 million at September 30, 2001. Located primarily in northwestern Pennsylvania, the net investment includes four sawmills and approximately 150,000 acres of timber.

The Utility and Pipeline and Storage segments' facilities provided the capacity to meet its 2001 peak day sendout, including transportation service, of 1,659 million cubic feet (MMcf), which occurred on December 22, 2000. Withdrawals from storage of 749.4 MMcf provided approximately 45.2% of the requirements on that day.

Company maps are included on the back of the front cover and page 1 of the Annual Report to Shareholders and are incorporated herein by reference.

Exploration and Production Activities

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The information that follows is disclosed in accordance with SEC regulations, and relates to the Company's oil and gas producing activities. A further discussion of oil and gas producing activities is included in Item 8, Note M-Supplementary Information for Oil and Gas Producing Activities. Note M sets forth proved developed and undeveloped reserve information for Seneca. Seneca's oil and gas reserves reported in Note M as of September 30, 2001 were estimated by Seneca's qualified geologists and engineers and were audited by independent petroleum engineers from Ralph E. Davis Associates, Inc. Seneca reports its oil and gas reserve information on an annual basis to the Energy Information Administration (EIA). The basis of reporting Seneca's reserves to the EIA is identical to that reported in Note M.

The following is a summary of certain oil and gas information taken from Seneca's records. All monetary amounts are expressed in U.S. dollars.

Production

For the Year Ended September 30	2001	2000	1999
United States			
Average Sales Price per Mcf of Gas ⁽¹⁾	\$5.53	\$3.31	\$2.20
Average Sales Price per Barrel of Oil ⁽¹⁾	\$25.43	\$25.34	\$12.85
Average Production (Lifting) Cost per Mcf Equivalent of Gas and Oil Produced	\$0.55	\$0.51	\$0.46
Canada			
Average Sales Price per Mcf of Gas ⁽¹⁾	\$2.41	\$2.52	-
Average Sales Price per Barrel of Oil ⁽¹⁾	\$24.29	\$29.28	-
Average Production (Lifting) Cost per Mcf Equivalent of Gas and Oil Produced	\$1.34	\$1.41	-
Total			
Average Sales Price per Mcf of Gas ⁽¹⁾	\$5.39	\$3.31	\$2.20
Average Sales Price per Barrel of Oil ⁽¹⁾	\$24.99	\$26.03	\$12.85
Average Production (Lifting) Cost per Mcf Equivalent of Gas and Oil Produced	\$0.73	\$0.58	\$0.46

⁽¹⁾ Prices do not reflect gains or losses from hedging activities.

Productive Wells

At September 30, 2001	United States		Canada		
	Gas	Oil	Gas	Oil	Gas
Productive Wells	- gross 1,964	950	188	979	2,152
	- net 1,815	875	121	833	1,936

Developed and Undeveloped Acreage

At September 30, 2001	United States	Canada
Developed Acreage	- gross 646,957	152,491
		799,44

	- net	568,652	104,206	672,858
Undeveloped Acreage	- gross	926,022	981,065	1,907,08
	- net	669,250	929,460	1,598,710

Drilling Activity

For the Year Ended September 30			Productive		
			2001	2000	1999
		2000	1999	2001	
United States					
Net Wells Completed	- Exploratory	11.83	13.89	12.95	4.93
	- Development	108.60	82.82	95.26	1.00
Canada					
Net Wells Completed	- Exploratory	10.00	1.00	-11.00	-
	- Development	61.14	21.50	-2.75	4.00
Total					
Net Wells Completed	- Exploratory	21.83	14.89	12.95	15.93
	- Development	169.74	104.32	95.26	63.75

Present Activities

At September 30, 2001		United States	Canada
Wells in Process of Drilling	- gross	61.00	46.00
	- net	56.90	42.15
			107.0
			99.05

South Lost Hills Waterflood Program

In Seneca's South Lost Hills Field, a waterflood project was initiated in 1996 on the Ellis lease in the Diatomite reservoir for pressure maintenance and recovery enhancement purposes. Currently there are 19 injection wells and 89 production wells in the program. The total injection and production from this waterflood project are 2,400 barrels of water per day and 260 barrels of oil per day, respectively.

ITEM 3 Legal Proceedings

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For a discussion of various environmental matters, refer to Item 7, MD&A under the heading "Other Matters" and to Item 8 at Note H-Commitments and Contingencies.

ITEM 4 Submission of Matters to a Vote of Security Holders

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No matter was submitted to a vote of security holders during the fourth quarter of 2001.

PART II

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

Information regarding the market for the Company's common stock and related shareholder matters appears under Item 8 at Note D-Capitalization and Note L-Market for Common Stock and Related Shareholder Matters (unaudited).

On July 2, 2001, the Company issued 1,680 unregistered shares of Company common stock to the seven non-employee directors of the Company, 240 shares to each such director. These shares were issued as partial consideration for the directors' service as directors during the quarter ended September 30, 2001, pursuant to the Company's Retainer Policy for Non-Employee Directors. These transactions were exempt from registration under Section 4(2) of the Securities Act of 1933, as transactions not involving any public offering.

ITEM 6 Selected Financial Data

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Year Ended September 30	2001	2000	1999	1998	1997	
Summary of Operations (Thousands)						
Operating Revenues	\$2,100,352	\$1,425,277	\$1,263,274	\$1,248,000	\$1,265,812	
Operating Expenses:						
Purchased Gas	1,045,805	503,617	405,925	441,746	528,610	
Fuel Used in Heat and Electric Generation	54,968	54,893	55,788	37,837	1,489	
Operation and Maintenance	364,318	350,383	328,800	321,411	286	
Property, Franchise and Other Taxes	83,730		78,878	91,146	92,817	
Depreciation, Depletion and Amortization	174,914	142,170	124,778	117,238	111,650	
Impairment of Oil and Gas Producing Properties	180,781		-	128,996		
Income Taxes	37,106	77,068	64,829	24,024	68,674	
	1,941,622	1,207,009	1,071,266	1,097,509		
Operating Income	158,730	218,268	192,008	83,931	168,303	
Other Income	15,256	10,408	12,343	35,870	3,196	
Income Before Interest Charges and Minority Interest in Foreign Subsidiaries	173,986			228,676	204,351	119,
Interest Charges	107,145	100,085	87,698	85,284	56,811	
Minority Interest in Foreign Subsidiaries	(1,342)		(1,384)	(1,616)	(2,21)	
Income Before Cumulative Effect	65,499		127,207	115,037	32,304	
Cumulative Effect of Change in Accounting	-	-	-	(9,116)	-	
Net Income Available for Common Stock	\$65,499	\$127,207	\$115,037	\$23,188	\$114,688	
Per Common Share Data (3)						
Basic Earnings per Common Share	\$0.83(1)		\$1.63	\$1.49	\$0.30(2)	
Diluted Earnings per Common Share	\$0.82(1)		\$1.61	\$1.47	\$0.30(2)	
Dividends Declared	\$0.99	\$0.95	\$0.92	\$0.89	\$0.86	
Dividends Paid	\$0.97	\$0.94	\$0.91	\$0.88	\$0.85	
Dividend Rate at Year-End	\$1.01	\$0.96	\$0.93	\$0.90	\$0	
At September 30:						
Number of Common Shareholders	20,345		21,164	22,336	23,743	
Net Property, Plant and Equipment (Thousands)						
Utility	\$945,693	\$939,753	\$919,642	\$906,754	\$889,216	
Pipeline and Storage	483,222	474,972	466,524	460,952	450,865	
Exploration and Production	1,081,622		998,852	674,813	638,886	
International	178,250	172,602	210,920	202,590	942	
Energy Marketing	262	360	489	353	123	

Timber	90,453	95,607	88,623	38,593	34,872
All Other	1,209	1,241	214	-	173
Corporate	2	4	7	9	11
<hr/>					
Total Net Plant	\$2,780,713	\$2,683,391	\$2,361,232	\$2,248,137	\$1,819,366
<hr/>					
Total Assets (Thousands)	\$3,445,566	\$3,251,031	\$3,251,031	\$2,842,586	\$2,684,45
<hr/>					
Capitalization (Thousands)					
Comprehensive Shareholders' Equity	\$1,002,655	\$ 987,437	\$ 939,293	\$ 890,085	
Long-Term Debt, Net of Current Portion	1,046,694	953,622	822,743	693,0	
Total Capitalization	\$2,049,349	\$1,941,059	\$1,762,036	\$1,583,106	\$1,495,344
<hr/>					

⁽¹⁾ 2001 includes oil and gas asset impairment of (\$1.32) basic, (\$1.29) diluted. Refer to further discussion of these items in Notes to Financial Statements, Note A - Summary of Significant Accounting Policies.

⁽²⁾ 1998 includes oil and gas asset impairment of (\$1.03) basic, (\$1.02) diluted and cumulative effect of a change in depletion methods of (\$0.12) basic and diluted.

⁽³⁾ Per Common Share Data reflects two-for-one stock split on September 7, 2001.

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

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Results of Operations

2001 Compared with 2000

The Company's earnings were \$65.5 million, or \$0.83 per common share (\$0.82 per common share on a diluted basis) in 2001. These earnings included a non-cash impairment of oil and gas assets in the Exploration and Production segment in the amount of \$104.0 million (after tax), or \$1.32 per common share (\$1.29 per common share on a diluted basis), which is discussed below. Without this non-cash asset impairment, earnings for 2001 would have been \$169.5 million, or \$2.14 per common share (\$2.11 per common share on a diluted basis). This compares with 2000 earnings of \$127.2 million, or \$1.63 per common share (\$1.61 per common share on a diluted basis). The increase in earnings of \$42.3 million (exclusive of the non-cash impairment) was the result of higher earnings in the Exploration and Production, Utility, Pipeline and Storage, and Timber segments. Earnings were also positively impacted by a lower loss in the Energy Marketing segment. These higher earnings were offset by losses in 2001 in the International segment and Corporate operations compared to net income for this segment and these operations in 2000. Furthermore, the All Other category experienced an increased loss in 2001 compared to 2000. The higher loss in the All Other category resulted primarily from a natural gas inventory write-down by Upstate Energy Inc. (Upstate), the Company's wholly-owned subsidiary which is primarily engaged in wholesale natural gas marketing. Additional discussion of earnings in each of the business segments can be found in the business segment information that follows.

Discussion of Asset Impairment

Seneca, which follows the full-cost method of accounting for its oil and gas operations, is required to perform a quarterly "ceiling test." Under the ceiling test, the present value of future revenues from Seneca's oil and gas reserves is compared (on a country by country basis) with the book value of those reserves at the balance sheet date. If the book value of the reserves in any country exceeds the present value of the associated future revenues, a non-cash charge must be recorded to write down the book value of the reserves to their present value. As a result of low oil and gas prices at September 30, 2001, Seneca was required to recognize a non-cash impairment relating to its Canadian properties of \$180.8 million (pre tax) or \$104.0 million (after tax) for the quarter ended September 30, 2001.

2000 Compared with 1999

The Company's earnings were \$127.2 million, or \$1.63 per common share (\$1.61 per common share on a diluted basis) in 2000. This compares with 1999 earnings of \$115.0 million, or \$1.49 per common share (\$1.47 per common share on a diluted basis). The increase in earnings of \$12.2 million was the result of higher earnings in the Exploration and Production, Utility, Timber and International segments. These higher earnings were offset in part by lower earnings in the Pipeline and Storage segment, the Energy Marketing segment (which had a loss for the year) and in Corporate operations. Additional discussion of earnings in each of the business segments can be found in the business segment

information that follows.

Earnings (Loss) by Segment

Year Ended September 30 (Thousands)	2001	2000	1999
Utility	\$60,707	\$57,662	\$56,875
Pipeline and Storage	40,377	31,614	39,765
Exploration and Production (1)		(32,284)	34,877
International	(3,042)	3,282	2,276
Energy Marketing	(3,432)	(7,790)	2,054
Timber	7,715	6,133	4,769
Total Reportable Segments	70,041	125,778	112,866
All Other	(4,277)	(371)	(162)
Corporate	(265)	1,800	2,333
Total Consolidated (1)	\$65,499	\$127,207	\$115,037

(1) Exclusive of the non-cash asset impairment, 2001 earnings for the Exploration and Production segment and Total Consolidated would have been \$71,756 and \$169,539, respectively.

Utility

Revenues

Utility Operating Revenues

Year Ended September 30 (Thousands)	2001	2000	1999
Retail Revenues:			
Residential	\$ 875,050	\$ 584,618	\$ 581,022
Commercial	154,266	93,914	101,482
Industrial	29,110	21,543	15,903
1,058,426	700,075	698,407	
Off-System Sales	84,078	47,962	29,214
Transportation	89,037	104,534	77,600
Other	3,106	(6,112)	2,134
\$1,234,647	\$ 846,459	\$ 807,355	

Utility Throughput – million cubic feet (MMcf)

Year Ended September 30	2001	2000	1999
Retail Sales:			
Residential	73,530	68,196	71,177
Commercial	13,831	12,312	13,885
Industrial	4,089	4,276	4,144
91,450	84,784	89,206	
Off-System Sales	12,736	12,833	12,469
Transportation	66,283	71,862	64,086

2001 Compared with 2000

Operating revenues for the Utility segment increased \$388.2 million in 2001 compared with 2000. This resulted from an increase in retail and off-system gas sales revenues of \$358.4 million and \$36.1 million, respectively. Other operating revenues also increased by \$9.2 million. These increases were partly offset by a decrease in transportation revenues of \$15.5 million.

The increase in retail gas revenues for the Utility segment was largely a function of the recovery of higher gas costs, coupled with an increase in retail sales volumes, as shown above. The recovery of higher gas costs (gas costs are recovered dollar for dollar in revenues) resulted from a much higher cost of purchased gas. See further discussion of purchased gas below under the heading "Purchased Gas." The increase in retail sales volumes was primarily the result of the migration of residential and small commercial customers from transportation service to retail service in both the New York and Pennsylvania jurisdictions, coupled with the impact of colder weather. This migration from transportation service resulted from one marketer entering bankruptcy proceedings, another marketer exiting the residential market, and the conclusion of a marketer pilot program in Pennsylvania. Off-system sales revenues increased because of higher gas prices. However, due to profit sharing with retail customers, the margins resulting from off-system sales were minimal. The decrease in transportation revenues and volumes was primarily due to residential transportation customers switching back to retail sales customers and the fact that certain commercial and industrial customers were reducing usage due to a slowing economy and/or were fuel switching.

The increase in other operating revenues was due primarily to \$5.5 million of various revenue reductions in 2000 that did not recur in 2001 (of which \$2.2 million was offset by lower operation and maintenance (O&M) expense in 2000). These revenue reductions related to the September 30, 2000 conclusion of the 1998 two-year rate settlement approved by the State of New York Public Service Commission (NYPSC). In addition to these adjustments, a \$3.5 million lower provision for refund was recorded in 2001 as compared with 2000. The provision for refund in 2000 related to the conclusion of the 1998 two-year rate settlement and the provision for refund in 2001 relates to the current three-year rate settlement approved by the NYPSC in October 2000. The final refund for the current settlement will not be known until 2003.

Revenues in 2001 as compared to revenues in 2000 were reduced by a \$10.0 million rate decrease for the Utility's New York customers that went into effect October 1, 2000 in connection with the current three-year rate settlement approved by the NYPSC. This rate decrease was provided in the form of a bill credit included in rates during the November 1, 2000 through March 31, 2001 heating season.

2000 Compared with 1999

Operating revenues for the Utility segment increased \$39.1 million in 2000 compared with 1999. This resulted from an increase in retail, off-system, and transportation gas sales revenues of \$1.7 million, \$18.7 million, and \$26.9 million, respectively. These increases were partly offset by a decrease in other operating revenues of \$8.2 million.

The increase in retail gas revenues for the Utility segment was primarily due to the recovery of higher gas costs, offset by a decrease in the volumes sold. The recovery of higher gas costs resulted from a much higher cost of purchased gas. See further discussion of purchased gas below under the heading "Purchased Gas." The decrease in retail sales volumes was primarily the result of the migration of residential and small commercial customers to transportation service in both the New York and Pennsylvania jurisdictions, offset slightly by the impact of colder weather. Transportation revenues increased and volumes were up 7.8 billion cubic feet (Bcf) as a result of the migration noted above as well as the slightly colder weather. Off-system sales revenues increased largely due to increased gas prices and slightly higher volumes.

The decrease in other operating revenues of \$8.2 million was largely due to \$18.2 million of various revenue reductions (\$9.7 million of which was offset by lower O&M expense) related to the September 30, 2000 conclusion of the 1998 two-year rate settlement approved by the NYPSC. Partly offsetting these decreases was the gas restructuring reserve which reduced revenues by \$7.2 million in 1999. This special reserve, which did not recur in 2000, put aside dollars to be applied against incremental costs that could result from the NYPSC's gas restructuring efforts and was required in 1999 by the terms of the rate settlement with the NYPSC. The NYPSC's gas restructuring efforts are further discussed in the "Rate Matters" section that follows.

Earnings

2001 Compared with 2000

In the Utility segment, 2001 earnings were \$60.7 million, up \$3.0 million from the prior year. Items increasing earnings from the prior year include a \$6.1 million (after tax) reduction in O&M expense representing the Utility segment's portion of the year-to-year change in the Company's stock appreciation right (SAR) expense, as discussed below, and the non-recurrence of \$2.2 million (after tax) of revenue adjustments recorded in 2000 related to the conclusion of the 1998 two-year rate settlement, as discussed in the revenue section above. Colder weather in the Utility segment's Pennsylvania jurisdiction also increased earnings by \$3.1 million (after tax), as discussed below. Furthermore, the lower provision for refund in 2001 as compared to 2000, as discussed in the revenue section above, had a positive

contribution to earnings of \$2.3 million (after tax). These items were offset by a \$10.0 million rate decrease (\$6.5 million after tax) in the Utility segment's New York jurisdiction, as previously discussed. Also, the Utility segment recorded an early retirement expense in its Pennsylvania jurisdiction (\$0.6 million after tax) during the first quarter of 2001 and an early retirement expense in its New York jurisdiction (\$3.6 million after tax) during the second quarter of 2001.

The decrease in the market price of the Company's common stock during 2001 carried with it a reduction in the Company's SAR liability. This reduction is spread across all segments, with the greatest impact on the Pipeline and Storage, Utility and Exploration and Production segments. For 2001, the Company experienced a reduction in its SAR liability (reflected through lower total Company O&M expense of \$8.9 million after tax) as the market price of the Company's common stock decreased from September 30, 2000 (\$28.03 per common share) to September 30, 2001 (\$23.03 per common share). For 2000, the Company experienced an increase in its SAR liability (reflected through higher total Company O&M expense of \$9.2 million after tax) as the market price of the Company's common stock increased from September 30, 1999 (\$23.59 per common share) to September 30, 2000 (\$28.03 per common share).

The impact of weather on the Utility segment's New York rate jurisdiction is tempered by a weather normalization clause (WNC). The WNC in New York, which covers the eight-month period from October through May, has had a stabilizing effect on earnings for the New York rate jurisdiction. In addition, in periods of colder than normal weather, the WNC benefits the Utility segment's New York customers. In 2001, the WNC in New York preserved earnings of approximately \$1.2 million (after tax) as weather, overall in the New York service territory, was warmer than normal for the period from October 2000 through May 2001. Since the Pennsylvania jurisdiction does not have a WNC, uncontrollable weather variations directly impact earnings. In the Pennsylvania service territory, weather during 2001 was 12.3% colder than 2000 and 2.8% colder than normal.

2000 Compared with 1999

In the Utility segment, 2000 earnings were \$57.7 million, up \$0.8 million from 1999. The increase in earnings resulted primarily from two items in 1999 (expenses related to an early retirement offer of \$3.7 million (after tax) and a special reserve for gas restructuring of \$4.7 million (after tax) which did not recur in 2000). These items were offset by an increase in the Utility segment's portion of the Company's SAR expense, reflected through higher O&M expense of \$2.9 million (after tax), as discussed above, and revenue adjustments of \$5.5 million (after tax), as discussed in the revenue section above.

In 2000, the WNC in New York preserved earnings of approximately \$8.1 million (after tax) as weather, overall in the New York service territory, was warmer than normal for the period from October 1999 through May 2000. Since the Pennsylvania rate jurisdiction does not have a WNC, uncontrollable weather variations directly impact earnings. In the Pennsylvania service territory, since weather in 2000 was only 0.9% colder than 1999, no significant earnings variances occurred.

Degree Days

Year Ended September 30		Normal	Actual	Normal
2001:	Buffalo	6,865	6,648	(3.2%)
	Erie	6,179	6,351	2.8%
2000:	Buffalo	6,932	6,312	(8.9%)
	Erie	6,230	5,657	(9.2%)
1999:	Buffalo	6,848	6,179	(9.8%)
	Erie	6,223	5,607	(9.9%)

Purchased Gas

The cost of purchased gas is currently the Company's single largest operating expense. Annual variations in purchased gas costs can be attributed directly to changes in gas sales volumes, the price of gas purchased and the operation of purchased gas adjustment clauses.

Currently, Distribution Corporation has contracted for long-term firm transportation capacity with Supply Corporation and six other upstream pipeline companies for long-term gas supplies with a combination of producers and marketers and for storage service with Supply Corporation and three nonaffiliated companies. In addition, Distribution Corporation can satisfy a portion of its gas requirements through spot

market purchases. Changes in wellhead prices have a direct impact on the cost of purchased gas. Distribution Corporation's average cost of purchased gas, including the cost of transportation and storage, was \$7.35 per thousand cubic feet (Mcf) in 2001, an increase of 49% from the average cost of \$4.93 per Mcf in 2000. The average cost of purchased gas in 2000 was 29% higher than the \$3.82 per Mcf in 1999.

Pipeline and Storage

Revenues

Pipeline and Storage Operating Revenues

Year Ended September 30 (Thousands)	2001	2000	1999
Firm Transportation	\$91,611	\$92,305	\$91,279
Interruptible Transportation	1,917	1,578	856
93,528	93,883	92,135	
Firm Storage Service	61,559	62,899	63,655
Interruptible Storage Service	670	287	173
62,229	63,186	63,828	
Other	15,334	12,590	12,820
\$171,091	\$169,659	\$168,783	

Pipeline and Storage Throughput – (MMcf)

Year Ended September 30	2001	2000
Firm Transportation	304,183	291,818
Interruptible Transportation	17,372	21,730
321,555	313,548	308,303

2001 Compared with 2000

Operating revenues for the Pipeline and Storage segment increased \$1.4 million in 2001 compared with 2000. The increase is attributable primarily to a \$2.1 million increase in revenues from unbundled pipeline sales and open access transportation due to higher prices and volumes. While transportation volumes increased 8.0 Bcf during the fiscal year, volume fluctuations generally do not have a significant impact on revenues as a result of Supply Corporation's straight fixed-variable (SFV) rate design.

2000 Compared with 1999

Operating revenues increased \$0.9 million in 2000 compared with 1999. The increase resulted primarily from higher firm transportation revenue of \$1.0 million and higher interruptible transportation and interruptible storage service revenues of \$0.8 million, offset by lower firm storage service revenue of \$0.8 million. The increase in firm transportation revenues resulted primarily from a \$1.3 million "pass-through" type item (which did not recur in 2000) that reduced revenues in the prior year and correspondingly reduced O&M expense in the prior year, thus having no earnings impact. The increase in interruptible transportation and interruptible storage service revenues is principally the result of higher throughput volumes. The decrease in firm storage service revenue was the result of discounted storage service rates, as well as the loss of certain storage service customers. Transportation volumes in this segment increased 5.2 Bcf. Generally, volume fluctuations do not have a significant impact on revenues as a result of Supply Corporation's SFV rate design.

Earnings

2001 Compared with 2000

The Pipeline and Storage segment's earnings for 2001 were \$40.4 million, an increase of \$8.8 million when compared with earnings for 2000. This increase in earnings is attributable to an \$8.8 million (after tax) reduction in O&M expenses associated with the Pipeline and Storage segment's portion of the year-to-year change in the Company's SAR expense, as previously discussed. Also, there was a \$1.3 million (after tax) increase in revenues from unbundled pipeline sales and open access transportation. The increase in earnings is also attributable to the buy-out by a customer of a long-term transportation contract (\$2.6 million after tax) during the first quarter of 2001. The resulting gain from this buy-out was recorded in other income. As a partial offset to these earnings increases, this segment recorded early retirement expenses of \$1.2 million (after tax) in the first and second quarters of 2001. This segment also recorded additional executive retirement benefit expenses of \$2.1 million (after tax) in 2001.

2000 Compared with 1999

Earnings in the Pipeline and Storage segment decreased \$8.2 million in 2000 compared with 1999. In 2000, increased O&M expenses of \$4.6 million (after tax) associated with the Pipeline and Storage segment's portion of the year-to-year change in the Company's SAR expense, as previously discussed, and the addition of \$1.1 million of New York State income tax, resulting from a change in the tax laws in New York State, contributed to the decrease in earnings. The Federal Energy Regulatory Commission (FERC), which regulates this segment, has not provided for the recovery of additional taxes as has the New York Department of Public Service. Several items in 1999, which did not recur in 2000, also contributed to 2000 earnings being less than 1999 earnings. The 1999 earnings included interest income of \$1.2 million (after tax) and a reduction in income tax of \$1.7 million related to the final settlement of IRS audits of years 1977-1994. In addition, 1999 included the recovery of \$0.5 million (after tax) of costs related to a gathering project that had been previously reserved for and the recovery, through insurance, of \$0.4 million (after tax) of a previously expensed base gas loss. These items were offset in part by a charge in 1999 for an early retirement of \$0.9 million (after tax).

Exploration and Production

Revenues

Exploration and Production Operating Revenues

Year Ended September 30	(Thousands)	2001	2000	1999
Gas (after Hedging)	\$171,045	\$108,832	\$83,229	
Oil (after Hedging)	169,613	117,606	52,050	
Gas Processing Plant	39,986	17,666	11,751	
Other	17,700	(6,034)	(36)	
	\$398,344	\$238,070	\$146,994	

Production Volumes

Year Ended September 30	2001	2000	1999
Gas Production(MMcf)			
Gulf Coast	30,663	32,760	28,758
West Coast	4,383	4,374	3,977
Appalachia	4,142	4,344	4,431
Canada	1,816	192	-
	41,004	41,670	37,166
Oil Production(thousands of barrels)(Mbbbl)			
Gulf Coast	1,914	1,415	1,373
West Coast	2,875	2,824	2,633
Appalachia	7	9	10
Canada	3,061	899	-

7,857 5,147 4,016

Average Prices

Year Ended September 30	2001	2000	1999		
Average Gas Price/Mcf					
Gulf Coast	\$4.93	\$3.29	\$2.15		
West Coast	\$10.18	\$3.62	\$2.28		
Appalachia	\$5.03	\$3.16	\$2.44		
Canada	\$2.41	\$2.52	-		
Weighted Average	\$5.39	\$3.31	\$2.20		
Weighted Average After Hedging(1)			\$4.17	\$2.61	\$2.24
Average Oil Price/barrel (bbl)					
Gulf Coast	\$27.47	\$28.27	\$15.18		
West Coast(2)	\$24.06		\$23.87	\$11.62	
Appalachia	\$28.51	\$25.12	\$14.73		
Canada	\$24.29	\$29.28	-		
Weighted Average	\$24.99	\$26.03	\$12.85		
Weighted Average After Hedging(1)	\$21.59		\$22.85	\$12.96	

(1) Refer to further discussion of hedging activities below under "Market Risk Sensitive Instruments" and in Note F – Financial Instruments in Item 8 of this report.

(2) Includes low gravity oil which generally sells for a lower price.

2001 Compared with 2000

Operating revenues for the Exploration and Production segment increased \$160.3 million in 2001 compared with 2000. Gas production revenue after hedging increased \$62.2 million due primarily to an increase in the weighted average price of gas after hedging. Overall gas production decreased, primarily in the Gulf Coast region, as there were delays in placing new platforms on production (due to rig availability constraints) and delays in work-over activity, mostly during the first and second quarters of 2001. New Gulf Coast production in the second half of 2001 was primarily oil production. Gas production from the Canadian properties acquired in June 2001 (i.e., the Player Petroleum Corp. acquisition) (Player) helped mitigate the gas production decline in the Gulf Coast region. Oil production revenue after hedging increased \$52.0 million in 2001 compared with 2000. This increase is due primarily to a 53% increase in oil production, largely attributable to the Exploration and Production segment's Canadian properties acquired in June 2000. Revenue from this segment's gas processing plant was up \$22.3 million due to higher prices. In addition, this segment recognized other revenue increases of \$23.8 million due to mark-to-market and other revenue adjustments related to derivative financial instruments. Refer to further discussion of derivative financial instruments under the heading "Market Risk Sensitive Instruments" that follows.

2000 Compared with 1999

Operating revenues increased \$91.1 million in 2000 compared with 1999. Oil production revenues after hedging increased \$65.6 million as the weighted average price of oil after hedging increased 76% and oil production increased 28% from 1999 compared to 2000. Oil production from Canadian wells acquired as part of the June 2000 acquisition of Tri Link Resources, Ltd. (Tri Link) added \$26.3 million to oil revenues. Gas production revenues after hedging increased \$25.6 million as gas production increased 12% and the weighted average price of gas after hedging increased 17%. Revenue from Seneca's gas processing plant was up \$5.9 million. These items were partly offset by a \$6.0 million decrease in other revenues resulting primarily from mark-to-market and other revenue adjustments related to written options.

Earnings

2001 Compared with 2000

The Exploration and Production segment experienced a loss of \$32.3 million in 2001, a decrease of \$67.2 million when

compared to 2000 earnings of \$34.9 million. Excluding the \$104.0 million after tax non-cash impairment of this segment's Canadian oil and gas assets, as previously discussed, this segment had 2001 earnings of \$71.8 million, an increase of \$36.9 million from 2000 earnings. A 53% increase in oil production, largely attributable to the Canadian properties acquired in June 2000, combined with higher natural gas prices, were major factors in this segment's earnings increase, exclusive of the non-cash asset impairment. Also, this segment's earnings benefited from the mark-to-market revenue increases discussed above. Partly offsetting higher revenues was an increase in production related expenses, including higher depletion, higher purchased gas expense (for the gas processing plant), an increase in lease operating costs and higher production taxes. General and administrative expenses (G&A) increased in total, largely due to the Player and Tri Link acquisitions, offset by the impact of the Exploration and Production segment's portion of the year-to-year change in the Company's SAR expense, as previously discussed. Greater interest expense due to higher borrowings related to the Player and Tri Link acquisitions also partially offset the positive impact of higher revenues.

2000 Compared with 1999

In the Exploration and Production segment, 2000 earnings of \$34.9 million were up \$27.8 million when compared with 1999. The Canadian properties acquired in June 2000 added \$6.4 million to 2000 earnings. As discussed above, significant improvement in oil and gas pricing, combined with an increase in production, were the main reasons for higher earnings. Partly offsetting higher revenues was an increase in production-related expenses, including higher depletion, an increase in lease operating costs, and higher production taxes. In addition, G&A was up as a result of higher costs associated with labor and benefits (including SAR expense), and interest expense increased due to higher borrowings related to the acquisition of Tri Link. The increase in the gas processing plant revenue of \$5.9 million was offset by an equal amount of related expense.

International

Revenues

International Operating Revenues

Year Ended September 30 (Thousands)	2001	2000	1999
Heating	\$69,072	\$69,387	\$71,974
Electricity	26,398	31,426	34,158
Other	2,440	3,923	913
	\$97,910	\$104,736	\$107,045

International Heating and Electric Volumes

Year Ended September 30	2001	2000	1999
Heating Sales (Gigajoules) (1)	9,978,118	10,222,024	10,047,042
Electricity Sales (megawatt hours)	1,019,901	1,147,303	1,138,980

(1) Gigajoules = one billion joules. A joule is a unit of energy.

2001 Compared with 2000

Operating revenues decreased \$6.8 million in 2001 compared with 2000. The revenue decrease largely reflects a decrease in the average value of the Czech koruna (CZK) compared to the U.S. dollar during the 2001 heating season compared to the 2000 heating season. Exclusive of the exchange rate impact, heating revenues are actually up due to rate increases offset partly by lower volumes associated with warmer weather. Electric revenues, exclusive of the exchange rate impact, decreased as a result of lower volumes (principally attributable to the scheduled shutdown of a

generating turbine that had reached the end of its useful life) and a decline in electric rates.

2000 Compared with 1999

Operating revenues decreased \$2.3 million in 2000 compared with 1999. The decrease in revenues is largely due to the decrease in value of the CZK as compared to the U.S. dollar. While higher heating and electricity sales contributed to higher operating revenues (in CZK), the decrease in value of the CZK caused an overall decrease in revenues when translated into U.S. dollars.

Earnings

2001 Compared with 2000

The International segment experienced a loss of \$3.0 million in 2001 compared with 2000 earnings of \$3.3 million. Lower heat and electric margins, as a result of warmer weather and the scheduled shutdown of a generating turbine, are the primary reasons for this decrease. The decrease also reflects a decrease in value of the CZK compared to the U.S. dollar, as previously discussed.

2000 Compared with 1999

The International segment's 2000 earnings were \$3.3 million, or \$1.0 million higher than 1999 earnings. This increase can be attributed to lower O&M expense, an income tax adjustment that benefited earnings in 2000, and additional consideration received in 2000 on the sale of a previously written-off project. These were partly offset by a decrease in margin and the negative impact of the decline in the exchange rate, as discussed above.

Energy Marketing

Revenues

Energy Marketing Operating Revenues

Year Ended September 30 (Thousands)	2001	2000	1999
Natural Gas (after Hedging)	\$257,005	\$139,614	\$97,514
Electricity	1,362	1,941	1,551
Other	839	(7,626)	23
	\$259,206	\$133,929	\$99,088

Energy Marketing Volumes

Year Ended September 30	2001	2000	1999
Natural Gas - (MMcf)	37,427	35,465	34,454

2001 Compared with 2000

Operating revenues increased \$125.3 million in 2001 compared with 2000. The primary reason for this increase was the higher gas costs that are reflected in the natural gas marketing revenues. Higher marketing volumes are primarily due to colder weather in 2001 compared to 2000. This compensated for a 4% decrease in NFR customers from September 30, 2000 to September 30, 2001. In addition, NFR recognized a negative \$8.6 million mark-to-market adjustment related to certain derivative financial instruments (included in "Other" on the table above) during 2000. NFR experienced positive mark-to-market adjustments in 2001 of \$0.5 million. See further discussion of NFR's use of derivatives in the "Market Risk Sensitive Instruments" section that follows and in Note F – Financial Instruments in Item 8 of this report.

2000 Compared with 1999

Operating revenues increased \$34.8 million in 2000 compared with 1999. The primary reason for this increase was higher gas costs that are reflected in the natural gas marketing revenues. In addition, higher marketing volumes reflect an increase in NFR customers from 17,480 at September 30, 1999 to 33,115 at September 30, 2000. Almost 89% of the increase in customers were residential customers. These higher revenues were offset in part by a negative \$8.6 million mark-to-market adjustment discussed above.

Earnings

2001 Compared with 2000

The Energy Marketing segment incurred a loss for 2001 of \$3.4 million, a decrease of approximately \$4.4 million compared with the loss of \$7.8 million in 2000. The most significant reason for the lower loss was the change in mark-to-market adjustments from 2000 to 2001 (\$5.9 million positive contribution after tax), referred to above. Lower margins, higher O&M expense, mainly attributable to higher bad debt expense, and higher interest expense in 2001 compared to 2000 partially offset the effect of these adjustments.

2000 Compared with 1999

The Energy Marketing segment incurred a loss for 2000 of \$7.8 million, a decrease of approximately \$9.9 million over 1999 earnings of \$2.1 million. The most significant reasons for the decrease were mark-to-market losses related to certain derivative financial instruments of \$5.6 million (after tax), the accrual of a \$1.6 million (after tax) loss contingency on the unhedged portion of this segment's fixed price sales contracts for sale of natural gas to customers in 2001, and higher expenses including interest.

Timber

Revenues

Timber Operating Revenues

Year Ended September 30 (Thousands)	2001	2000	1999
Log Sales	\$23,460	\$24,091	\$18,276
Green Lumber Sales	5,597	4,397	4,018
Kiln Dry Lumber Sales	12,320	10,152	8,197
Other	714	532	626
	\$42,091	\$39,172	\$31,117

Timber Board Feet

Year Ended September 30 (Thousands)	2001	2000	1999
Log Sales	8,839	9,370	6,902
Green Lumber Sales	10,332	8,193	8,541
Kiln Dry Lumber Sales	8,804	6,987	5,711
	27,975	24,550	21,154

2001 Compared with 2000

Operating revenues for the Timber segment increased \$2.9 million. Green lumber sales were up due to an increase in board feet sold at slightly higher prices. The increase in kiln dry lumber sales is due to the operation of two additional kilns brought on line in August 2000. The decrease in log sales revenues primarily reflects lower sales of quality logs

offset partly by higher average prices.

2000 Compared with 1999

Operating revenues for the Timber segment increased \$8.1 million. This increase was primarily the result of higher log sales and kiln dry lumber sales. Log sales were up due mainly to higher board feet of cherry veneer and export logs sold and higher average prices. The increase in kiln dry lumber sales is due to the operation of additional kilns brought on line in 1999 that were operational for a full 12 months in 2000 and the addition of two more kilns brought on line in August 2000.

Earnings

2001 Compared with 2000

Timber segment earnings of \$7.7 million in 2001 were up \$1.6 million compared with 2000. The increase is primarily due to higher operating revenues, as mentioned above, and lower interest expense.

2000 Compared with 1999

Timber segment earnings of \$6.1 million in 2000 were up \$1.4 million compared with 1999. The increase was due to higher operating revenues, as mentioned above, and an after tax gain on the sale of land and standing timber of \$1.5 million. These items were partly offset by higher interest expense resulting from higher debt related to an acquisition in July 1999 and by higher operating expenses.

Other Income and Interest Charges

Although most of the variances in Other Income items and Interest Charges are discussed in the earnings discussion by segment above, following is a summary on a consolidated basis:

Other Income

Other income increased \$4.8 million in 2001 compared with 2000. This increase resulted primarily from a \$4.0 million buyout of a long-term transportation contract by a customer in the Pipeline and Storage segment during the first quarter of 2001.

Other income decreased \$1.9 million in 2000 compared with 1999. This decrease resulted from \$3.2 million of interest income related to the final settlement of IRS audits of years 1977-1994 which was recorded during 1999, as well as a \$2.4 million gain recorded in 1999 which resulted from the demutualization of an insurance company. As a policyholder, the Company received stock of the insurance company as part of its initial public offering. Neither of these items recurred in 2000. Partly offsetting this decrease was a \$2.6 million gain on the sale of land and standing timber in 2000, as well as \$0.5 million of additional consideration received in 2000 on the sale of a previously written-off project in the International segment.

Interest Charges

Interest on long-term debt increased \$14.7 million in 2001 and \$1.8 million in 2000. The increase in both years can be attributed mainly to a higher average amount of long-term debt outstanding. Long-term debt balances have grown significantly over the past few years primarily as a result of acquisition activity in the Exploration and Production segment.

Other interest charges decreased \$7.6 million in 2001 and increased \$10.6 million in 2000. The decrease in 2001 was primarily the result of lower weighted average interest rates on short-term debt. The increase in 2000 resulted primarily from higher weighted average interest rates and higher average amounts of short-term debt outstanding.

Capital Resources and Liquidity

The primary sources and uses of cash during the last three years are summarized in the following condensed statement of cash flows:

Sources (Uses) of Cash

Year Ended September 30 (Millions)	2001	2000	1999
------------------------------------	------	------	------

Provided by Operating Activities	\$414.1	\$238.2	\$267.5
Capital Expenditures (292.7)	(269.4)	(256.1)	
Investment in Subsidiaries, Net of Cash Acquired (90.6)	(123.8)	(5.8)	
Investment in Partnerships (1.8)	(4.4)	(3.6)	
Other Investing Activities (2.9)	13.3	6.7	
Short-Term Debt, Net Change (143.4)	226.5	67.2	
Long-Term Debt, Net Change 187.2	(18.1)	(15.6)	
Issuance of Common Stock 11.5	14.3	10.7	
Dividends Paid on Common Stock (76.7)	(73.0)	(69.9)	
Dividends Paid to Minority Interest - (0.2)	(0.2)		
Effect of Exchange Rates on Cash (0.6)	(0.5)	(2.1)	

Net Increase (Decrease) in Cash and Temporary Cash Investments	\$4.1	\$2.9	\$(1.2)

Operating Cash Flow

Internally generated cash from operating activities consists of net income available for common stock, adjusted for noncash expenses, noncash income and changes in operating assets and liabilities. Noncash items include depreciation, depletion and amortization, deferred income taxes, minority interest in foreign subsidiaries and the impairment of oil and gas producing properties (2001).

Cash provided by operating activities in the Utility and Pipeline and Storage segments may vary substantially from year to year because of the impact of rate cases. In the Utility segment, supplier refunds, over- or under-recovered purchased gas costs and weather also significantly impact cash flow. The impact of weather on cash flow is tempered in the Utility segment's New York rate jurisdiction by its WNC and in the Pipeline and Storage segment by Supply Corporation's SFV rate design.

Net cash provided by operating activities totaled \$414.1 million in 2001, an increase of \$175.9 million compared with the \$238.2 million provided by operating activities in 2000. The increase is attributable primarily to higher cash receipts from the sale of oil and gas in the Exploration and Production segment. Gas prices were up significantly for most of 2001 and oil production increased significantly due to this segment's Canadian properties acquired in June 2000, offsetting a slight overall decrease in oil prices. The increase in cash provided by operating activities also reflects the over-recovery of purchased gas costs in the Utility segment during 2001.

Investing Cash Flow

Expenditures for Long-Lived Assets

Expenditures for long-lived assets include additions to property, plant and equipment (capital expenditures) and investments in corporations (stock acquisitions) or partnerships, net of any cash acquired.

The Company's expenditures for long-lived assets totaled \$385.1 million in 2001. The table below presents these expenditures:

Year Ended September 30, 2001 (Millions)	Capital Expenditures	Investment in Corporation or Partnership
Utility	\$42.4	\$ -
Pipeline and Storage	25.0	1.0
Exploration and Production	205.8	90.6
International	15.6	-
Energy Marketing	0.1	-
Timber	3.7	-
All Other	0.1	0.8
	\$292.7	\$92.4

Utility

The majority of the Utility capital expenditures were made for replacement of mains and main extensions, as well as for the replacement of service lines.

Pipeline and Storage

The Pipeline and Storage segment's capital expenditures made during 2001 included \$8.1 million for the construction of a transmission line from Lamont, Pennsylvania to Roystone, Pennsylvania. The remaining capital expenditures were made for additions, improvements and replacements to this segment's transmission and gas storage systems.

During 2001, SIP made an additional \$980,000 investment in Independence. SIP's total investment through September 30, 2001 was \$14.6 million. The investment represents a one-third partnership interest in Independence. The investment has been financed with short-term borrowings. Independence intends to build the Independence Pipeline, a 400-mile natural gas pipeline from Defiance, Ohio to Leidy, Pennsylvania at an estimated cost of about \$700 million.* If the Independence Pipeline project is not constructed, SIP's share of the developmental costs (including SIP's investment in Independence) is estimated not to exceed \$15.5 million.* This amount represents the estimated maximum charge to earnings that would be recorded if the project is not constructed.

On July 12, 2000, the Federal Energy Regulatory Commission (FERC) issued a Certificate of Public Convenience and Necessity (the Certificate) authorizing, among other things, the construction and operation of the Independence Pipeline, subject to satisfaction of various conditions spelled out in the Certificate and in previous FERC orders. Independence accepted the Certificate on August 14, 2000. Among the conditions to the construction and operation of the pipeline is the requirement that the pipeline be in service by July 12, 2003. Another condition is that, before construction may commence, Independence must file at FERC executed, firm transportation agreements with "no out" clauses for at least 68.2% of its capacity. (Independence already filed, on June 26 and July 6, 2000, precedent agreements for firm transportation amounting to about 38% of the capacity of the Independence Pipeline, thereby satisfying a FERC requirement previously imposed as a precondition to FERC's issuance of the Certificate.) The Independence Pipeline partners are working on obtaining the required additional customer commitments, and had extended the planned in-service date from November 1, 2002 to July 1, 2003 to allow additional time to obtain those commitments.

The Certificate also includes an environmental condition that Independence file an "implementation plan" within 60 days after Independence accepts the Certificate. FERC extended the due date for submission of that implementation plan to November 1, 2001. On November 1, 2001, Independence filed a partial implementation plan with FERC seeking to extend the due date for a complete implementation plan to November 2003 and to extend the in service date to November 2004. As of the date the Company filed this Form 10-K with the SEC, FERC had placed the Independence Pipeline project on the agenda for its December 19, 2001 meeting but had not decided upon Independence's requests for extensions. If FERC does not grant these extensions, it may revoke the Certificate. If the certificate is revoked and the Independence partners decide to proceed with the project, they would file a new application at FERC after obtaining additional customer commitments.

The Company also continues to explore various opportunities to participate in transporting gas to the Northeast, either through Supply's system or in partnership with others. This includes the proposed Northwinds Pipeline that the Company and TransCanada PipeLines Limited are pursuing. This project would be a 215-mile, 30-inch natural gas pipeline that would originate in Kirkwall, Ontario, cross into the United States near Buffalo, New York and follow a southerly route to its destination in the Ellisburg-Leidy area in Pennsylvania. The initial capacity of the pipeline would be approximately 500 million cubic feet of natural gas per day with the estimated cost of the pipeline ranging from \$350 - \$400 million. At September 30, 2001, the Company had not incurred any material costs associated with this project. The Company would be interested in building the Independence Pipeline and/or the Northwinds Pipeline if there are sufficient customer commitments.

Exploration and Production

The Exploration and Production segment's capital expenditures included approximately \$116.6 million of capital expenditures for on-shore drilling, construction and recompletion costs for wells located in Louisiana, Texas, California and Canada as well as on-shore geological and geophysical costs, including the purchase of certain three-dimensional seismic data and fixed asset purchases. Of the \$116.6 million discussed above, \$56.8 million was spent on the Exploration and Production segment's Canadian properties. The Exploration and Production segment's capital expenditures also included approximately \$89.2 million for Seneca's offshore program in the Gulf of Mexico, including offshore drilling expenditures, offshore construction, lease acquisition costs and geological and geophysical expenditures.

In June 2001, the Company acquired the issued and outstanding shares of Player, an oil and gas exploration and development company with operations based primarily in the Province of Alberta, Canada. The cost of acquiring the shares of Player was approximately \$90.6 million. The acquisition was financed with short-term borrowings.

International

The majority of the International segment's capital expenditures were concentrated on the construction of boilers at a district heating and power generation plant in the Czech Republic. In June 2001, the Company sold its ownership

interest in Jablonecká teplárenská a realitní, a.s. (JTR). JTR is a district heating plant in the northern part of the Czech Republic. The proceeds from this sale, net of cash sold, were \$5.6 million. There was a loss of less than \$0.1 million on the sale.

Timber

The majority of the Timber segment's capital expenditures were made for purchases of land and timber, as well as equipment for this segment's sawmill and kiln operations. In November 2000, this segment sold timber properties with a book value of \$5.2 million for \$7.3 million. In April 2001, this segment sold land having a minimal book value for \$0.6 million.

All Other

Expenditures for Long-Lived Assets for all other subsidiaries consisted of the purchase of a 50% partnership interest in Model City Energy, LLC (Model City) (\$0.3 million) and the purchase of a 50% partnership interest in Energy Systems North East, LLC (ESNE) (\$0.5 million). The Company also financed ESNE with a long-term note in the principal amount of \$11.5 million. Model City generates electricity by using methane gas obtained from a landfill in Model City, New York, which is owned by an outside party. ESNE is an 80-megawatt power plant located in North East, Pennsylvania. The plant provides thermal energy to an adjacent, industrial facility, as well as electric power to the New York power pool.

Estimated Capital Expenditures

The Company's estimated capital expenditures for the next three years are:*

Year Ended September 30 (Millions)	2002	2003
Utility	\$49.6	\$49.6
Pipeline and Storage	30.8	26.2
Exploration and Production	141.0	117.2
International	5.5	1.7
Timber	1.5	1.5
	\$228.4	\$196.2

Estimated capital expenditures for the Utility segment in 2002 will be concentrated in the areas of main and service line improvements and replacements and, to a minor extent, the installation of new services.*

Estimated capital expenditures for the Pipeline and Storage segment in 2002 will be concentrated in the reconditioning of storage wells and the replacement of storage and transmission lines.* The estimated capital expenditures also include \$6.3 million for an increase in horsepower at the Ellisburg, Pennsylvania compressor station.* The estimated capital expenditures do not include any partnership investments for Independence or the Northwinds Pipeline.

Estimated capital expenditures in 2002 for the Exploration and Production segment include approximately \$88.0 million for the onshore program (\$47.0 million in Canada).* Of this amount, approximately \$59.0 million (\$26.0 million in Canada) is intended to be spent on exploratory and development drilling.* The estimated expenditures also include approximately \$53.0 million for the offshore program in the Gulf of Mexico.* Of this amount, approximately \$27.0 million is intended to be spent on exploratory and development drilling.*

The estimated capital expenditures for the International segment in 2002 will be concentrated on improvements and replacements within the district heating and power generation plants in the Czech Republic.*

Estimated capital expenditures in the Timber segment will be concentrated on the purchase of land and timber as well as the construction or purchase of new facilities and equipment for this segment's sawmill and kiln operations.*

The Company continuously evaluates capital expenditures and investments in corporations and partnerships. The amounts are subject to modification for opportunities such as the acquisition of attractive oil and gas properties, timber or storage facilities and the expansion of transmission line capacities. While the majority of capital expenditures in the Utility segment are necessitated by the continued need for replacement and upgrading of mains and service lines, the magnitude of future capital expenditures or other investments in the Company's other business segments depends, to a large degree, upon market conditions.*

Financing Cash Flow

In November 2000, the Company issued \$200.0 million of 7.50% medium-term notes due in November 2010. After deducting underwriting discounts and commissions, the net proceeds to the Company amounted to \$197.3 million. The proceeds of this debt issuance were used to reduce short-term debt.

Consolidated short-term debt decreased \$143.4 million during 2001. The Company continues to consider short-term debt an important source of cash for temporarily financing capital expenditures and investments in corporations and/or partnerships, gas-in-storage inventory, unrecovered purchased gas costs, exploration and development expenditures and other working capital needs. Fluctuations in these items can have a significant impact on the amount and timing of short-term debt.

The Company's present liquidity position is believed to be adequate to satisfy known demands.* Under the Company's existing indenture covenants, at September 30, 2001, the Company would have been permitted to issue up to a maximum of \$322.0 million in additional long-term unsecured indebtedness at projected market interest rates. Excluding the unrealized gain for derivative financial instruments reflected in Accumulated Other Comprehensive Loss on the Consolidated Balance Sheet, the Company would have been permitted to issue up to a maximum of \$296.0 million in additional long-term unsecured indebtedness at projected market interest rates. In addition, at September 30, 2001, the Company had regulatory authorizations and unused short-term credit lines that would have permitted it to borrow an additional \$260.3 million of short-term debt.

The Company's embedded cost of long-term debt was 7.0% at both September 30, 2001 and 2000, respectively.

In November 2001, the Company issued \$150.0 million of 6.70% medium-term notes due in November 2011. After deducting underwriting discounts and commissions, the net proceeds to the Company amounted to \$149.0 million. The proceeds of this debt issuance were used to reduce short-term debt.

In March 1998, the Company obtained authorization from the Securities and Exchange Commission (SEC), under the Public Utility Holding Company Act of 1935, to issue long-term debt securities and equity securities in amounts not exceeding \$2.0 billion at any one time outstanding during the order's authorization period, which extends to December 31, 2002. In August 1999, the Company registered \$625.0 million of debt and equity securities under the Securities Act of 1933. After the November 2001 medium-term note issuance discussed above, the Company currently has \$125.0 million of securities registered under the Securities Act of 1933.

The amounts and timing of the issuance and sale of debt and/or equity securities will depend on market conditions, regulatory authorizations, and the requirements of the Company.

The Company is involved in litigation arising in the normal course of business. The Company is involved in regulatory matters arising in the normal course of business that involve rate base, cost of service and purchased gas cost issues, among other things. While the resolution of such litigation or regulatory matters could have a material effect on earnings and cash flows in the year of resolution, none of this litigation, and none of these regulatory matters are currently expected to change materially the Company's present liquidity position, nor have a material adverse effect on the financial condition of the Company.*

Market Risk Sensitive Instruments

Energy Commodity Price Risk

The Company, primarily in its Exploration and Production and Energy Marketing segments, uses various derivative financial instruments (derivatives), including price swap agreements, no cost collars, options and futures contracts, as part of the Company's overall energy commodity price risk management strategy. Under this strategy, the Company manages a portion of the market risk associated with fluctuations in the price of natural gas and crude oil, thereby attempting to provide more stability to operating results. The Company has operating procedures in place that are administered by experienced management to monitor compliance with the Company's risk management policies. The derivatives are not held for trading purposes. The fair value of these derivatives, as shown below, represents the amount that the Company would receive from or pay to the respective counterparties at September 30, 2001 to terminate the derivatives. However, the tables below and the fair value that is disclosed do not consider the physical side of the natural gas and crude oil transactions that are related to the financial instruments.

The following tables disclose natural gas and crude oil price swap information by expected maturity dates for agreements in which the Company receives a fixed price in exchange for paying a variable price as quoted in "Inside FERC" or on the New York Mercantile Exchange. Notional amounts (quantities) are used to calculate the contractual payments to be exchanged under the contract. The weighted average variable prices represent the prices as of September 30, 2001. At September 30, 2001, the Company had not entered into any natural gas or crude oil price swap agreements extending beyond 2003.

Natural Gas Price Swap Agreements

	Expected Maturity Date	
	2002	2003
Notional Quantities (Equivalent Bcf)	26.4	1.1
Weighted Average Fixed Rate (per Mcf)	\$3.82	\$2.80
Weighted Average Variable Rate (per Mcf)	\$2.40	\$2.35

Crude Oil Price Swap Agreements

	Expected Maturity Dates	
	2002	2003
Notional Quantities (Equivalent bbls)	4,840,980	1,803,000
Weighted Average Fixed Rate (per bbl)	\$22.98	\$19.93
Weighted Average Variable Rate (per bbl)	\$26.49	\$26.50

At September 30, 2001, the Company would have received from the respective counterparties an aggregate of approximately \$25.7 million to terminate the natural gas price swap agreements outstanding at that date. The Company would have had to pay an aggregate of approximately \$7.5 million to the counterparties to terminate the crude oil price swap agreements outstanding at September 30, 2001.

At September 30, 2000, the Company had natural gas price swap agreements covering 44.9 Bcf at a weighted average fixed rate of \$3.34 per Mcf. The Company also had crude oil price swap agreements covering 10,361,895 bbls at a weighted average fixed rate of \$21.75 per bbl. As indicated in the tables above, the Company has significantly reduced its use of natural gas and crude oil price swap agreements, which is primarily attributable to the pricing environment during the latter part of 2000 compared to 2001. In the latter part of 2000, prices were on the rise, allowing the Company to lock in favorable prices. In the latter part of 2001, prices were falling providing less opportunities for the Company to lock in favorable prices. Furthermore, the Company has changed its hedging strategy by using more natural gas no cost collars and options (puts) to allow the Company to share in more of the upside potential of commodity prices while limiting the downside risk.

The following tables disclose the notional quantities, the weighted average ceiling price and the weighted average floor price for the no cost collars used by the Company to manage natural gas and crude oil price risk. The no cost collars provide for the Company to receive monthly payments from (or make payments to) other parties when a variable price falls below an established floor price (the Company receives payment from the counterparty) or exceeds an established ceiling price (the Company pays the counterparty). At September 30, 2001, the Company had not entered into any natural gas or crude oil no cost collars extending beyond 2004.

No Cost Collars

	Expected Maturity Dates		
	2002	2003	2004
Crude Oil			
Notional Quantities (Equivalent bbls)	1,335,000	1,125,000	270,000
Weighted Average Ceiling Price (per bbl)	\$28.26	\$26.41	\$25.80
Weighted Average Floor Price (per bbl)	\$21.91	\$21.96	\$22.00
Natural Gas			
Notional Quantities (Equivalent Bcf)	2.8	6.2	0.2
Weighted Average Ceiling Price (per Mcf)	\$5.61	\$5.28	\$4.40
Weighted Average Floor Price (per Mcf)	\$4.11	\$4.05	\$3.71

At September 30, 2001, the Company would have received from the respective counterparties an aggregate of approximately \$11.2 million to terminate the natural gas no cost collars outstanding at that date. The Company would have received an aggregate of approximately \$2.3 million to terminate the crude oil no cost collars outstanding at that date.

At September 30, 2000, the Company had crude oil no cost collars covering 4,725,000 bbls at a weighted average floor price of \$22.49 per bbl and a weighted average ceiling price of \$28.44 per bbl. The Company also had natural gas no cost collars covering 6.6 Bcf at a weighted average floor price of \$3.83 per Mcf and a weighted average ceiling price of \$5.75 per Mcf.

The following table discloses the notional quantities and weighted average strike prices by expected maturity dates for options used by the Company to manage natural gas price risk. These options provide for the Company to receive monthly payments from other parties when a variable price falls below an established floor or "strike" price. At September 30, 2001, the Company held no options with maturity dates extending beyond 2003.

Options (Puts) Purchased

	Expected Maturity Da	
	2002	200
Natural Gas		
Notional Quantities (Equivalent Bcf)	2.5	0
Weighted Average Strike Price (per Mcf)	\$4.12	\$3.

At September 30, 2001, the Company would have received from the respective counterparties an aggregate of approximately \$4.7 million to terminate these options.

At September 30, 2000, the Company had purchased natural gas options covering 31.1 Bcf at a weighted average strike price of \$4.76 per Mcf. The Company had also sold natural gas options covering 37.9 Bcf at a weighted average strike price of \$4.76 per Mcf and sold crude oil options covering 368,000 bbls at a weighted average strike price of \$15.25 per bbl. The significant decrease in the amount of options outstanding at September 30, 2001 compared to September 30, 2000 primarily reflects a change in hedging strategy by the Company's Energy Marketing segment, which eliminated its use of options in 2001. At September 30, 2001, the Energy Marketing segment was using only futures contracts to manage the market risk associated with fluctuations in the price of natural gas. The options outstanding at September 30, 2001 were purchased by the Company's Exploration and Production segment.

The following table discloses the net notional quantities, weighted average contract prices and weighted average settlement prices by expected maturity date for futures contracts used to manage natural gas price risk. At September 30, 2001, the Company held no futures contracts with maturity dates extending beyond 2003.

Futures Contracts

	Expected Matur	
	2002	20
Net Contract Volumes Purchased (Equivalent Bcf)	11.4	1.8
Weighted Average Contract Price (per Mcf)	\$4.16	\$4.32
Weighted Average Settlement Price (per Mcf)	\$2.83	\$3.41

At September 30, 2001, the Company would have had to pay \$15.3 million to terminate these futures contracts.

At September 30, 2000, the Company had futures contracts covering 3.9 Bcf (net short position) at a weighted average contract price of \$4.20 per Mcf.

The Company may be exposed to credit risk on some of the derivatives disclosed above. Credit risk relates to the risk of loss that the Company would incur as a result of nonperformance by counterparties pursuant to the terms of their contractual obligations. To mitigate such credit risk, management performs a credit check and then, on an ongoing basis, monitors counterparty credit exposure. Management has obtained guarantees from the parent companies of the respective counterparties to its derivative financial instruments. At September 30, 2001, the Company's credit risk amounted to \$36.4 million of net fair value that was owed to the Company for its price swap agreements, no cost collars and puts. There are five counterparties that comprise this credit risk, with the minimum and maximum credit risk from any of the counterparties being 9% and 45%, respectively, of the total fair value at September 30, 2001. One of the counterparties, Enron, representing 29% of the total fair value at September 30, 2001, filed for bankruptcy protection subsequent to September 30, 2001. The bankruptcy filing

effectively terminated the natural gas and crude oil price swap agreements as well as the crude oil no cost collars that the Company had entered into with Enron. The natural gas price swap agreements that were terminated covered 8.7 Bcf of production at a weighted average fixed rate of \$4.19 per Mcf through the end of 2002. The crude oil price swap agreements that were terminated covered 645,000 bbls of production in 2002 at a weighted average fixed rate of \$19.13 per bbl and 135,000 bbls of production in 2003 at a weighted average fixed rate of \$19.10 per bbl. The crude oil no cost collars covered 80,000 bbls of production in 2002 at a weighted average ceiling price of \$28.10 per bbl and a weighted average floor price of \$21.00 per bbl. The Company replaced the Enron natural gas price swap agreements with natural gas no cost collars with another counterparty. The new natural gas no cost collars cover 7.5 Bcf of production in 2002 at a weighted average ceiling price of \$4.21 per Mcf and a weighted average floor price of \$2.15 per Mcf. In the first quarter of 2002, the Company expects to establish a reserve for up to a maximum amount of \$10.7 million for what Enron owed the Company at the time of the termination of the derivative financial instruments (December 3, 2001).^{*} In accordance with SFAS 133, the amount of Accumulated Other Comprehensive Income associated with these cash flow hedges will be reclassified to the Consolidated Statement of Income when the hedged physical transactions occur, the majority of which will occur in 2002, as disclosed above.

Exchange Rate Risk

The International segment's investment in the Czech Republic is valued in Czech korunas, and, as such, this investment is subject to currency exchange risk when the Czech korunas are translated into U.S. dollars. The Exploration and Production segment's investment in Canada is valued in Canadian dollars, and, as such, this investment is subject to currency exchange risk when the Canadian dollars are translated into U.S. dollars. At September 30, 2001 compared to September 30, 2000, the Czech koruna was higher in value in relation to the U.S. dollar, resulting in a \$7.7 million positive adjustment to the Cumulative Foreign Currency Translation Adjustment (CTA) (a component of Accumulated Other Comprehensive Income/Loss). At September 30, 2001 compared to September 30, 2000, the Canadian dollar was lower in value in relation to the U.S. dollar, resulting in a \$14.9 million negative adjustment to the CTA. Further valuation changes to the Czech koruna and Canadian dollar would result in corresponding positive or negative adjustments to the CTA. Management cannot predict whether the Czech koruna or Canadian dollar will increase or decrease in value against the U.S. dollar.^{*}

Interest Rate Risk

The Company's exposure to interest rate risk primarily consists of short-term debt instruments. At September 30, 2001, these instruments included short-term bank loans and commercial paper totaling \$459.9 million (domestically). The interest rate on these short-term bank loans and commercial paper approximated 3.3% at September 30, 2001. The Company's short-term debt instruments also included \$29.8 million of short-term bank loans in Canada and the Czech Republic at September 30, 2001. The weighted average interest rates on the Canadian and Czech Republic loans approximated 3.9% and 5.5%, respectively, at September 30, 2001.

The following table presents the principal cash repayments and related weighted average interest rates by expected maturity date for the Company's long-term fixed rate debt as well as the other long-term debt of certain of the Company's subsidiaries. The interest rates for the variable rate debt are based on those in effect at September 30, 2001:

(Millions of Dollars)	Principal Amounts by Expected Maturity Date				
	2002	2003	2004	2005	2006
National Fuel Gas Company					
Long-Term Fixed Rate Debt	\$100	\$150	\$225	\$-	\$-
Weighted Average Interest Rate Paid	6.2%	7.3%	7.3%	-%	-%
Fair Value =	\$1,154.7 million				
Other Notes					
Long-Term Debt ⁽¹⁾	\$9.4	\$11.1	\$3.9	\$3.9	\$3.6
Weighted Average Interest Rate Paid	5.5%	5.8%	6.3%	6.3%	6.3%
Fair Value =	\$32.1 million				

⁽¹⁾ \$18.7 million is variable rate debt; \$13.4 million is fixed rate debt.

The Company utilizes an interest rate swap to eliminate interest rate fluctuations on its CZK 586,993,000 term loan (\$15.8 million at September 30, 2001), which carries a variable interest rate of six month Prague Interbank Offered Rate (PRIBOR) plus 0.475%. Under the terms of the interest rate swap, which extends until 2002, the Company pays a fixed rate of 8.31% and receives a floating rate of six month PRIBOR. The Company would have paid approximately \$0.6 million to settle the interest rate swap at September 30, 2001.

RATE MATTERS

Utility Operation

New York Jurisdiction

On October 11, 2000, the NYPSC approved a settlement agreement (Agreement) between Distribution Corporation, Staff of the Department of Public Service, the New York State Consumer Protection Board and Multiple Intervenors (an advocate for large commercial and industrial customers) that establishes rates for a three-year period beginning October 1, 2000. The Agreement provides that customers will receive a bill credit of \$17.6 million in the first year, of which \$7.6 million relates to customers' share of earnings accumulated under previous settlements. The credit will be reduced to \$5.0 million in the second year, and in the third and subsequent years the credit will remain at \$5.0 million unless the Company can demonstrate that it is no longer justified. Also, earnings beyond a target level of 11.5% return on equity will be shared equally between shareholders and ratepayers. The Agreement provides further that the Company and interested parties will resume discussions to address the NYPSC's competition initiatives, including changes to "customer choice" transportation services, among other things. Those discussions commenced in November 2000 and ultimately produced an interim "Joint Proposal," or settlement agreement, addressing several discrete issues of interest to the parties and the NYPSC. In an order issued on May 30, 2001, the NYPSC adopted the parties' Joint Proposal. As recommended by the parties, the Joint Proposal modifies Distribution Corporation's operations relating to transportation services and transactions with marketers and producers of indigenous natural gas. Under the Joint Proposal, the parties also agreed to continue negotiations to implement additional features of the NYPSC's restructuring initiative (described below). Those confidential discussions, dubbed "Phase III negotiations," are continuing. The Joint Proposal makes no changes in Distribution Corporation's revenue requirement or other such matters addressed in the above-described settlement agreement.

On November 3, 1998, the NYPSC issued its Policy Statement Concerning the Future of the Natural Gas Industry in New York State and Order Terminating Capacity Assignment (Policy Statement). The Policy Statement sets forth the NYPSC's "vision" on "how best to ensure a competitive market for natural gas in New York." The Policy Statement, which sets forth numerous achievement goals, has been regarded as the Commission's template for restructuring of the gas industry.

The Policy Statement provides that the most effective way to establish a competitive market in gas supply is "for local distribution companies to cease selling gas." The NYPSC indicated in its order that it hopes to accomplish that objective over a three-to-seven year transition period from the date the Policy Statement was issued, taking into account "statutory requirements" and the individual needs of each local distribution company (LDC).^{*} The Policy Statement directs Staff to schedule "discussions" with each LDC on an "individualized plan that would effectuate our vision." In preparation for negotiations, LDCs will be required to address issues such as a strategy to hold new capacity contracts to a minimum, a long-term rate plan with a goal of reducing or freezing rates, and a plan for further unbundling. In addition, Staff was instructed to hold collaborative sessions with multiple parties to discuss generic issues including reliability and market power regulation. Distribution Corporation has participated in the collaborative sessions. These collaborative sessions have not yet produced a consensus document on all issues before the NYPSC. Distribution Corporation will continue to participate in all future collaborative sessions.^{*}

As an outgrowth of the Policy Statement, the NYPSC issued an Order Directing Expedited Consideration of Rate Unbundling on March 29, 2001 (Unbundling Order). The Unbundling Order directs the state's electric and gas utilities, including Distribution Corporation, to submit cost studies for "bottom-up" unbundling, which as described by the NYPSC, "begins with the total costs of the utility's business and then assigns those costs to the various functions, some of which are expected to become competitively available." This is in contrast to methods used for establishing "back-out" credits, although the result is essentially the same: competitive functions are identified and priced in order to subsidize market entry for marketers. Numerous parties met for several collaborative sessions and were unable to reach consensus on the methodology for the studies. Accordingly, briefs were filed and a decision on the appropriate methodology to use will be issued by the NYPSC at a later date. Distribution Corporation has no objection to the NYPSC's authority to order unbundling cost studies, but to the extent any legally-mandated utility functions are identified as "competitive," there is a possibility that stranded costs may be incurred. While at this juncture the NYPSC has not indicated that stranded cost recovery would be denied, in whole or in part, the issue remains open for consideration in individual utility proceedings. At this time, Distribution Corporation is unable to ascertain the outcome of this proceeding.^{*}

On July 23, 2001, the NYPSC ordered implementation of an initial set of electronic data interchange (EDI) datasets for electronic exchange of retail access data in New York (EDI Order). As described by the NYPSC, EDI is the computer-to-computer exchange of routine business information in a standard form. The NYPSC believes that EDI is necessary to develop uniform data exchange protocol for the state's customer choice initiatives. The EDI Order adopts modified enrollment and historical usage datasets initially prepared by an EDI working group

involving utilities, marketers and other interests. The Order identifies required changes to uniform business practices and also adopts Web Site Design Principles and EDI testing plans. Initial EDI implementation is ordered for calendar year-end 2001 following completion of EDI testing. Phased testing of EDI began during the fourth quarter of calendar 2001. The NYPSC also directs development of datasets governing billing and payment processing based upon the recommendations of a national group of stakeholders. EDI datasets governing billing are now under development and will be completed in the first quarter of calendar 2002 and implemented thereafter.

The NYPSC continues to address, through various proceedings and "collaboratives," upstream pipeline capacity issues arising from the restructuring. Currently Distribution Corporation remains authorized to release upstream intermediate capacity to marketers serving former sales customers. Costs relating to retained upstream transmission capacity are recovered through a transition cost surcharge. At this time, Distribution Corporation does not foresee any material changes to upstream capacity requirements in the near term.*

On May 15, 2000, the New York State tax law was amended to phase out the long-running tax on utility gross revenues beginning January 1, 2001. Offsetting the scheduled reductions, however, is the imposition of a net income based tax on the same utilities. In an order issued on December 21, 2000, the NYPSC adopted a recommendation providing that utilities be kept whole for any tax increases resulting from implementation of the changes. Toward that end, the report proposed that the mechanism in rates currently used for recovery of the gross revenue tax would be utilized to collect the new income tax. To the extent a utility's income tax liability exceeded the amount collectible through the existing gross revenue tax recovery mechanism, deferral accounting would be authorized.

Pennsylvania Jurisdiction

Distribution Corporation currently does not have a rate case on file with the Pennsylvania Public Utility Commission (PaPUC). Management will continue to monitor its financial position in the Pennsylvania jurisdiction to determine the necessity of filing a rate case in the future.

A natural gas restructuring bill was signed into law on June 22, 1999. Entitled the Natural Gas Choice and Competition Act (Act), the new law requires all Pennsylvania LDCs to file tariffs designed to provide retail customers with direct access to competitive gas markets. Distribution Corporation submitted its compliance filing on October 1, 1999 for an effective date on or about July 1, 2000. The filing largely mirrored Distribution Corporation's System Wide Energy Select program previously in effect, which substantially complied with the Act's requirements. After negotiations with PaPUC Staff and intervenors, a settlement was reached with all parties except for the Pennsylvania Office of Consumer Advocate (OCA). The settlement parties generally agreed that Distribution Corporation's proposal needed only modest changes to meet the requirements of the Act. Hearings were held and briefs filed on OCA's open issues. In a Recommended Decision issued on March 31, 2000, the Administrative Law Judge rejected the OCA's arguments and recommended approval of the settlement agreement. On June 29, 2000, the PaPUC entered an Opinion and Order adopting the settlement, with immaterial changes. Distribution Corporation's restructured rates and services became effective on July 1, 2000.

Base rate adjustments in both the New York and Pennsylvania jurisdictions do not reflect the recovery of purchased gas costs. Such costs are recovered through operation of the purchased gas adjustment clauses of the appropriate regulatory authorities.

Pipeline and Storage

Supply Corporation currently does not have a rate case on file with the FERC. Management will continue to monitor Supply Corporation's financial position to determine the necessity of filing a rate case in the future.

Other Matters

Environmental Matters

It is the Company's policy to accrue estimated environmental clean-up costs (investigation and remediation) when such amounts can reasonably be estimated and it is probable that the Company will be required to incur such costs. The Company has estimated its clean-up costs related to former manufactured gas plant sites and third party waste disposal sites will be in the range of \$5.4 million to \$6.4 million.* The minimum liability of \$5.4 million has been recorded on the Consolidated Balance Sheet at September 30, 2001. Other than discussed in Note H (referred to below), the Company is currently not aware of any material additional exposure to environmental liabilities. However, adverse changes in environmental regulations or other factors could impact the Company.* The Company is subject to various federal, state and local laws and regulations relating to the protection of the environment. The Company has established procedures for the ongoing evaluation of its operations to identify potential environmental exposures and comply with regulatory policies and procedures.

For further discussion refer to Note H - Commitments and Contingencies under the heading "Environmental Matters" in Item 8 of this report.

New Accounting Pronouncements

In 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations" (SFAS 141), SFAS No. 142, "Goodwill and Other Intangible Assets" (SFAS 142) and SFAS No. 143, "Accounting for Asset Retirement Obligations" (SFAS 143). For a discussion of SFAS 141, SFAS 142 and SFAS 143 and their impact on the Company, see disclosure in Note A – Summary of Significant Accounting Policies in Item 8 of this report.

Effects of Inflation

Although the rate of inflation has been relatively low over the past few years, the Company's operations remain sensitive to increases in the rate of inflation because of its capital spending and the regulated nature of a significant portion of its business.

Safe Harbor for Forward-Looking Statements

The Company is including the following cautionary statement in this Form 10-K to make applicable and take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 for any forward-looking statements made by, or on behalf of, the Company. Forward-looking statements include statements concerning plans, objectives, goals, projections, strategies, future events or performance, and underlying assumptions and other statements which are other than statements of historical facts. From time to time, the Company may publish or otherwise make available forward-looking statements of this nature. All such subsequent forward-looking statements, whether written or oral and whether made by or on behalf of the Company, are also expressly qualified by these cautionary statements. Certain statements contained in this report, including those which are designated with an asterisk ("*"), are "forward-looking" statements as defined in the Private Securities Litigation Reform Act of 1995 and accordingly involve risks and uncertainties which could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements. The forward-looking statements contained herein are based on various assumptions, many of which are based, in turn, upon further assumptions. The Company's expectations, beliefs and projections are expressed in good faith and are believed by the Company to have a reasonable basis, including, without limitation, management's examination of historical operating trends, data contained in the Company's records and other data available from third parties, but there can be no assurance that management's expectations, beliefs or projections will result or be achieved or accomplished. In addition to other factors and matters discussed elsewhere herein, the following are important factors that, in the view of the Company, could cause actual results to differ materially from those discussed in the forward-looking statements:

1. Changes in economic conditions, including economic disruptions caused by terrorist activities;
2. Changes in demographic patterns and weather conditions;
3. Changes in the availability and/or price of natural gas and oil;
4. Inability to obtain new customers or retain existing ones;
5. Significant changes in competitive factors affecting the Company;
6. Governmental/regulatory actions, initiatives and proceedings, including those affecting acquisitions, financings, allowed rates of return, industry and rate structure, franchise renewal, and environmental/safety requirements;
7. Unanticipated impacts of restructuring initiatives in the natural gas and electric industries;
8. Significant changes from expectations in actual capital expenditures and operating expenses and unanticipated project delays or changes in project costs;
9. The nature and projected profitability of pending and potential projects and other investments;
10. Occurrences affecting the Company's ability to obtain funds from operations, debt or equity to finance needed capital expenditures and other investments;
11. Uncertainty of oil and gas reserve estimates;
12. Ability to successfully identify and finance oil and gas property acquisitions and ability to operate and integrate existing and any subsequently acquired business or properties;
13. Ability to successfully identify, drill for and produce economically viable natural gas and oil reserves;

14. Significant changes from expectations in the Company's actual production levels for natural gas or oil;
15. Changes in the availability and/or price of derivative financial instruments;
16. Changes in the price of natural gas or oil and the related effect given the accounting treatment or valuation of financial instruments;
17. Inability of the various counterparties to meet their obligations with respect to the Company's financial instruments;
18. Regarding foreign operations, changes in trade and monetary policies, inflation and exchange rates, taxes, operating conditions, laws and regulations related to foreign operations, and political and governmental changes;
19. Significant changes in tax rates or policies or in rates of inflation or interest;
20. Significant changes in the Company's relationship with its employees and contractors and the potential adverse effects if labor disputes, grievances or shortages were to occur; or
21. Changes in accounting principles or the application of such principles to the Company.

The Company disclaims any obligation to update any forward-looking statements to reflect events or circumstances after the date hereof.

ITEM 7A Quantitative and Qualitative Disclosures About Market Risk

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Refer to the "Market Risk Sensitive Instruments" section in Item 7, MD&A.

ITEM 8 Financial Statements and Supplementary Data

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Financial Statements:

[Report of Independent Accountants](#)

[Consolidated Statements of Income and Earnings Reinvested in the Business, three years ended September 30, 2001](#)

[Consolidated Balance Sheets at September 30, 2001 and 2000](#)

[Consolidated Statement of Cash Flows, three years ended September 30, 2001](#)

[Consolidated Statement of Comprehensive Income, three years ended September 30, 2001](#)

[Notes to Consolidated Financial Statements](#)

Financial Statement Schedules:

For the three years ended September 30, 2001

[II-Valuation and Qualifying Accounts](#)

All other schedules are omitted because they are not applicable or the required information is shown in the Consolidated Financial Statements or Notes thereto.

[Supplementary Data](#)

Supplementary data that is included in Note K - Quarterly Financial Data (unaudited) and Note M - Supplementary Information for Oil and Gas Producing Activities, appears under this Item, and reference is made thereto.

[Report of Management](#)

Management is responsible for the preparation and integrity of the Company's financial statements. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and necessarily include some amounts that are based on management's best estimates and judgment.

The Company maintains a system of internal accounting and administrative controls and an ongoing program of internal audits that management believes provide reasonable assurance that assets are safeguarded and that transactions are properly recorded and executed in accordance with management's authorization. The Company's financial statements have been examined by our independent accountants, PricewaterhouseCoopers LLP, which also conducts a review of internal controls to the extent required by auditing standards generally accepted in the United States of America.

The Audit Committee of the Board of Directors, composed solely of outside directors, meets with management, internal auditors and PricewaterhouseCoopers LLP to review planned audit scope and results and to discuss other matters affecting internal accounting controls and financial reporting. The independent accountants have direct access to the Audit Committee and periodically meet with it without management representatives present.

Report of Independent Accountants

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To the Board of Directors
and Shareholders of
National Fuel Gas Company

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of National Fuel Gas Company and its subsidiaries at September 30, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2001, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Buffalo, New York
October 24, 2001, except for
Note F, as to which the date
is December 3, 2001

National Fuel Gas Company
Consolidated Statements of Income and Earnings
Reinvested in the Business

Year Ended September 30 (Thousands of Dollars,
Except Per Common Share Amounts) 2001

2000

1999

	2000	1999
Income		
Operating Revenues	\$2,100,352	\$1,425,277
		\$1,263,274
Operating Expenses		
Purchased Gas	1,045,805	503,617
Fuel Used in Heat and Electric Generation	343,693	326,933
Operation	20,625	23,450
Maintenance		
		405,925
	54,968	54,893
		55,788
		304,919
		23,881

Property, Franchise and Other Taxes	83,730		78,878	91,146
Depreciation, Depletion and Amortization	174,914		142,170	124,778
Impairment of Oil and Gas Producing Properties	180,781	-	-	
Income Taxes	37,106	77,068	64,829	
1,941,622	1,207,009	1,071,266		
Operating Income	158,730	218,268	192,008	
Other Income	15,256	10,408	12,343	
Income Before Interest Charges and Minority Interest in Foreign Subsidiaries		173,986	228,676	204,351
Interest Charges				
Interest on Long-Term Debt	81,851	67,195	65,402	
Other Interest	25,294	32,890	22,296	
107,145	100,085	87,698		
Minority Interest in Foreign Subsidiaries		(1,342)	(1,384)	(1,616)
Net Income Available for Common Stock		65,499	127,207	115,037
Earnings Reinvested in the Business				
Balance at Beginning of Year	525,847	472,517	428,112	
591,346	599,724	543,149		
Dividends on Common Stock	77,858	73,877	70,632	
Balance at End of Year	\$513,488	\$525,847	\$472,517	
Earnings Per Common Share:				
Basic	\$0.83	\$1.63	\$1.49	
Diluted	\$0.82	\$1.61	\$1.47	
Weighted Average Common Shares Outstanding:				
Used in Basic Calculation	79,053,444	78,233,842	77,327,962	
Used in Diluted Calculation	80,361,258	79,166,200	78,083,456	

[See Notes to Consolidated Financial Statements](#)

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National Fuel Gas Company
Consolidated Balance Sheets

At September 30 (Thousands of Dollars) **2001** 2000

Assets				
Property, Plant and Equipment	\$4,273,716		\$3,829,637	
Less - Accumulated Depreciation, Depletion and Amortization	1,493,003		1,146,246	
2,780,713	2,683,391			
Current Assets				
Cash and Temporary Cash Investments	36,227		32,125	
Receivables - Net	131,726	121,639		

Deferred Credits

Accumulated Deferred Income Taxes	340,559	326,994	
Taxes Refundable to Customers	16,865	14,410	
Unamortized Investment Tax Credit	9,599	9,951	
Other Deferred Credits	126,319	114,451	
Fair Value of Derivative Financial Instruments	17,081		12,565

510,423 478,371

Commitments and Contingencies

\$3,445,566 \$3,251,031

See Notes to Consolidated Financial Statements

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National Fuel Gas Company
Consolidated Statement of Cash Flows

Year Ended September 30 (Thousands of Dollars) 2001 2000 1999

Operating Activities

Net Income Available for Common Stock	\$65,499	\$127,207	\$115,037
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities			
Impairment of Oil and Gas Producing Properties	180,781	-	-
Depreciation, Depletion and Amortization	174,914	142,170	124,778
Deferred Income Taxes	(55,849)	41,858	14,030
Minority Interest in Foreign Subsidiaries	1,342	1,384	1,616
Other	6,553	4,540	7,018
Change in:			
Receivables and Unbilled Utility Revenue	(2,299)	(26,336)	(18,161)
Gas Stored Underground and Materials and Supplies	(37,054)	(13,707)	(7,280)
Unrecovered Purchased Gas Costs	25,568	(25,105)	1,740
Prepayments	(399)	(3,420)	(15,322)
Accounts Payable	20,419	(16,489)	22,871
Amounts Payable to Customers	41,640	3,649	153
Other Accruals and Current Liabilities	13,969	(10,233)	10,931
Other Assets	(34,229)	763	(906)
Other Liabilities	13,289	11,965	10,999

Net Cash Provided by Operating Activities **414,144** 238,246 267,504

Investing Activities

Capital Expenditures	(292,706)	(269,371)	(256,120)
Investment in Subsidiaries, Net of Cash Acquired	(90,567)		(123,809)
Investment in Partnerships	(1,830)	(4,442)	(3,633)
Other	(2,940)	13,283	6,687

Net Cash Used in Investing Activities **(388,043)** (384,339) (258,840)

Financing Activities

Change in Notes Payable to Banks and Commercial Paper	(143,397)	226,477	67,195
Net Proceeds from Issuance of Long-Term Debt	210,221	149,334	198,217
Reduction of Long-Term Debt	(23,052)	(167,426)	(213,849)
Proceeds from Issuance of Common Stock	11,545	14,278	10,735
Dividends Paid on Common Stock	(76,671)	(73,046)	(69,878)
Dividends Paid to Minority Interest	-	(152)	(246)

Net Cash Provided by (Used in) Financing Activities	(21,354)	149,465	(
Effect of Exchange Rates on Cash	(645)	(469)	(2,053)
Net Increase (Decrease) in Cash and Temporary Cash Investments	4,102	2,903	(1,215)
Cash and Temporary Cash Investments at Beginning of Year	32,125	29,222	30,437
Cash and Temporary Cash Investments at End of Year	\$36,227	\$ 32,125	\$ 29,222
Supplemental Disclosure of Cash Flow Information			
Cash Paid For:			
Interest	\$97,259	\$97,042	\$75,813
Income Taxes	77,662	41,928	48,995

[See Notes to Consolidated Financial Statements](#)

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National Fuel Gas Company
Consolidated Statement of Comprehensive Income

Year Ended September 30(Thousands of Dollars)	2001	2000	
Net Income Available for Common Stock	\$65,499	\$127,207	\$115,037
Other Comprehensive Income, Before Tax:			
Foreign Currency Translation Adjustment	(7,158)	(27,463)	(11,737)
Unrealized Gain (Loss) on Securities Available for Sale Arising During the Period	(712)	2,441	706
Unrealized Gain on Derivative Financial Instruments Arising During the Period	58,355	-	-
Reclassification Adjustment for Realized Losses on Derivative Financial Instruments in Net Income	83,218	-	-
Reclassification Adjustment for Realized Gains on Securities Available for Sale in Net Income	-	(103)	-
Other Comprehensive Income (Loss), Before Tax:	133,703	(11,031)	(25,125)
Income Tax Expense (Benefit) Related to Unrealized Gain (Loss) on Securities Available for Sale Arising During the Period	(249)	855	-
Income Tax Expense Related to Unrealized Gain on Derivative Financial Instruments Arising During the Period	23,053	-	-
Reclassification Adjustment for Income Tax Benefit on Realized Losses on Derivative Financial Instruments in Net Income	32,032	-	-
Reclassification Adjustment for Income Tax Expense on Realized Gains on Securities Available for Sale in Net Income	-	(36)	-
Income Taxes - Net	54,836	819	247
Other Comprehensive Income (Loss), Before			

Cumulative Effect, Net of Tax	78,867	(25,944)	(11,278)
Cumulative Effect of Change in Accounting, Net of Tax (69,767)	-	-	-
Other Comprehensive Income (Loss), After Cumulative Effect, Net of Tax	9,100	(25,944)	(11,278)
Comprehensive Income	\$74,599	\$101,263	\$103,759

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National Fuel Gas Company

Notes to Consolidated Financial Statements

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Note A - Summary of Significant Accounting Policies

Principles of Consolidation

The Company consolidates its majority owned subsidiaries. The equity method is used to account for minority owned entities. All significant intercompany balances and transactions are eliminated.

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Stock Split

Effective September 7, 2001, the Company's common stock was split two-for-one. All references in the consolidated financial statements referring to shares, share prices, per share amounts and stock plans have been adjusted retroactively to give effect to the two-for-one common stock split.

Reclassification

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

Regulation

The Company is subject to regulation by certain state and federal authorities. The Company has accounting policies which conform to accounting principles generally accepted in the United States of America, as applied to regulated enterprises, and are in accordance with the accounting requirements and ratemaking practices of the regulatory authorities. Reference is made to Note B - Regulatory Matters for further discussion.

In the International segment, rates charged for the sale of thermal energy and electric energy at the retail level are subject to regulation and audit in the Czech Republic by the Czech Ministry of Finance. The regulation of electric energy rates at the retail level indirectly impacts the rates charged by the International segment for its electric energy sales at the wholesale level.

Revenues

Revenues are recorded as bills are rendered, except that service supplied but not billed is reported as "Unbilled Utility Revenue" and is included in operating revenues for the year in which service is furnished.

Unrecovered Purchased Gas Costs and Refunds

The Company's rate schedules in the Utility segment contain clauses that permit adjustment of revenues to reflect price changes from the cost of purchased gas included in base rates. Differences between amounts currently recoverable and actual adjustment clause revenues, as well as other price changes and pipeline and storage company refunds not yet includable in adjustment clause rates, are deferred and accounted for as either unrecovered purchased gas costs or

amounts payable to customers.

Estimated refund liabilities to ratepayers represent management's current estimate of such refunds. Reference is made to Note B - Regulatory Matters for further discussion.

Property, Plant and Equipment

The principal assets of the Utility and Pipeline and Storage segments, consisting primarily of gas plant in service, are recorded at the historical cost when originally devoted to service in the regulated businesses, as required by regulatory authorities.

Oil and gas property acquisition, exploration and development costs are capitalized under the full-cost method of accounting. All costs directly associated with property acquisition, exploration and development activities are capitalized, up to certain specified limits. If capitalized costs exceed these limits at the end of any quarter, a permanent impairment is required to be charged to earnings in that quarter. As a result of low oil and gas prices, the Company's capitalized costs under the full-cost method of accounting exceeded the full-cost ceiling for the Company's Canadian properties at September 30, 2001. The Company was required to recognize an impairment of its oil and gas producing properties in the quarter ended September 30, 2001. This charge amounted to \$180.8 million (pre tax) and reduced net income for 2001 by \$104.0 million (\$1.32 per common share; basic, \$1.29 per common share, diluted).

Maintenance and repairs of property and replacements of minor items of property are charged directly to maintenance expense. The original cost of the regulated subsidiaries' property, plant and equipment retired, and the cost of removal less salvage, are charged to accumulated depreciation.

Depreciation, Depletion and Amortization

Depreciation, depletion and amortization are computed by application of either the straight-line method or the units of production method, in amounts sufficient to recover costs over the estimated service lives of property in service, and for oil and gas properties, based on quantities produced in relation to proved reserves. The costs of unevaluated oil and gas properties are excluded from this computation. For timber properties, depletion, determined on a property by property basis, is charged to operations based on the annual amount of timber cut in relation to the total amount of recoverable timber. The provisions for depreciation, depletion and amortization, as a percentage of average depreciable property, were 4.7% in 2001, 4.2% in 2000 and 4.1% in 1999 on a consolidated basis.

Cumulative Effect of Change in Accounting

Effective October 1, 2000, the Company adopted the Financial Accounting Standards Board's (FASB) Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133) as amended by SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133" and by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of Statement 133" (collectively, SFAS 133). The cumulative effect of this change decreased other comprehensive income by \$69.8 million (after tax) at adoption on October 1, 2000. The cumulative effect of this change did not have a material impact on net income at adoption on October 1, 2000. Of the cumulative effect recorded in other comprehensive income, \$46.3 million (after tax) was reclassified into the Consolidated Statement of Income during 2001. The derivative financial instruments that comprise the cumulative effect recorded in other comprehensive income have been designated and qualify as cash flow hedges, as discussed below.

Financial Instruments

Unrealized gains or losses from the Company's investments in marketable equity securities are recorded as a component of Accumulated Other Comprehensive Income (Loss). Reference is made to Note F - Financial Instruments for further discussion.

The Company uses a variety of derivative financial instruments to manage a portion of the market risk associated with fluctuations in the price of natural gas and crude oil. These instruments can be categorized as price swap agreements, no cost collars, options and futures contracts. The Company also uses an interest rate swap to eliminate interest rate fluctuations on certain variable rate debt. As discussed above, on October 1, 2000 the Company adopted SFAS 133. In accordance with the provisions of these standards, the Company accounts for these instruments as either cash flow hedges or fair value hedges. In both cases, the fair value of the instrument is recognized on the Consolidated Balance Sheet as either an asset or a liability labeled "Fair Value of Financial Instruments." Fair value represents the amount the Company would receive or pay to terminate these instruments.

For effective cash flow hedges, the offset to the asset or liability that is recorded is a gain or loss recorded in Accumulated Other Comprehensive Income (Loss) on the Consolidated Balance Sheet. Any ineffectiveness associated with the cash flow hedges is recorded in the

Consolidated Statement of Income. The Company did not experience any material ineffectiveness with regard to its cash flow hedges during 2001. The gain or loss recorded in Accumulated Other Comprehensive Income (Loss) remains there until the hedged transaction occurs, at which point the gains or losses are reclassified to operating revenues or interest expense, as applicable, on the Consolidated Statement of Income. For fair value hedges, the offset to the asset or liability that is recorded is a gain or loss recorded to operating revenues or purchased gas expense on the Consolidated Statement of Income. However, in the case of fair value hedges, the Company also records an asset or liability on the Consolidated Balance Sheet representing the change in fair value of the asset or firm commitment that is being hedged. The offset to this asset or liability is a gain or loss recorded to operating revenues or purchased gas expense on the Consolidated Statement of Income as well. If the fair value hedge is effective, the gain or loss from the derivative financial instrument is offset by the gain or loss that arises from the change in fair value of the asset or firm commitment that is being hedged. The Company did not experience any material ineffectiveness with regard to its fair value hedges during 2001.

In the case of the no cost collars and options used by the Company, the fair value of these instruments consisted of time value and intrinsic value. The exclusion of time value from the Company's effectiveness tests during 2001 resulted in a \$4.4 million gain that was recorded in operating revenues on the Consolidated Statement of Income.

Prior to October 1, 2000, gains or losses from price swap agreements and no cost collars were accrued in operating revenues on the Consolidated Statement of Income at the contract settlement dates. Gains or losses from futures contracts that were designated as hedges were recorded in other deferred credits or deferred debits until the hedged commodity transaction occurred, at which point they were reflected in operating revenues on the Consolidated Statement of Income. For options that were designated as hedges, premiums were amortized on a straight-line basis over the life of the option. Gains or losses resulting from the exercise of options that were designated as hedges were reflected in operating revenues on the Consolidated Statement of Income when the hedged commodity transaction occurred. Options and futures that were not designated as hedges were marked-to-market on a quarterly basis with gains or losses recorded in operating revenues on the Consolidated Statement of Income. In the case of the interest rate swap, gains and losses were accrued in interest charges at the contract settlement dates.

While the accounting standards for derivative financial instruments in 2001 are different from those used in 2000, the liabilities that were recorded for derivative financial instruments at September 30, 2000 have been reclassified to "Fair Value of Derivative Financial Instruments" on the September 30, 2000 Consolidated Balance Sheet. Reference is made to Note F - Financial Instruments for further discussion of derivative financial instruments.

Accumulated Other Comprehensive Income (Loss)

The components of Accumulated Other Comprehensive Income (Loss) are as follows:

Year Ended September 30 (Thousands)	2001	2000
Cumulative Foreign Currency Translation Adjustment	\$(39,093)	\$(31,935)
Net Unrealized Gain on Derivative Financial Instruments	16,721	-
Net Unrealized Gain on Securities Available for Sale	1,515	1,978
Accumulated Other Comprehensive Loss	\$(20,857)	\$(29,957)

At September 30, 2001, it is estimated that \$16.1 million of the net unrealized gain on derivative financial instruments shown in the table above will be reclassified into the Consolidated Statement of Income during 2002.

Gas Stored Underground - Current

In the Utility segment, gas stored underground - current in the amount of \$69.5 million is carried at lower of cost or market, on a last-in, first-out (LIFO) method. Based upon the average price of spot market gas purchased in September 2001, including transportation costs, the current cost of replacing this inventory of gas stored underground-current exceeded the amount stated on a LIFO basis by approximately \$4.0 million at September 30, 2001. All other gas stored underground - current is carried at lower of cost or market on either an average cost or first-in, first-out method.

Unamortized Debt Expense

Costs associated with the issuance of debt by the Company are deferred and amortized over the lives of the related issues. Costs associated with the reacquisition of debt related to rate-regulated subsidiaries are deferred and amortized

over the remaining life of the issue or the life of the replacement debt in order to match regulatory treatment.

Foreign Currency Translation

The functional currency for the Company's foreign operations is the local currency. Asset and liability accounts are translated at the rate of exchange on the balance sheet date. Revenues and expenses are translated at the average exchange rate during the period. Foreign currency translation adjustments are recorded as a component of Accumulated Other Comprehensive Income (Loss).

Income Taxes

The Company and its domestic subsidiaries file a consolidated federal income tax return. Investment Tax Credit, prior to its repeal in 1986, was deferred and is being amortized over the estimated useful lives of the related property, as required by regulatory authorities having jurisdiction. No provision has been made for domestic income taxes applicable to undistributed earnings of foreign subsidiaries as the amounts are considered to be permanently reinvested outside the United States.

Consolidated Statement of Cash Flows

For purposes of the Consolidated Statement of Cash Flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Earnings Per Common Share

Basic earnings per common share is computed by dividing income available for common stock by the weighted average number of common shares outstanding for the period. Diluted earnings per common share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. The only potentially dilutive securities the Company has outstanding are stock options. The diluted weighted average shares outstanding shown on the Consolidated Statement of Income reflects the potential dilution as a result of these stock options as determined using the Treasury Stock Method.

New Accounting Pronouncements

In 2001, the FASB issued SFAS No. 141, "Business Combinations" (SFAS 141), SFAS No. 142, "Goodwill and Other Intangible Assets" (SFAS 142) and SFAS No. 143, "Accounting for Asset Retirement Obligations" (SFAS 143). SFAS 141 requires that all business combinations initiated after June 30, 2001 be accounted for by the purchase method. It also requires disclosure of the primary reasons for a business combination and the allocation of the purchase price paid to the assets acquired and liabilities assumed by major balance sheet caption. Additional disclosure would be required when goodwill and intangible assets represent a significant portion of the purchase price paid. SFAS 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets. Under this standard, goodwill and intangible assets that have indefinite useful lives will not be amortized but rather will be tested at least annually for impairment. Intangible assets that have finite useful lives will continue to be amortized over their useful lives, but the amortization period will not be limited to a certain period of time. SFAS 142 requires that the Company adopt this standard by October 1, 2002. However, goodwill and intangible assets acquired after June 30, 2001 will be subject immediately to the provisions of SFAS 142. SFAS 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes the cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is adjusted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. When the liability is settled, the entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. SFAS 143 requires that the Company adopt this standard by October 1, 2002, with earlier application encouraged. Management is currently evaluating the impact of SFAS 142 and SFAS 143 on the financial condition and results of operations of the Company.

Note B - Regulatory Matters

Regulatory Assets and Liabilities

The Company has recorded the following regulatory assets and liabilities:

At September 30 (Thousands) 2001

2000

Regulatory Assets:

Recoverable Future Taxes (Note C)	\$86,586	\$84,199	
Unrecovered Purchased Gas Costs (Note A)	4,113		29,681
Unamortized Debt Expense (Note A)	11,738	13,454	
Pension and Post-Retirement Benefit Costs (Note G)	21,065		23,656
Other	2,188	1,148	
<hr/>			
Total Regulatory Assets	125,690	152,138	
<hr/>			

Regulatory Liabilities:

Amounts Payable to Customers (Note A)	51,223		9,583
New York Rate Settlements ⁽¹⁾	27,630	21,315	
Taxes Refundable to Customers (Note C)	16,865		14,410
Pension and Post-Retirement Benefit Costs ⁽¹⁾ (Note G)			33,829
Other ⁽¹⁾	7,498	2,975	24,725
<hr/>			
Total Regulatory Liabilities	137,045	73,008	
<hr/>			

Net Regulatory Position **\$(11,355)** \$79,130

⁽¹⁾ Included in Other Deferred Credits on the Consolidated Balance Sheets.

If for any reason the Company ceases to meet the criteria for application of regulatory accounting treatment for all or part of its operations, the regulatory assets and liabilities related to those portions ceasing to meet such criteria would be eliminated from the balance sheet and included in income of the period in which the discontinuance of regulatory accounting treatment occurs. Such amounts would be classified as an extraordinary item.

New York Rate Settlements

With respect to utility services provided in New York, the Company has entered into rate settlements approved by the State of New York Public Service Commission (NYPSC). The rate settlements provide for a sharing mechanism, whereby earnings above a specified return on equity (11.5% and 12% for 2001 and 2000, respectively) are to be shared equally between shareholders and ratepayers. As a result of this sharing mechanism, the Company had liabilities of \$5.8 million and \$11.2 million at September 30, 2001 and 2000, respectively. At September 30, 2000, \$7.6 million of the earnings sharing liability was included in Amounts Payable to Customers, to reflect the amounts that were passed back to customers in 2001. Other aspects of the settlements include a special reserve of \$8.2 million and \$7.8 million at September 30, 2001 and 2000, respectively, to be applied against the Company's incremental costs resulting from the NYPSC's gas restructuring effort and a "refund pool" of \$6.0 million and \$5.6 million at September 30, 2001 and 2000, respectively. The refund pool is an accumulation of certain refunds from upstream pipeline companies and certain credits which can be used to offset certain specific expense items. Various other regulatory liabilities have also been created through the New York rate settlements and amounted to \$7.7 million and \$4.2 million at September 30, 2001 and 2000, respectively.

Note C - Income Taxes

The components of federal, state and foreign income taxes included in the Consolidated Statement of Income are as follows:

Year Ended September 30 (Thousands)	2001	2000	1999
<hr/>			
Operating Expenses:			
Current Income Taxes -			
Federal	\$ 67,429	\$ 26,352	\$ 43,467
State	21,330	13,067	6,215
Foreign	4,196	(4,209)	1,116
Deferred Income Taxes -			
Federal	18,444	29,604	11,149
State	431	2,495	1,244
Foreign	(74,724)	9,759	1,638
<hr/>			
	37,106	77,068	64,829

Other Income:

Deferred Investment Tax Credit	(348)	(1,051)	(729)
Minority Interest in Foreign Subsidiaries	(614)	(259)	(642)
Total Income Taxes	\$ 36,144	\$ 75,758	\$ 63,458

The U.S. and foreign components of income (loss) before income taxes are as follows:

Year Ended September 30 (Thousands)	2001	2000	1999
U.S.	\$267,270	\$182,813	\$169,038
Foreign	(165,627)	20,152	9,457
Total	\$101,643	\$202,965	\$178,495

Total income taxes as reported differ from the amounts that were computed by applying the federal income tax rate to income before income taxes. The following is a reconciliation of this difference:

Year Ended September 30 (Thousands)	2001	2000	1999
Income Tax Expense, Computed at U.S. Federal Statutory Rate of 35%	\$35,575	\$71,038	\$62,473
Increase (Reduction) in Taxes Resulting from:			
State Income Taxes	14,145	10,115	4,848
Foreign Tax Rate Differential	(13,172)	(1,762)	(1,198)
Depreciation	1,790	1,925	1,872
Miscellaneous	(2,194)	(5,558)	(4,537)
Total Income Taxes	\$36,144	\$75,758	\$63,458

Significant components of the Company's deferred tax liabilities and assets are as follows:

At September 30 (Thousands)	2001	2000
Deferred Tax Liabilities:		
Property, Plant and Equipment	\$389,879	\$375,660
Other	27,047	13,322
Total Deferred Tax Liabilities	416,926	388,982
Deferred Tax Assets:		
Deferred Gas Costs	(20,178)	10,454
Other	(56,189)	(72,442)
Total Deferred Tax Assets	(76,367)	(61,988)
Total Net Deferred Income Taxes	\$340,559	\$326,994

Regulatory liabilities representing the reduction of previously recorded deferred income taxes associated with rate-regulated activities that are expected to be refundable to customers amounted to \$16.9 million and \$14.4 million at September 30, 2001 and 2000, respectively. Also, regulatory assets representing future amounts collectible from customers, corresponding to additional deferred income taxes not previously recorded because of prior ratemaking practices, amounted to \$86.6 million and \$84.2 million at September 30, 2001 and 2000, respectively.

Note D - Capitalization

Summary of Changes in Common Stock Equity

<i>(Thousands, Except Per Share Amounts)</i>	Common Stock Shares	Common Stock Amount	Paid In Capital	Ear Reinv i Bus
Balance at September 30, 1998	76,938	\$76,938	\$377,770	\$428
Net Income Available for Common Stock				115
Dividends Declared on Common Stock (\$0.92 Per Share)				(70)
Other Comprehensive Loss, Net of Tax				
Common Stock Issued Under Stock and Benefit Plans	736	736	15,345	
Balance at September 30, 1999	77,674	77,674	393,115	472
Net Income Available for Common Stock				127
Dividends Declared on Common Stock (\$0.95 Per Share)				(73)
Other Comprehensive Loss, Net of Tax				
Acquisition of Natural Gas Assets	110	110	2,702	
Common Stock Issued Under Stock and Benefit Plans	876	876	17,070	
Balance at September 30, 2000	78,660	78,660	412,887	525
Net Income Available for Common Stock				65,499
Dividends Declared on Common Stock (\$0.99 Per Share)				(77,858)
Other Comprehensive Income, Net of Tax				9,100
Common Stock Issued Under Stock and Benefit Plans	746	746	17,731	
Balance at September 30, 2001	79,406	\$79,406	\$513,488(1)	\$(20)

⁽¹⁾ The availability of consolidated earnings reinvested in the business for dividends payable in cash is limited under terms of the indentures covering long-term debt. At September 30, 2001, \$439.1 million of accumulated earnings was free of such limitations.

Common Stock

The Company has various plans which allow shareholders, customers and employees to purchase shares of Company common stock. The National Fuel Direct Stock Purchase and Dividend Reinvestment Plan allows shareholders to reinvest cash dividends or make cash investments in the Company's common stock and provides residential customers the opportunity to acquire shares of Company common stock without the payment of any brokerage commissions or

service charges in connection with such acquisitions. The 401(k) Plans allow employees the opportunity to invest in Company common stock, in addition to a variety of other investment alternatives. At the discretion of the Company, shares purchased under these plans are either original issue shares purchased directly from the Company or shares purchased on the open market by an agent.

The Company also has a Director Stock Program under which it issues shares of Company common stock to its non-employee directors as partial consideration for their services as directors.

Shareholder Rights Plan

In 1996, the Company's Board of Directors adopted a shareholder rights plan (Plan). Effective April 30, 1999, the Plan was amended and is now embodied in an Amended and Restated Rights Agreement, under which the Board of Directors made adjustments in connection with the two-for-one stock split of September 7, 2001.

The holders of the Company's common stock have one right (Right) for each of their shares. Each Right, which will initially be evidenced by the Company's common stock certificates representing the outstanding shares of common stock, entitles the holder to purchase one-half of one share of common stock at a purchase price of \$65.00 per share, being \$32.50 per half share, subject to adjustment (Purchase Price).

The Rights become exercisable upon the occurrence of a distribution date. At any time following a distribution date, each holder of a Right may exercise its right to receive common stock (or, under certain circumstances, other property of the Company) having a value equal to two times the Purchase Price of the Right then in effect. However, the Rights are subject to redemption or exchange by the Company prior to their exercise as described below.

A distribution date would occur upon the earlier of (i) ten days after the public announcement that a person or group has acquired, or obtained the right to acquire, beneficial ownership of the Company's common stock or other voting stock having 10% or more of the total voting power of the Company's common stock and other voting stock and (ii) ten days after the commencement or announcement by a person or group of an intention to make a tender or exchange offer that would result in that person acquiring, or obtaining the right to acquire, beneficial ownership of the Company's common stock or other voting stock having 10% or more of the total voting power of the Company's common stock and other voting stock.

In certain situations after a person or group has acquired beneficial ownership of 10% or more of the total voting power of the Company's stock as described above, each holder of a Right will have the right to exercise its Rights to receive common stock of the acquiring company having a value equal to two times the Purchase Price of the Right then in effect. These situations would arise if the Company is acquired in a merger or other business combination or if 50% or more of the Company's assets or earning power are sold or transferred.

At any time prior to the end of the business day on the tenth day following the announcement that a person or group has acquired, or obtained the right to acquire, beneficial ownership of 10% or more of the total voting power of the Company, the Company may redeem the Rights in whole, but not in part, at a price of \$0.005 per Right, payable in cash or stock. A decision to redeem the Rights requires the vote of 75% of the Company's full Board of Directors. Also, at any time following the announcement that a person or group has acquired, or obtained the right to acquire, beneficial ownership of 10% or more of the total voting power of the Company, 75% of the Company's full Board of Directors may vote to exchange the Rights, in whole or in part, at an exchange rate of one share of common stock, or other property deemed to have the same value, per Right, subject to certain adjustments.

After a distribution date, Rights that are owned by an acquiring person will be null and void. Upon exercise of the Rights, the Company may need additional regulatory approvals to satisfy the requirements of the Rights Agreement. The Rights will expire on July 31, 2008, unless they are exchanged or redeemed earlier than that date.

The Rights have anti-takeover effects because they will cause substantial dilution of the common stock if a person attempts to acquire the Company on terms not approved by the Board of Directors.

Stock Option and Stock Award Plans

The Company has various stock option and stock award plans which provide or provided for the issuance of one or more of the following to key employees: incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, performance units or performance shares. Stock options under all plans have exercise prices equal to the average market price of Company common stock on the date of grant, and generally no option is exercisable less than one year or more than ten years after the date of each grant.

For the years ended September 30, 2001, 2000 and 1999, no compensation expense was recognized for options granted under these plans. Had compensation expense for stock options granted under the Company's stock option and stock award plans been determined based on fair value at the grant dates, the Company's net income and earnings per share would have been reduced to the pro forma amounts below:

Year Ended September 30	2001	2000	1999
Net Income (Thousands):			
As reported	\$65,499	\$127,207	\$115,037
Pro forma	\$59,108	\$123,107	\$111,385
Earnings Per Common Share:			
Basic - As reported	\$0.83	\$1.63	\$1.49
Basic - Pro forma	\$0.75	\$1.58	\$1.44
Diluted - As reported	\$0.82	\$1.61	\$1.47
Diluted - Pro forma	\$0.73	\$1.56	\$1.43

Transactions involving option shares for all plans are summarized as follows:

		Number of Shares Subject to Option
Outstanding at September 30, 1998		5,463,792
Granted in 1999		1,506,800
Exercised in 1999(1)		(223,008)
Forfeited in 1999		(19,400)
Outstanding at September 30, 1999		6,728,184
Granted in 2000		1,782,200
Exercised in 2000(1)		(455,484)
Forfeited in 2000		(27,800)
Outstanding at September 30, 2000	8,027,100	\$20.38
Granted in 2001	1,787,200	\$27.61
Exercised in 2001(1)	(372,040)	\$15.89
Forfeited in 2001	(69,574)	\$22.36
Outstanding at September 30, 2001	9,372,686	\$21.92
Option shares exercisable at September 30, 2001	7,269,160	\$20.43
Option shares available for future grant at September 30, 2001(2)	540,450	

(1) In connection with exercising these options, 78,850, 116,916 and 33,062 shares were surrendered and canceled during 2001, 2000 and 1999, respectively.

(2) Including shares available for restricted stock grants. Subsequent to September 30, 2001, the shareholders approved an additional 6 million shares available for granting.

The weighted average fair value per share of options granted in 2001, 2000 and 1999 was \$5.25, \$4.17 and \$3.72, respectively. These weighted average fair values were estimated on the date of grant using a binomial option pricing model with the following weighted average assumptions:

Year Ended September 30	2001	2000	1999
Quarterly Dividend Yield	0.87%	1.07%	0.97%
Annual Standard Deviation (Volatility)	20.51%		19.05%
Risk Free Rate	5.26%	6.74%	4.74%
Expected Term - in Years	5.0	5.5	5.0

The following table summarizes information about options outstanding at September 30, 2001:

Options Outstanding				Option
Range of Exercise Price	Number Outstanding at 9/30/01	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at 9/30/01
\$11.12 - \$16.68	1,130,542	2.9 years	\$14.84	1,130,542
\$16.69 - \$22.24	3,453,470	6.6 years	\$20.28	3,403,470
\$22.25 - \$27.80	4,788,674	7.8 years	\$24.78	2,735,140

Restricted stock is subject to restrictions on vesting and transferability. Restricted stock awards entitle the participants to full dividend and voting rights. The market value of restricted stock on the date of the award is being recorded as compensation expense over the periods during which the vesting restrictions exist. Certificates for shares of restricted stock awarded under the Company's stock options and stock award plans are held by the Company during the periods in which the restrictions on vesting are effective.

The following table summarizes the awards of restricted stock over the past three years:

Year Ended September 30	2001	2000	1999
Shares of Restricted Stock Awarded	4,000	15,178	13,160
Weighted Average Market Price of Stock on Award Date	\$27.80	\$24.47	\$23.03

As of September 30, 2001, 84,738 shares of non-vested restricted stock were outstanding. Vesting restrictions will lapse as follows: 2002 - 16,000 shares; 2003 - 32,610 shares; 2004 - 11,600 shares; 2005 - 9,600 shares; 2006 - 9,600 shares; 2007 - 4,000 shares; and 2009 - 1,328 shares.

Stock Appreciation Rights (SARs) give the grantee the right to cash compensation equal to the appreciation in the market price of Company common stock from the grant date to the exercise date. SARs are marked-to-market each quarter with the related increase or decrease in expense recognized in the income statement. At September 30, 2001, 3,303,308 SARs were outstanding at a weighted average exercise price of \$20.71.

Compensation (benefit) expense related to SARs and restricted stock under the Company's stock plans was (\$13.4) million, \$14.9 million and \$1.0 million for the years ended September 30, 2001, 2000 and 1999, respectively. Subsequent to September 30, 2001, the Company canceled substantially all of the SARs, issued non-qualified stock options and eliminated all future awards of SARs under its stock option plans. As a result, future earnings will not be materially impacted by SARs expense.

Redeemable Preferred Stock

As of September 30, 2001, there were 10,000,000 shares of \$1 par value Preferred Stock authorized but unissued.

Long-Term Debt

The outstanding long-term debt is as follows:

At September 30 (Thousands)	2001	2000
Debentures:		
7-3/4% due February 2004	\$ 125,000	\$ 125,000
Medium-Term Notes:		
6.00% to 8.48% due February 2000 to August 2027(1)	999,000	799,000

1,124,000	924,000	
Other Notes	32,129	40,884
Total Long-Term Debt	1,156,129	964,884
Less Current Portion	109,435	11,262
\$1,046,694	\$ 953,622	

⁽¹⁾ Includes \$50 million of 8.48% medium-term notes due July 2024 which are callable at a redemption price of 105.51% through July 2002. The redemption price will decline in subsequent years. Also includes \$100 million of 6.214% medium-term notes due August 2027 which are puttable by debt holders only on August 12, 2002, at par. The \$100 million of 6.214% medium-term notes are included in the current portion of long-term debt at September 30, 2001.

As of September 30, 2001, the aggregate principal amounts of long-term debt maturing for the next five years and thereafter are as follows: \$109.4 million in 2002, \$161.1 million in 2003, \$228.9 million in 2004, \$3.9 million in 2005, \$3.6 million in 2006 and \$649.2 million thereafter.

Note E - Short-Term Borrowings

The Company has SEC authorization under the Public Utility Holding Company Act of 1935, as amended, to borrow and have outstanding as much as \$750.0 million of short-term debt at any time through December 31, 2002.

The Company historically has borrowed short-term funds either through bank loans or the issuance of commercial paper. As for the former, the Company maintains uncommitted or discretionary lines of credit with certain financial institutions for general corporate purposes. Borrowings under these lines of credit are made at competitive market rates. These credit lines are revocable at the option of the financial institutions and are reviewed on an annual basis.

At September 30, 2001, the Company had outstanding short-term notes payable to banks and commercial paper of \$289.7 million (domestic = \$259.9 million; foreign = \$29.8 million) and \$200.0 million, respectively. At September 30, 2000, the Company had outstanding notes payable to banks and commercial paper of \$419.5 million (domestic = \$401.2 million; foreign = \$18.3 million) and \$200.0 million, respectively.

The weighted average interest rate on domestic notes payable to banks was 3.39% and 6.81% at September 30, 2001 and 2000, respectively. The interest rate on the foreign notes payable to banks was 4.65% and 5.73% at September 30, 2001 and 2000, respectively. The weighted average interest rate on commercial paper was 3.13% and 6.62% at September 30, 2001 and 2000, respectively.

Note F - Financial Instruments

Fair Values

The fair market value of the Company's long-term debt is estimated based on quoted market prices of similar issues having the same remaining maturities, redemption terms and credit ratings. Based on these criteria, the fair market value of long-term debt, including current portion, was as follows:

2001 Carrying At September 30	2001 Fair Amount (Thousands)	2000 Carrying Value	2000 Fair Amount	2000 Fair Value
Long-Term Debt	\$1,156,129	\$1,186,795	\$964,884	\$928,066

The fair value amounts are not intended to reflect principal amounts that the Company will ultimately be required to pay.

Temporary cash investments, notes payable to banks and commercial paper are stated at amounts which approximate their fair value due to the short-term maturities of those financial instruments. Investments in life insurance are stated at their cash surrender values as discussed below. Investments in a mutual fund and the stock of an insurance company (marketable equity securities), as discussed below, are stated at fair value based on quoted market prices.

Investments

Other assets includes cash surrender values of insurance contracts and marketable equity securities. The cash surrender values of the insurance contracts amounted to \$52.9 million and \$49.4 million at September 30, 2001 and 2000, respectively. The marketable equity securities amounted to \$10.0 million at both September 30, 2001 and 2000. The insurance contracts and marketable equity securities are primarily informal funding mechanisms for various benefit obligations the Company has to certain employees.

Derivative Financial Instruments

The Company uses a variety of derivative financial instruments to manage a portion of the market risk associated with the fluctuations in the price of natural gas and crude oil. These instruments can be categorized as price swap agreements, no cost collars, options and futures contracts.

Under the price swap agreements, the Company receives monthly payments from (or makes payments to) other parties based upon the difference between a fixed price and a variable price as specified by the agreement. The variable price is either a crude oil price quoted on the New York Mercantile Exchange (NYMEX) or a quoted natural gas price in "Inside FERC." These derivative financial instruments are accounted for as cash flow hedges. They are used to lock in a price for the anticipated sale of natural gas and crude oil production in the Exploration and Production segment. At September 30, 2001, the Company had natural gas price swap agreements covering a notional amount of 27.5 Bcf extending through 2003 at a weighted average fixed rate of \$3.77 per Mcf. The Company also had crude oil price swap agreements covering a notional amount of 6,643,980 bbls extending through 2003 at a weighted average fixed rate of \$22.15 per bbl. At September 30, 2001, the Company would have received a net \$18.2 million to terminate the price swap agreements.

Under the no cost collars, the Company receives monthly payments from (or makes payments to) other parties when a variable price falls below an established floor price (the Company receives payment from the counterparty) or exceeds an established ceiling price (the Company pays the counterparty). The variable price is either a crude oil price quoted on the NYMEX or a quoted natural gas price in "Inside FERC." These derivative financial instruments are accounted for as cash flow hedges. They are used to lock in a price range for the anticipated sale of natural gas and crude oil production in the Exploration and Production segment. At September 30, 2001, the Company had no cost collars on natural gas covering a notional amount of 9.2 Bcf extending through 2004 with a weighted average floor price of \$4.06 per Mcf and a weighted average ceiling price of \$5.36 per Mcf. The Company also had no cost collars on crude oil covering a notional amount of 2,730,000 bbls extending through 2004 with a weighted average floor price of \$21.94 per bbl and a weighted average ceiling price of \$27.25 per bbl. At September 30, 2001, the Company would have received \$13.5 million to terminate the no cost collars.

At September 30, 2001, the Company had purchased options outstanding on natural gas covering a notional amount of 2.7 Bcf extending through 2003 at a weighted average strike price of \$4.11 per Mcf. These derivative financial instruments are accounted for as cash flow hedges. They are used to establish a floor price (the Company receives payment from the counterparty when a variable price falls below the floor price) for the anticipated sale of natural gas in the Exploration and Production segment. At September 30, 2001, the Company would have received \$4.7 million to terminate these options.

At September 30, 2001, the Company had long (purchased) futures contracts covering 15.9 Bcf of gas extending through 2003 at a weighted average contract price of \$4.14 per Mcf. These derivative financial instruments are accounted for as fair value hedges. They are used by the Company's Energy Marketing segment to hedge against rising prices, a risk to which this segment is exposed due to the fixed price gas sales commitments that it enters into with commercial and industrial customers. The Company would have had to pay \$19.5 million to terminate these futures contracts at September 30, 2001.

At September 30, 2001, the Company had short (sold) futures contracts covering 2.7 Bcf of gas extending through 2003 at a weighted average contract price of \$4.39 per Mcf. These derivative financial instruments are accounted for as fair value hedges. They are used by the Company's Energy Marketing segment and All Other category to hedge against falling prices, a risk to which they are exposed on their gas storage inventory and fixed price gas purchase commitments. The Company would have received \$4.2 million to terminate these futures contracts at September 30, 2001.

The Company uses an interest rate swap to eliminate interest rate fluctuations on certain variable rate debt. Under the terms of the interest rate swap, which extends until 2002, the Company pays a fixed rate of 8.31% and receives a floating rate of six month Prague Interbank Offered Rate (PRIBOR). The interest rate swap is accounted for as a cash flow hedge. At September 30, 2001, the Company would have had to pay \$0.6 million to terminate the interest rate swap.

The Company may be exposed to credit risk on some of its derivative financial instruments. Credit risk relates to the risk of loss that the Company would incur as a result of nonperformance by counterparties pursuant to the terms of their contractual obligations. To mitigate such credit risk, management performs a credit check, and then on an ongoing basis monitors counterparty credit exposure. Management has obtained guarantees from the parent companies of the respective counterparties to its derivative financial instruments. At September 30, 2001, the Company's credit risk amounted to \$36.4 million of net fair value that was owed to the Company for its price swap agreements, no cost collars and puts. There are five counterparties that comprise this credit risk, with the minimum and maximum credit risk from any of the counterparties being 9% and 45%, respectively of the total fair value at September 30, 2001. One of the counterparties, Enron, representing 29% of the total fair value at September 30, 2001, filed for bankruptcy protection subsequent to September 30, 2001. The bankruptcy filing effectively terminated the natural gas and crude oil price swap agreements as well as the crude oil no cost collars that the Company had entered

into with Enron. The natural gas price swap agreements that were terminated covered 8.7 Bcf of production at a weighted average fixed rate of \$4.19 per Mcf through the end of 2002. The crude oil price swap agreements that were terminated covered 645,000 bbls of production in 2002 at a weighted average fixed rate of \$19.13 per bbl and 135,000 bbls of production in 2003 at a weighted average fixed rate of \$19.10 per bbl. The crude oil no cost collars covered 80,000 bbls of production in 2002 at a weighted average ceiling price of \$28.10 per bbl and a weighted average floor price of \$21.00 per bbl. The Company replaced the Enron natural gas price swap agreements with natural gas no cost collars with another counterparty. The new natural gas no cost collars cover 7.5 Bcf of production in 2002 at a weighted average ceiling price of \$4.21 per Mcf and a weighted average floor price of \$2.15 per Mcf. In the first quarter of 2002, the Company expects to establish a reserve for up to a maximum amount of \$10.7 million for what Enron owed the Company at the time of the termination of the derivative financial instruments (December 3, 2001). In accordance with SFAS 133, the amount of Accumulated Other Comprehensive Income associated with these cash flow hedges will be reclassified to the Consolidated Statement of Income when the hedged physical transactions occur, the majority of which will occur in 2002, as disclosed above.

Note G - Retirement Plan and Other Post-Retirement Benefits

The Company has a tax-qualified, noncontributory, defined-benefit retirement plan (Retirement Plan) that covers substantially all domestic employees of the Company. The Company provides health care and life insurance benefits for substantially all domestic retired employees under a post-retirement benefit plan (Post-Retirement Plan).

The Company's policy is to fund the Retirement Plan with at least an amount necessary to satisfy the minimum funding requirements of applicable laws and regulations and not more than the maximum amount deductible for federal income tax purposes. The Company has established Voluntary Employees' Beneficiary Association (VEBA) trusts for its Post-Retirement Plan. Contributions to the VEBA trusts are tax deductible, subject to limitations contained in the Internal Revenue Code and regulations and are made to fund employees' post-retirement health care and life insurance benefits, as well as benefits as they are paid to current retirees. Retirement Plan and Post-Retirement Plan assets primarily consist of equity and fixed income investments or units in commingled funds or money market funds.

The Company is fully recovering its net periodic pension and post-retirement benefit costs in its Utility and Pipeline and Storage segments in accordance with the applicable regulatory commission authorization. For financial reporting purposes, the difference between the amounts of pension cost and post-retirement benefit cost recoverable in rates and the amounts of such costs as determined by their actuary under applicable accounting principles is recorded as either a regulatory asset or liability, as appropriate. Pension and post-retirement benefit costs reflect the amount recovered from customers in rates during the year. Under the NYPSC's policies, the Company segregates the amount of such costs collected in rates, but not yet contributed to the Retirement and Post-Retirement Plans, into a regulatory liability account. This liability accrues interest at the NYPSC-mandated interest rate, and this interest cost is included in pension and post-retirement benefit costs. For purposes of disclosure, the liability also remains in the disclosed pension and post-retirement benefit liability amount because it has not yet been contributed.

Retirement Plan

Reconciliations of the Benefit Obligation, Retirement Plan Assets and Funded Status, as well as the components of Net Periodic Benefit Cost and the Weighted Average Assumptions are as follows:

Year Ended September 30 (Thousands)	2001	2000	1999
Change in Benefit Obligation			
Benefit Obligation at Beginning of Period	\$535,894	\$538,796	\$532,250
Service Cost	11,550	11,692	12,676
Interest Cost	39,061	37,954	36,299
Amendments	2,343	-	1,691
Actuarial (Gain) Loss	25,358	(20,216)	(13,598)
Benefits Paid	(34,160)	(32,332)	(30,522)
Benefit Obligation at End of Period	\$580,046	\$535,894	\$538,796
Change in Plan Assets			
Fair Value of Assets at Beginning of Period	\$569,936	\$537,958	\$509,393
Actual Return on Plan Assets	(19,248)	36,584	47,888
Employer Contribution	20,097	27,726	11,199
Benefits Paid	(34,160)	(32,332)	(30,522)
Fair Value of Assets at End of Period	\$536,625	\$569,936	\$537,958
Reconciliation of Funded Status			
Funded Status	\$(43,421)	\$34,042	\$(838)
Unrecognized Net Actuarial Gain	23,222	(62,008)	(45,853)
Unrecognized Transition Asset	(7,432)	(11,148)	(14,864)

Unrecognized Prior Service Cost	12,236	10,943	12,048
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Accrued Benefit Cost	\$(15,395)	\$(28,171)	\$(49,507)
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2001	2000	1999
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Weighted Average Assumptions as of September 30

Discount Rate	7.25%	7.50%	7.25%
Expected Return on Plan Assets	8.50%	8.50%	8.50%
Rate of Compensation Increase	5.00%	5.00%	5.00%

Year Ended September 30 (Thousands)

Components of Net Periodic Benefit Cost

Service Cost	\$11,550	\$ 11,692	\$ 12,676
Interest Cost	39,061	37,954	36,299
Expected Return on Plan Assets	(45,703)	(41,077)	(38,158)
Amortization of Prior Service Cost	1,050	1,106	1,012
Amortization of Transition Amount	(3,716)	(3,716)	(3,716)
Recognition of Actuarial (Gain) or Loss	(2,256)		60
Early Retirement Window	7,337	-	7,032
Net Amortization and Deferral for Regulatory Purposes	4,787	206	2,721
Net Periodic Benefit Cost	\$12,110	\$ 6,225	\$ 20,699

The effect of the discount rate change in 2001 was to increase the Benefit Obligation by \$15.6 million as of the end of the period. The effect of the discount rate change in 2000 was to decrease the Benefit Obligation as of the end of the period by \$15.3 million. A reduction in the salary increase assumption decreased the Benefit Obligation in 2001 by \$1.5 million as of the end of the period. In 2000, there was no change in the salary increase assumption.

Other Post-Retirement Benefits

Reconciliations of the Benefit Obligation, Post-Retirement Plan Assets and Funded Status, as well as the components of Net Periodic Benefit Cost and the Weighted Average Assumptions are as follows:

Year Ended September 30 (Thousands)	2001	2000	1999
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Change in Benefit Obligation

Benefit Obligation at Beginning of Period	\$ 266,460	\$ 255,615	\$ 256,983
Service Cost	4,234	4,156	4,493
Interest Cost	19,557	18,142	17,635
Plan Participants' Contributions	524	414	673
Amendments	33	-	-
Actuarial (Gain) Loss	26,661	(355)	(13,542)
Benefits Paid	(12,921)	(11,512)	(10,627)
Benefit Obligation at End of Period	\$ 304,548	\$ 266,460	\$ 255,615

Change in Plan Assets

Fair Value of Assets at Beginning of Period	\$ 176,357	\$ 149,884	\$ 122,870
Actual Return on Plan Assets	(19,685)	18,527	17,345
Employer Contribution	17,684	19,044	19,623
Plan Participants' Contributions	524	414	673
Benefits Paid	(12,921)	(11,512)	(10,627)
Fair Value of Assets at End of Period	\$ 161,959	\$ 176,357	\$ 149,884

Reconciliation of Funded Status

Funded Status	\$(142,589)	\$(90,103)	\$(105,731)	
Unrecognized Net Actuarial (Gain) Loss	52,832		(8,676)	(2,396)
Unrecognized Transition Obligation	85,526		92,653	99,780
Unrecognized Prior Service Cost	33		-	-
Accrued Benefit Cost	\$ (4,198)	\$ (6,126)	\$ (8,347)	

2001	2000	1999
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Weighted Average Assumptions as of September 30

Discount Rate	7.25%	7.50%	7.25%
Expected Return on Plan Assets	8.50%		8.50%
Rate of Compensation Increase	5.00%		5.00%

Year Ended September 30 (*Thousands*)**Components of Net Periodic Benefit Cost**

Service Cost	\$4,234	\$4,156	\$4,493	
Interest Cost	19,557	18,142	17,635	
Expected Return on Plan Assets	(14,787)		(12,574)	(10,134)
Amortization of Transition Obligation	7,127		7,127	7,127
Amortization of (Gain) Loss	(374)		(24)	1,304
Net Amortization and Deferral for Regulatory Purposes	4,075	7,269	1,774	
Net Periodic Benefit Cost	\$19,832	\$ 24,096	\$ 22,199	

The effect of the discount rate change in 2001 was to increase the Benefit Obligation by \$9.8 million. The effect of the discount rate change in 2000 was to decrease the Benefit Obligation by \$8.9 million.

The health care trend assumptions were changed in 2000 to better reflect anticipated future experience. The effect of the changed medical care, prescription drug and Medicare Part B assumptions was to increase the Accumulated Postretirement Benefit Obligation by \$13.7 million. In 2001, there was no change in these assumptions.

The annual rate of increase in the per capita cost of covered medical care benefits was assumed to be 8.0% for 1999, 10.0% for 2000, 9.0% for 2001 and gradually decline to 5.5% by the year 2005 and remain level thereafter. The annual rate of increase for medical care benefits provided by healthcare maintenance organizations was assumed to be 7.0% in 1999, 10.0% in 2000, 9.0% in 2001 and gradually decline to 5.5% by the year 2005 and remain level thereafter. The annual rate of increase in the per capita cost of covered prescription drug benefits was assumed to be 8.0% for 1999, 15.0% for 2000, 13.0% for 2001 and gradually decline to 5.5% by the year 2005 and remain level thereafter. The annual rate of increase in the per capita Medicare Part B Reimbursement was assumed to be 8.0% for 1999, 10.0% for 2000, 9.0% for 2001 and gradually decline to 5.5% by the year 2005 and remain level thereafter.

The health care cost trend rate assumptions used to calculate the per capita cost of covered medical care benefits have a significant effect on the amounts reported. If the health care cost trend rates were increased by 1% in each year, the Benefit Obligation as of October 1, 2001 would be increased by \$43.1 million. This 1% change would also have increased the aggregate of the service and interest cost components of net periodic post-retirement benefit cost for 2001 by \$3.8 million. If the health care cost trend rates were decreased by 1% in each year, the Benefit Obligation as of October 1, 2001 would be decreased by \$35.4 million. This 1% change would also have decreased the aggregate of the service and interest cost components of net periodic post-retirement benefit cost for 2001 by \$3.0 million.

Note H - Commitments and Contingencies

Environmental Matters

The Company is subject to various federal, state and local laws and regulations relating to the protection of the environment. The Company has established procedures for the ongoing evaluation of its operations, to identify potential environmental exposures and to comply with regulatory policies and procedures.

It is the Company's policy to accrue estimated environmental clean-up costs (investigation and remediation) when such amounts can reasonably be estimated and it is probable that the Company will be required to incur such costs. The Company has estimated its remaining clean-up costs related to the sites described below in paragraphs (i) and (ii) will be in the range of \$5.4 million to \$6.4 million. The minimum estimated liability of \$5.4 million has been recorded on the Consolidated Balance Sheet at September 30, 2001. Other than as discussed below, the Company is currently not aware of any material exposure to environmental liabilities. However, adverse changes in environmental regulations, new information or other factors could impact the Company.

(i) Former Manufactured Gas Plant Sites

The Company has incurred or is incurring clean-up costs at four former manufactured gas plant sites in New York and Pennsylvania. Remediation is substantially complete at a site where the Company has been designated by the New York Department of Environmental Conservation (DEC) as a potentially responsible party (PRP). The Company is engaged in litigation regarding that site with the DEC and the party who bought the site from the Company's predecessor. At a second site, remediation is in progress. At a third site, the Company is negotiating with the DEC for clean-up under a voluntary program under which costs are expected to approximate \$1.4 million. The fourth site, which allegedly contains, among other things, manufactured gas plant waste, is in the investigation stage.

(ii) Third Party Waste Disposal Sites

The Company has been identified by the DEC or the United States Environmental Protection Agency as one of a number of companies considered to be PRPs with respect to two waste disposal sites in New York which were operated by unrelated third parties. The PRPs are alleged to have contributed to the materials that may have been collected at such waste disposal sites by the site operators. The ultimate cost to the Company with respect to the remediation of these sites will depend on such factors as the remediation plan selected, the extent of site contamination, the number of additional PRPs at each site and the portion of responsibility, if any, attributed to the Company. The remediation has been completed at one site, with final payments pending. At a second waste disposal site, settlement was reached in the amount of \$5.5 million to be allocated among five PRPs. The allocation process is currently being determined. Further negotiations remain in process for additional settlements related to this site.

(iii) Other

The Company received, in 1998 and again in October 1999, notice that the DEC believes the Company is responsible for contamination discovered at an additional former manufactured gas plant site in New York. The Company, however, has not been named as a PRP. The Company responded to these notices that other companies operated that site before its predecessor did, that liability could be imposed upon it only if hazardous substances were disposed at the site during a period when the site was operated by its predecessor, and that it was unaware of any such disposal. The Company has not incurred any clean-up costs at this site nor has it been able to reasonably estimate the probability or extent of potential liability.

Other

The Company, in its Utility segment, has entered into contractual commitments in the ordinary course of business, including commitments to purchase capacity on nonaffiliated pipelines to meet customer gas supply needs. The majority of these contracts (representing 88% of contracted demand capacity) expire within the next five years. Costs incurred under these contracts are purchased gas costs, subject to state commission review, and are being recovered in customer rates. Management believes that, to the extent any stranded pipeline costs are generated by the unbundling of services in the Utility segment's service territory, such costs will be recoverable from customers.

The Company is involved in litigation arising in the normal course of its business. In addition to the regulatory matters discussed in Note B - Regulatory Matters, the Company is involved in other regulatory matters arising in the normal course of business that involve rate base, cost of service and purchased gas cost issues. While the resolution of such litigation or other regulatory matters could have a material effect on earnings and cash flows in the year of resolution, none of this litigation, and none of these other regulatory matters, are currently expected to have a material adverse effect on the financial condition of the Company.

Note I - Business Segment Information

The Company has six reportable segments: Utility, Pipeline and Storage, Exploration and Production, International, Energy Marketing and Timber. The breakdown of the Company's reportable segments is based upon a combination of factors including differences in products and services, regulatory environment and geographic factors.

The Utility segment operations are regulated by the NYPSC and the Pennsylvania Public Utility Commission (PaPUC) and are carried out by Distribution Corporation. Distribution Corporation sells natural gas to retail customers and provides natural gas transportation services in western New York and northwestern Pennsylvania.

The Pipeline and Storage segment operations are regulated by the Federal Energy Regulatory Commission (FERC) and are carried out by Supply Corporation and SIP. Supply Corporation transports and stores natural gas for utilities (including Distribution Corporation), natural gas marketers (including NFR) and pipeline companies in the northeastern United States markets. SIP, although not regulated itself by the FERC, holds a one-third partnership interest in the Independence Pipeline Company, whose rates, services and other matters are or are anticipated to be regulated by the FERC.

The Exploration and Production segment, through Seneca, is engaged in exploration for, and development and purchase of, natural gas and oil reserves in the Gulf Coast region of Texas and Louisiana, in California, in Wyoming, in the Appalachian region of the United States and in the provinces of Manitoba, Alberta and Saskatchewan in Canada. Seneca's production is, for the most part, sold to purchasers located in the vicinity of its wells.

The International segment's operations are carried out by Horizon. Horizon engages in foreign energy projects through the investment of its indirect subsidiaries as the sole or partial owner of various business entities. Horizon's current emphasis is the Czech Republic, where, through its subsidiaries, it owns majority interests in companies having district heating and power generation plants in the northern Bohemia region.

The Energy Marketing segment is comprised of NFR's operations. NFR is engaged in the retail marketing of natural gas and the performance of energy management services for industrial, commercial, public authority and residential end-users located in the northeastern United States.

The Timber segment's operations are carried out by the Northeast division of Seneca and by Highland. This segment has timber holdings in the northeastern United States and several sawmills and kilns in Pennsylvania.

The data presented in the tables below reflect the reportable segments and reconciliations to consolidated amounts. The accounting policies of the segments are the same as those described in Note A - Summary of Significant Accounting Policies. Sales of products or services between segments are billed at regulated rates or at market rates, as applicable. Expenditures for long-lived assets include additions to property, plant and equipment and equity investments in corporations (stock acquisitions) or partnerships, net of any cash acquired. The Company evaluates segment performance based on income before discontinued operations, extraordinary items and cumulative effects of changes in accounting (when applicable). When these items are not applicable, the Company evaluates performance based on net income.

Year Ended September 30, 2001 (Thousands)

	Utility	Pipeline and Storage	Exploration and Production	International	Energy Marketing	Timber	Total Reportable Segments	
Revenue from External Customers	\$1,214,614	\$81,057	\$ 398,344	\$97,910	\$259,206	\$42,091	\$2,093,222	\$7,130
Intersegment Revenues	20,033	90,034	-	-	-	-	110,067	11,192
Interest Expense	27,489	12,131	56,291	9,966	1,649	3,830	111,356	
Depreciation, Depletion and Amortization	36,607	23,746	98,408	12,634	212	3,186	174,793	119
Income Tax Expense	42,985	29,091	(36,075)	253	(1,660)	4,566	39,160	(2,281)
Significant Non-cash Item: Impairment of Oil and Gas Producing Properties	-	-	180,781	-	-	-	180,781	-
Segment Profit (Loss): Net Income	60,707	40,377	(32,284)	(3,042)	(3,432)	7,715	70,041	(4,277)

Expenditures for Additions to Long-Lived Assets	42,374	25,978	296,419	15,585	116	3,694	384,166
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At September 30, 2001 (Thousands)

Segment Assets	\$1,284,189	\$549,991	\$1,194,393	\$206,361	\$68,513	\$113,294	\$3,416,741	\$2
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Year Ended September 30, 2000 (Thousands)

	Utility	Pipeline and Storage	Exploration and Production	International	Energy Marketing	Timber	Total Reportable Segments
Revenue from External Customers	\$827,231	\$ 81,434	\$237,845	\$104,736	\$133,929	\$39,172	\$1,424,347
Intersegment Revenues	19,228	88,225	225	-	-	-	107,678
Interest Expense	31,655	13,311	42,034	12,353	774	4,750	104,877
Depreciation, Depletion and Amortization	35,842	23,379	69,583	11,110	209	1,948	142,071
Income Tax Expense	38,362	22,172	19,413	(1,783)	(4,372)	3,816	77,608
Segment Profit (Loss): Net Income	57,662	31,614	34,877	3,282	(7,790)	6,133	125,778
Expenditures for Additions to Long-Lived Assets	55,799	35,806 ⁽¹⁾	280,049	9,767	89	13,542	395,052

At September 30, 2000 (Thousands)

Segment Assets	\$1,233,639	\$552,059	\$1,088,066	\$202,622	\$ 47,121	\$107,402	\$3,230,909
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⁽¹⁾ Amount includes \$1.2 million in a stock-for-asset swap.

Year Ended September 30, 1999 (Thousands)

	Pipeline and	Exploration and	Energy	Total Reportabl
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	Utility	Storage	Production	International	Marketing	Timber	Segments
Revenue from External Customers	\$ 801,053	\$82,994	\$140,212	\$107,045	\$99,088	\$31,117	\$1,261,509
Intersegment Revenues	6,302	85,789	6,782	-	-	-	98,873
Interest Expense	29,659	13,147	34,409	11,451	234	2,208	91,108
Depreciation, Depletion and Amortization	34,215	22,690	55,750	10,473	165	1,476	124,769
Income Tax Expense	34,741	22,439	2,992	15	1,138	2,788	64,113
Segment Profit (Loss): Net Income	56,875	39,765	7,127	2,276	2,054	4,769	112,866
Expenditures for Additions to Long-Lived Assets	46,974	34,873	97,586	33,412	302	52,314	265,461

At September 30, 1999 (Thousands)

Segment Assets	\$1,178,185	\$542,962	\$727,557	\$255,042	\$18,676	\$98,830	\$2,821,252
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Geographic Information 2001 2000 1999

For the Year Ended September 30 (Thousands)

Revenues from External Customers(1):

United States	\$1,928,474	\$1,292,190	\$1,156,229
Czech Republic	97,910	104,736	107,045
Canada	73,968	28,351	-

\$2,100,352 \$1,425,277 \$1,263,274

At September 30 (Thousands)

Long-Lived Assets:

United States	\$2,645,764	\$2,488,180	\$2,369,840
Czech Republic	187,961	183,274	215,457
Canada	257,939	248,937	-

\$3,091,664 \$2,920,391 \$2,585,297

(1) Revenue is based upon the country in which the sale originates.

Note J - Stock Acquisitions

In June 2001, the Company acquired the outstanding shares of Player Petroleum Corporation (Player), an oil and gas exploration and development company, with operations based primarily in the Province of Alberta, Canada. The cost of acquiring the outstanding shares of Player was approximately \$90.6 million and the acquisition was accounted for in accordance with the purchase method. Player's results of operations were incorporated into the Company's

consolidated financial statements for the period subsequent to the completion of the acquisition on June 30, 2001.

In June 2000, the Company acquired the outstanding shares of Tri Link Resources, Ltd. (Tri Link), a Calgary, Alberta-based oil and gas exploration and production company. The cost of acquiring the outstanding shares of Tri Link was approximately \$123.8 million and the acquisition was accounted for in accordance with the purchase method. Tri Link's results of operations were incorporated into the Company's consolidated financial statements for the period subsequent to the completion of the acquisition on June 15, 2000.

Details of the stock acquisitions made by the Company during 2001 and 2000 are as follows:

Year Ended September 30 (Millions)

2001	2000
Assets acquired \$175.1	\$259.9
Liabilities assumed (84.5)	(136.1)
Cash paid \$90.6	\$123.8

Total goodwill outstanding amounted to \$11.1 million and \$12.1 million at September 30, 2001 and 2000, respectively. This goodwill is recorded in Other Assets and is being amortized over a maximum period of twenty years.

Note K - Quarterly Financial Data (unaudited)

In the opinion of management, the following quarterly information includes all adjustments necessary for a fair statement of the results of operations for such periods. Per common share amounts are calculated using the weighted average number of shares outstanding during each quarter. The total of all quarters may differ from the per common share amounts shown on the Consolidated Statement of Income. Those per common share amounts are based on the weighted average number of shares outstanding for the entire fiscal year. Because of the seasonal nature of the Company's heating business, there are substantial variations in operations reported on a quarterly basis.

Quarter Ended	Operating Revenues	Operating Income (Loss)	Net Income (Loss) Available for Common Stock	Earning Comm Basic
<i>2001 (Thousands, except per common share amounts)</i>				
12/31/2000	\$559,504	\$75,121	\$52,984(1)	\$0.67
3/31/2001	\$879,869	\$103,572	\$75,275(2)	\$0.95
6/30/2001	\$406,494	\$59,603	\$36,618	\$0.46
9/30/2001	\$254,485	\$ (79,566)	\$ (99,378) (3)	\$ (1.25)
<i>2000 (Thousands, except per common share amounts)</i>				
12/31/1999	\$377,031	\$70,237	\$ 44,868	\$ 0.58
3/31/2000	\$517,767	\$91,074	\$ 71,051	\$ 0.91
6/30/2000	\$281,201	\$30,043	\$ 9,070(4)	\$ 0.12
9/30/2000	\$249,278	\$26,914	\$ 2,218(5)	\$ 0.03

(1) Includes expense of \$7.5 million related to Stock Appreciation Rights (SARs), expense of \$1.2 million related to early retirement offers and income of \$2.6 million related to the termination of a long-term transportation contract.

(2) Includes income of \$9.7 million related to SARs and expense of \$4.2 million related to early retirement offers.

(3) Includes income of \$5.3 million related to SARs and expense of \$104.0 million related to the impairment of oil and gas assets.

(4) Includes expense of \$14.2 million related to mark-to-market and other revenue adjustments related to derivative financial instruments and expense of \$3.5 million related to SARs.

(5) Includes expense of \$6.6 million related to SARs, expense of \$3.7 million for adjustments related to the New York rate settlement, expense of \$1.6 million related to the recording of a loss contingency on fixed price sales contracts and income of \$3.9 million related to mark-to-market and other revenue adjustments related to derivative financial instruments.

Note L - Market for Common Stock and Related Shareholder Matters (unaudited)

At September 30, 2001, there were 20,345 holders of National Fuel Gas Company common stock. The common stock is listed and traded on the New York Stock Exchange. Information related to restrictions on the payment of dividends can be found in Note D Capitalization. The quarterly price ranges and quarterly dividends declared for the fiscal years ended September 30, 2001 and 2000, are shown below:

Quarter Ended	Price Range	
	High	L
2001		
12/31/2000	\$32.25	\$25.
3/31/2001	\$31.60	\$25.
6/30/2001	\$28.99	\$25.
9/30/2001	\$26.38	\$21.
2000		
12/31/1999	\$26.47	\$23.
3/31/2000	\$23.38	\$19.
6/30/2000	\$25.97	\$21.
9/30/2000	\$29.41	\$24.

Note M - Supplementary Information for Oil and Gas Producing Activities

The following supplementary information is presented in accordance with SFAS No. 69, "Disclosures about Oil and Gas Producing Activities," and related SEC accounting rules. All monetary amounts are expressed in U.S. dollars.

Capitalized Costs Relating to Oil and Gas Producing Activities

At September 30 (Thousands)

2001	2000	
Proved Properties	\$1,586,889	\$1,218,871
Unproved Properties	152,326	152,360
	1,739,215	1,371,231
Less - Accumulated Depreciation, Depletion and Amortization	675,256	390,267
	\$1,063,959	\$980,964

Costs related to unproved properties are excluded from amortization as they represent unevaluated properties that require additional drilling to determine the existence of oil and gas reserves. Following is a summary of such costs excluded from amortization at September 30, 2001:

Total as of (Thousands) September 30, 2001	Year Costs Incurred				
	2001	2000	1999	Prior	
Acquisition Costs	\$152,326	\$35,272	\$72,797	\$4,675	\$39,582

Costs Incurred in Oil and Gas Property Acquisition, Exploration and Development Activities

Year Ended September 30 (Thousands)	2001	2000	1999
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United States

Property Acquisition Costs:			
Proved	\$ 1,713	\$ 2,848	\$ 2,798
Unproved	15,296	19,066	11,530
Exploration Costs	42,338	50,163	52,141
Development Costs	88,987	72,039	30,985
148,334	144,116	97,454	

Canada

Property Acquisition Costs:			
Proved	115,643	159,268	-
Unproved	2,612	77,198	-
Exploration Costs	8,523	573	-
Development Costs	36,554	11,013	-
163,332	248,052	-	

Total

Property Acquisition Costs: (1)			
Proved	117,356	162,116	2,798
Unproved	17,908	96,264	11,530
Exploration Costs	50,861	50,736	52,141
Development Costs	125,541	83,052	30,985
\$311,666	\$392,168	\$97,454	

(1) Total proved and unproved property acquisition costs for 2001 of \$135.3 million include \$107.6 million related to the Player acquisition. Total proved and unproved property acquisition costs for 2000 of \$258.4 million include \$236.5 million related to the Tri Link acquisition.

Results of Operations for Producing Activities

Year Ended September 30 (Thousands, Except Per Mcfe Amounts)	2001	2000	19
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United States

Operating Revenues:			
Natural Gas (includes revenues from sales to affiliates)			

of \$4, \$237 and \$6,365, respectively)	\$216,729	\$137,336	\$ 81,734
Oil, Condensate and Other Liquids	121,973	107,645	51,592
<hr/>			
Total Operating Revenues(1)	338,702	244,981	133,326
Production/Lifting Costs	37,068	33,979	28,119
Depreciation, Depletion and Amortization			
(\$1.13, \$0.97 and \$0.89 per Mcfe of production)	76,686		64,624
Income Tax Expense	83,649	52,656	16,255
<hr/>			
Results of Operations for Producing Activities			
(excluding corporate overheads and interest charges)	141,299		93,722
			34,51
<hr/>			
Canada			
<hr/>			
Operating Revenues:			
Natural Gas	4,379	485	-
Oil, Condensate and Other Liquids	74,349		26,320
<hr/>			
Total Operating Revenues(1)	78,728	26,805	-
Production/Lifting Costs	27,089	7,858	-
Depreciation, Depletion and Amortization			
(\$0.93, \$0.77 and \$ - per Mcfe of production)	18,719		4,321
Impairment of Oil and Gas Producing Properties(2)	180,781		-
Income Tax Expense (Benefit)	(63,795)	6,121	-
<hr/>			
Results of Operations for Producing Activities			
(excluding corporate overheads and interest charges)	(84,066)		8,505
<hr/>			
Total			
<hr/>			
Operating Revenues:			
Natural Gas (includes revenues from sales to affiliates			
of \$4, \$237 and \$6,365, respectively)	221,108	137,821	81,734
Oil, Condensate and Other Liquids	196,322	133,965	51,592
<hr/>			
Total Operating Revenues(1)	417,430	271,786	133,326
Production/Lifting Costs	64,157	41,837	28,119
Depreciation, Depletion and Amortization			
(\$1.08, \$0.95 and \$0.89 per Mcfe of production)	95,405		68,945
Impairment of Oil and Gas Producing Properties(2)	180,781		-
Income Tax Expense	19,854	58,777	16,255
<hr/>			
Results of Operations for Producing Activities			
(excluding corporate overheads and interest charges)	\$ 57,233		\$102,227
			\$ 34,513
<hr/>			

(1) Exclusive of hedging gains and losses. See further discussion in Note F - Financial Instruments.

(2) See discussion of impairment in Note A - Summary of Significant Accounting Policies.

Reserve Quantity Information (unaudited)

The Company's proved oil and gas reserves are located in the United States and Canada. The estimated quantities of proved reserves disclosed in the table below are based upon estimates by qualified Company geologists and engineers and are audited by independent petroleum engineers. Such estimates are inherently imprecise and may be subject to substantial revisions as a result of numerous factors including, but not limited to, additional development activity, evolving production history and continual reassessment of the viability of production under varying economic conditions.

	U.S.	Canada	Total	U.S.
Proved Developed and Undeveloped Reserves:				
September 30, 1998	325,065	-	325,065	66,591
Extensions and Discoveries	46,423	-	46,423	3,716
Revisions of				
Previous Estimates	(13,091)	-	(13,091)	9,808
Production	(37,166)	-	(37,166)	(4,016)
Sales of Minerals in Place	(439)	-	(439)	(280)
Purchases of Minerals in Place and Other	-	-	-	-
September 30, 1999	320,792	-	320,792	75,819
Extensions and Discoveries	34,641	-	34,641	2,167
Revisions of				
Previous Estimates	(8,001)	-	(8,001)	4,000
Production	(41,478)	(192)	(41,670)	(4,248)
Sales of Minerals in Place	(7,444)	-	(7,444)	(227)
Purchases of Minerals in Place and Other	-	3,349	3,349	-
September 30, 2000	298,510	3,157	301,667	77,511
Extensions and Discoveries	35,960	15,681	51,641	924
Revisions of				
Previous Estimates	(22,813)	(34)	(22,847)	1,737
Production	(39,188)	(1,816)	(41,004)	(4,796)
Sales of Minerals in Place	(6,066)	(280)	(6,346)	(685)
Purchases of Minerals in Place and Other	410	38,859	39,269	104
September 30, 2001	266,813	55,567	322,380	74,795
Proved Developed Reserves:				
September 30, 1998	230,508	-	230,508	48,081
September 30, 1999	222,929	-	222,929	57,333
September 30, 2000	227,250	3,157	230,407	66,074
September 30, 2001	213,792	53,463	267,255	50,640

Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Gas Reserves (unaudited)

The Company cautions that the following presentation of the standardized measure of discounted future net cash flows is intended to be neither a measure of the fair market value of the Company's oil and gas properties, nor an estimate of the present value of actual future cash flows to be obtained as a result of their development and production. It is based upon subjective estimates of proved reserves only and attributes no value to categories of reserves other than proved reserves, such as probable or possible reserves, or to unproved acreage. Furthermore, it is based on year-end prices and costs adjusted only for existing contractual changes, and it assumes an arbitrary discount rate of 10%. Thus, it gives no effect to future price and cost changes certain to occur under the widely fluctuating political and economic conditions of today's world.

The standardized measure is intended instead to provide a somewhat better means for comparing the value of the Company's proved reserves at a given time with those of other oil- and gas-producing companies than is provided by a simple comparison of raw proved reserve quantities.

Year Ended September 30 (Thousands)

2001 2000 1999

United States

Future Cash Inflows \$2,127,601 \$3,886,499 \$2,402,308

Less:

Future Production Costs	602,479	600,243	560,459
Future Development Costs	121,240	179,565	185,617
Future Income Tax Expense at Applicable Statutory Rate	376,667	1,006,366	477,205

Future Net Cash Flows **1,027,215** 2,100,325 1,179,027

Less:

10% Annual Discount for Estimated Timing of Cash Flows	421,865	859,950	471,768
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Standardized Measure of Discounted Future
Net Cash Flows **605,350** 1,240,375 707,259

Canada

Future Cash Inflows	890,381	1,083,598	-
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Less:

Future Production Costs	533,848	277,067	-
Future Development Costs	19,608	21,399	-
Future Income Tax Expense at Applicable Statutory Rate	76,191	286,148	-

Future Net Cash Flows **260,734** 498,984 -

Less:

10% Annual Discount for Estimated Timing of Cash Flows	79,295	221,227	-
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Standardized Measure of Discounted Future
Net Cash Flows **181,439** 277,757 -

Total

Future Cash Inflows	3,017,982	4,970,097	2,402,308
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Less:

Future Production Costs	1,136,327	877,310	560,459
Future Development Costs	140,848	200,964	185,617
Future Income Tax Expense at Applicable Statutory Rate	452,858	1,292,514	477,205

Future Net Cash Flows **1,287,949** 2,599,309 1,179,027

Less:

10% Annual Discount for Estimated Timing of Cash Flows	501,160	1,081,177	471,768
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Standardized Measure of Discounted Future
Net Cash Flows **\$ 786,789** \$1,518,132 \$707,259

The principal sources of change in the standardized measure of discounted future net cash flows were as follows:

Year Ended September 30 (Thousands)	2001	2000	1999
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United States

Standardized Measure of Discounted Future			
Net Cash Flows at Beginning of Year	\$1,240,375	\$707,259	\$466,771
Sales, Net of Production Costs	(301,634)	(211,002)	(53,615)
Net Changes in Prices, Net of Production Costs	(921,719)		795,408
Purchases of Minerals in Place	1,191	-	-
Sales of Minerals in Place	(17,552)	(11,914)	(2,706)
Extensions and Discoveries	52,062	186,818	122,894
Changes in Estimated Future Development Costs	(3,157)		(82,270)
			(97,082)

Previously Estimated Development Costs Incurred	61,482		88,322	72,349
Net Change in Income Taxes at				
Applicable Statutory Rate	363,425	(292,371)	(232,085)	
Revisions of Previous Quantity Estimates	(29,841)		20,736	40,964
Accretion of Discount and Other	160,718	39,389	72,413	

Standardized Measure of Discounted				
Future Net Cash Flows at End of Year	605,350	1,240,375	707,259	

Canada

Standardized Measure of Discounted Future				
Net Cash Flows at Beginning of Year	277,757	-	-	
Sales, Net of Production Costs	(51,638)	(18,948)	-	
Net Changes in Prices, Net of Production Costs	(161,461)		-	-
Purchases of Minerals in Place	30,575	424,072	-	
Sales of Minerals in Place	(761)	-	-	
Extensions and Discoveries	39,752	2,979	-	
Changes in Estimated Future Development Costs	(31,009)		-	-
Previously Estimated Development Costs Incurred	12,176		-	-
Net Change in Income Taxes at				
Applicable Statutory Rate	73,865	(150,057)	-	
Revisions of Previous Quantity Estimates	(64,368)		-	-
Accretion of Discount and Other	56,551	19,711	-	

Standardized Measure of Discounted				
Future Net Cash Flows at End of Year	181,439	277,757	-	

Total

Standardized Measure of Discounted Future				
Net Cash Flows at Beginning of Year	1,518,132	707,259	466,771	
Sales, Net of Production Costs	(353,272)	(229,950)	(53,615)	
Net Changes in Prices, Net of Production Costs	(1,083,180)		795,408	317,356
Purchases of Minerals in Place	31,766	424,072	-	
Sales of Minerals in Place	(18,313)	(11,914)	(2,706)	
Extensions and Discoveries	91,814	189,797	122,894	
Changes in Estimated Future Development Costs	(34,166)		(82,270)	(97,082)
Previously Estimated Development Costs Incurred	73,658		88,322	72,349
Net Change in Income Taxes at				
Applicable Statutory Rate	437,290	(442,428)	(232,085)	
Revisions of Previous Quantity Estimates	(94,209)		20,736	40,964
Accretion of Discount and Other	217,269	59,100	72,413	

Standardized Measure of Discounted				
Future Net Cash Flows at End of Year	\$ 786,789	\$1,518,132	\$707,259	

Schedule II - Valuation and Qualifying Accounts

[Back to Index of Financial Statements](#)

(Thousands)	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Additions Charged to Other Accounts(1)	Deduc
Year Ended September 30, 2001				
Reserve for Doubtful Accounts	\$12,013	\$ -	\$10,937	\$18,
Year Ended September 30, 2000				
Reserve for Doubtful Accounts	\$7,842	\$15,177	\$ -	

Year Ended September 30, 1999

Reserve for Doubtful Accounts

\$6,232

\$15,337

\$ 1

⁽¹⁾ Represents opening balance sheet reserve plus exchange rate impact of translating the Czech koruna to the U.S. dollar for Horizon.

⁽²⁾ Amounts represent net accounts receivable written-off.

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

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None

PART III

ITEM 10 Directors and Executive Officers of the Registrant

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The information required by this item concerning the directors of the Company is omitted pursuant to Instruction G of Form 10-K since the Company's definitive Proxy Statement for its February 21, 2002 Annual Meeting of Shareholders will be filed with the SEC not later than 120 days after September 30, 2001. The information concerning directors is set forth in the definitive Proxy Statement under the captions entitled "Nominees for Election as Directors for Three-Year Terms to Expire 2004," "Directors Whose Terms Expire in 2003," "Directors Whose Terms Expire in 2002," and "Compliance with Section 16(a) of the Securities Exchange Act of 1934" and is incorporated herein by reference. Information concerning the Company's executive officers can be found in Part I, Item 1, of this report.

ITEM 11 Executive Compensation

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The information required by this item is omitted pursuant to Instruction G of Form 10-K since the Company's definitive Proxy Statement for its February 21, 2002 Annual Meeting of Shareholders will be filed with the SEC not later than 120 days after September 30, 2001. The information concerning executive compensation is set forth in the definitive Proxy Statement under the captions "Executive Compensation" and "Compensation Committee Interlocks and Insider Participation" and, excepting the "Report of the Compensation Committee" and the "Corporate Performance Graph," is incorporated herein by reference.

ITEM 12 Security Ownership of Certain Beneficial Owners and Management

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(a) Security Ownership of Certain Beneficial Owners

The information required by this item is omitted pursuant to Instruction G of Form 10-K since the Company's definitive Proxy Statement for its February 21, 2002 Annual Meeting of Shareholders will be filed with the SEC not later than 120 days after September 30, 2001. The information concerning security ownership of certain beneficial owners is set forth in the definitive Proxy Statement under the caption "Security Ownership of Certain Beneficial Owners and Management" and is incorporated herein by reference.

(b) Security Ownership of Management

The information required by this item is omitted pursuant to Instruction G of Form 10-K since the Company's definitive Proxy Statement for its February 21, 2002 Annual Meeting of Shareholders will be filed with the SEC not later than 120 days after September 30, 2001. The information concerning security ownership of management is set forth in the definitive Proxy Statement under the caption "Security Ownership of Certain Beneficial Owners and Management" and is incorporated herein by reference.

(c) Changes in Control

None

ITEM 13 Certain Relationships and Related Transactions

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The information required by this item is omitted pursuant to Instruction G of Form 10-K since the Company's definitive Proxy Statement for its February 21, 2002 Annual Meeting of Shareholders will be filed with the SEC not later than 120 days after September 30, 2001. The information regarding certain relationships and related transactions is set forth in the definitive Proxy Statement under the caption "Compensation Committee Interlocks and Insider Participation" and is incorporated herein by reference.

PART IV

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

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(a)1. Financial Statements

Financial statements filed as part of this report are listed in the index and reference is made thereto.

(a)2. Financial Statement Schedules

Financial statements schedules filed as part of this report are listed in the 10-K, and reference is made thereto.

(a)3. Exhibits

Exhibit

Number Description of Exhibits

3(i) Articles of Incorporation:

- Restated Certificate of Incorporation of National Fuel Gas Company dated fiscal year ended September 30, 1998 in File No. 1-3880)

3(ii) By-Laws:

3.1 National Fuel Gas Company By-Laws as amended on September 20, 2001

(4) Instruments Defining the Rights of Security Holders, Including Indentures:

- Indenture, dated as of October 15, 1974, between the Company and The Bank of New York (Exhibit 2(b) in File No. 2-51796)
- Third Supplemental Indenture, dated as of December 1, 1982, to Indenture dated as of October 15, 1974, between the Company and The Bank of New York (formerly Irving Trust Company) (Exhibit 4(a)(4) in File No. 1-3880)
- Tenth Supplemental Indenture, dated as of February 1, 1992, to Indenture dated as of October 15, 1974, between the Company and The Bank of New York (formerly Irving Trust Company) (Exhibit 4(a), Form 8-K dated February 1, 1992 in File No. 1-3880)
- Eleventh Supplemental Indenture, dated as of May 1, 1992, to Indenture dated as of October 15, 1974, between the Company and The Bank of New York (formerly Irving Trust Company) (Exhibit 4(b), Form 8-K dated May 1, 1992 in File No. 1-3880)
- Twelfth Supplemental Indenture, dated as of June 1, 1992, to Indenture dated as of October 15, 1974, between the Company and The Bank of New York (formerly Irving Trust Company) (Exhibit 4(c), Form 8-K dated June 1, 1992 in File No. 1-3880)
- Thirteenth Supplemental Indenture, dated as of March 1, 1993, to Indenture dated as of October 15, 1974, between the Company and The Bank of New York (formerly Irving Trust Company) (Exhibit 4(a)(14) in File No. 1-3880)
- Fourteenth Supplemental Indenture, dated as of July 1, 1993, to Indenture dated as of October 15, 1974, between the Company and The Bank of New York (formerly Irving Trust Company) (Exhibit 4.1, Form 10-K dated July 1, 1993 in File No. 1-3880)
- Fifteenth Supplemental Indenture, dated as of September 1, 1996, to Indenture dated as of October 15, 1974, between the Company and The Bank of New York (formerly Irving Trust Company) (Exhibit 4.1, Form 10-K dated September 30, 1996 in File No. 1-3880)

- Indenture, dated as of October 1, 1999, between the Company and The Bank of New York, dated September 30, 1999 in File No. 1-3880)
- Officer's Certificate Establishing Medium-Term Notes, dated October 14, 1999 in File No. 1-3880)
- Amended and Restated Rights Agreement, dated as of April 30, 1999, between Form 10-Q for the quarterly period ended March 31, 1999 in File No. 1-3880)
- Certificate of Adjustment, dated September 7, 2001, to the Amended and Restated between the Company and HSBC Bank USA (Exhibit 4, Form 8-K dated September 7, 2001 in File No. 1-3880)

(10) Material Contracts:

(iii) Compensatory plans for officers:

- Retirement and Consulting Agreement, dated September 5, 2001, between the Company and the officer named in 10(iii)(a), Form 8-K dated September 19, 2001 in File No. 1-3880)
- Pension Settlement Agreement, dated September 5, 2001, between the Company and the officer named in 10(iii)(a), Form 8-K dated September 19, 2001 in File No. 1-3880)
- Employment Agreement, dated September 17, 1981, between the Company and Bernard J. K. 10.1, Form 10-K for fiscal year ended September 30, 1999 in File No. 1-3880)
- Tenth Amendment to Employment Agreement between the Company and Bernard J. K. 10.1, Form 10-K for fiscal year ended September 30, 1999 in File No. 1-3880)
- Agreement, dated August 1, 1986, between the Company and Joseph P. Pawlowski September 30, 1997 in File No. 1-3880)
- Agreement, dated August 1, 1986, between the Company and Gerald T. Wehrlin (Exhibit 10.1, Form 10-Q for the quarterly period ended June 30, 1999 in File No. 1-3880)
- Form of Employment Continuation and Noncompetition Agreements, dated as of December 31, 1999, between the Company and Philip C. Ackerman, Walter E. DeForest, Joseph P. Pawlowski, Dennis J. Seele (Exhibit 10.1, Form 10-Q for the quarterly period ended June 30, 1999 in File No. 1-3880)
- Severance Agreement, Release and Waiver dated March 27, 2000, between the Company and the officer named in 10(iii)(a) (Exhibit 10.2, Form 10-Q for the quarterly period ended March 31, 2000)
- Form of Employment Continuation and Noncompetition Agreement, dated as of December 31, 1999, between the Company and A. Beck (Exhibit 10.3, Form 10-Q for the quarterly period ended June 30, 1999 in File No. 1-3880)
- National Fuel Gas Company 1983 Incentive Stock Option Plan, as amended and restated through February 28, 1993 (Exhibit 10.1, Form 10-Q for the quarterly period ended March 31, 1993 in File No. 1-3880)
- National Fuel Gas Company 1984 Stock Plan, as amended and restated through February 28, 1993 (Exhibit 10.2, Form 10-Q for the quarterly period ended March 31, 1993 in File No. 1-3880)
- Amendment to the National Fuel Gas Company 1984 Stock Plan, dated December 11, 1996 (Exhibit 10.3, Form 10-Q for the quarterly period ended March 31, 1996 in File No. 1-3880)
- National Fuel Gas Company 1993 Award and Option Plan, dated February 18, 1993 (Exhibit 10.4, Form 10-Q for the quarterly period ended March 31, 1993 in File No. 1-3880)
- Amendment to National Fuel Gas Company 1993 Award and Option Plan, dated October 1, 1995 (Exhibit 10.5, Form 10-Q for the quarterly period ended March 31, 1995 in File No. 1-3880)
- Amendment to National Fuel Gas Company 1993 Award and Option Plan, dated December 31, 1996 (Exhibit 10.6, Form 10-Q for the quarterly period ended March 31, 1996 in File No. 1-3880)
- Amendment to National Fuel Gas Company 1993 Award and Option Plan, dated December 31, 1996 (Exhibit 10.7, Form 10-Q for the quarterly period ended March 31, 1996 in File No. 1-3880)

quarterly period ended December 31, 1996 in File No. 1-3880)

- 10.1 National Fuel Gas Company 1993 Award and Option Plan, amended through June 14, 2
- 10.2 National Fuel Gas Company 1997 Award and Option Plan, amended through June 14, 2
- 10.3 Amendment to National Fuel Gas Company Deferred Compensation Plan, dated June 15
 - National Fuel Gas Company Deferred Compensation Plan, as amended and restated for fiscal year ended September 30, 1994 in File No. 1-3880)
 - Amendment to National Fuel Gas Company Deferred Compensation Plan, dated Sep fiscal year ended September 30, 1996 in File No. 1-3880)
 - Amendment to National Fuel Gas Company Deferred Compensation Plan, dated Se fiscal year ended September 30, 1995 in File No. 1-3880)
 - National Fuel Gas Company Deferred Compensation Plan, as amended and restated 10-K for fiscal year ended September 30, 1997 in File No. 1-3880)
 - Amendment to National Fuel Gas Company Deferred Compensation Plan, dated Jun year ended September 30, 1997 in File No. 1-3880)
 - Amendment No. 2 to the National Fuel Gas Company Deferred Compensation Plan, for fiscal year ended September 30, 1998 in File No. 1-3880)
 - Amendment to the National Fuel Gas Company Deferred Compensation Plan, dated the quarterly period ended March 31, 1999 in File No. 1-3880)
- National Fuel Gas Company Tophat Plan, effective March 20, 1997 (Exhibit 10, 30, 1997 in File No. 1-3880)
- Amendment No. 1 to National Fuel Gas Company Tophat Plan, dated April 6, 1998 (September 30, 1998 in File No. 1-3880)
- Amendment No. 2 to National Fuel Gas Company Tophat Plan, dated December 10, 19 period ended December 31, 1998 in File No. 1-3880)
- Death Benefits Agreement, dated August 28, 1991, between the Company and Bern fiscal year ended September 30, 1991 in File No. 1-3880)
- Amendment to Death Benefit Agreement of August 28, 1991, between the Company a (Exhibit 10.11, Form 10-K for fiscal year ended September 30, 1995 in File No. 1
- Amended and Restated Split Dollar Insurance Agreement, effective June 15, 2000 Joseph B. Kennedy, as Trustee of the Trust under the Agreement dated January 9 quarterly period ended June 30, 2000 in File No. 1-3880)
- Contingent Benefit Agreement, effective June 15, 2000 between the Company and for the quarterly period ended June 30, 2000 in File No. 1-3880)
- Amended and Restated Split Dollar Insurance and Death Benefit Agreement, dat Philip C. Ackerman (Exhibit 10.5, Form 10-K for fiscal year ended September 30,
- Amendment Number 1 to Amended and Restated Split Dollar Insurance and Death Ben Philip C. Ackerman, dated March 23, 1999 (Exhibit 10.3, Form 10-K for fiscal ye 1-3880)
- Amended and Restated Split Dollar Insurance and Death Benefit Agreement, dated Joseph P. Pawlowski (Exhibit 10.7, Form 10-K for fiscal year ended September 30,
- Amendment Number 1 to Amended and Restated Split Dollar Insurance and Death Ben Joseph P. Pawlowski, dated March 23, 1999 (Exhibit 10.5, Form 10-K for fiscal

No. 1-3880)

- Second Amended and Restated Split Dollar Insurance Agreement dated June 15, 1999 (Exhibit 10.6, Form 10-K for fiscal year ended September 30, 1999 in File No. 1-3880)
- Amended and Restated Split Dollar Insurance and Death Benefit Agreement, dated March 29, 1999 (Exhibit 10.7, Form 10-K for fiscal year ended September 30, 1999 in File No. 1-3880)
- Amendment Number 1 to Amended and Restated Split Dollar Insurance and Death Benefit Agreement, dated March 29, 1999 (Exhibit 10.8, Form 10-K for fiscal year ended September 30, 1999 in File No. 1-3880)
- Amended and Restated Split Dollar Insurance and Death Benefit Agreement, dated March 29, 1999 (Exhibit 10.9, Form 10-K for fiscal year ended September 30, 1999 in File No. 1-3880)
- Amendment Number 1 to Amended and Restated Split Dollar Insurance and Death Benefit Agreement, dated March 29, 1999 (Exhibit 10.10, Form 10-K for fiscal year ended September 30, 1999 in File No. 1-3880)
- Split Dollar Insurance and Death Benefit Agreement dated September 15, 1997, (Exhibit 10.11, Form 10-K for fiscal year ended September 30, 1999 in File No. 1-3880)
- Amendment Number 1 to Split Dollar Insurance and Death Benefit Agreement by an Amendment, dated March 29, 1999 (Exhibit 10.12, Form 10-K for fiscal year ended September 30, 1999 in File No. 1-3880)
- Split Dollar Insurance and Death Benefit Agreement, dated September 15, 1997, (Exhibit 10.13, Form 10-K for fiscal year ended September 30, 1999 in File No. 1-3880)
- Amendment Number 1 to Split Dollar Insurance and Death Benefit Agreement dated March 29, 1999 (Exhibit 10.14, Form 10-K for fiscal year ended September 30, 1999 in File No. 1-3880)
- National Fuel Gas Company and Participating Subsidiaries Executive Retirement Plan, 1995 (Exhibit 10.10, Form 10-K for fiscal year ended September 30, 1995 in File No. 1-3880)
- National Fuel Gas Company and Participating Subsidiaries 1996 Executive Retirement Plan (Exhibit 10.13, Form 10-K for fiscal year ended September 30, 1996 in File No. 1-3880)
- Amendments to National Fuel Gas Company and Participating Subsidiaries Executive Retirement Plan (Exhibit 10.9, Form 10-K for fiscal year ended September 30, 1997 in File No. 1-3880)
- Amendments to National Fuel Gas Company and Participating Subsidiaries Executive Retirement Plan (Exhibit 10.2, Form 10-Q for the quarterly period ended December 31, 1998 in File No. 1-3880)
- Amendments to National Fuel Gas Company and Participating Subsidiaries Executive Retirement Plan (Exhibit 10.15, Form 10-K for fiscal year ended September 30, 1999 in File No. 1-3880)
- Amendment to National Fuel Gas Company and Participating Subsidiaries Executive Retirement Plan (Exhibit 10(iii)(c), Form 8-K dated September 19, 2001 in File No. 1-3880)
- Administrative Rules with Respect to at Risk Awards under the 1993 Award and Statement, Schedule 14(A) filed January 14, 2000 in File No. 1-3880)
- Administrative Rules with Respect to at Risk Awards under the 1997 Award and Statement, Schedule 14(A) filed January 14, 2000 in File No. 1-3880)
- Administrative Rules of the Compensation Committee of the Board of Directors restated, effective December 10, 1998 (Exhibit 10.3, Form 10-Q for the quarterly period ended December 31, 1998 in File No. 1-3880)
- Excerpts of Minutes from the National Fuel Gas Company Board of Directors

Retirement Benefits for Bernard J. Kennedy (Exhibit 10.10, Form 10-K for fiscal year No. 1-3880)

- Excerpts of Minutes from the National Fuel Gas Company Board of Directors Meeting Policy for Non-Employee Directors (Exhibit 10.11, Form 10-K for fiscal year 1-3880)

(12) Statements regarding Computation of Ratios: Ratio of Earnings to Fixed Charge 30, 1977 through 2001

(21) Subsidiaries of the Registrant:
See Item 1 of Part I of this Annual Report on Form 10-K

(23) Consents of Experts:

23.1 Consent of Ralph E. Davis Associates, Inc. regarding Seneca Resources Corporation

23.2 Consent of Ralph E. Davis Associates, Inc. regarding National Fuel Exploration Company

23.3 Consent of Ralph E. Davis Associates, Inc. regarding Player Resources Ltd.

23.4 Consent of Independent Accountants

(99) Additional Exhibits:

99.1 Report of Ralph E. Davis Associates, Inc. regarding Seneca Resources Corporation

99.2 Report of Ralph E. Davis Associates, Inc. regarding National Fuel Exploration Company

99.3 Report of Ralph E. Davis Associates, Inc. regarding Player Resources Ltd.

- Incorporated herein by reference as indicated.

All other exhibits are omitted because they are not applicable or the required information is shown elsewhere in this Annual Report on Form 10-K.

(b) Reports on Form 8-K

A report on Form 8-K dated September 19, 2001 was filed on September 21, 2001, to report the election of Philip C. Ackerman as Chief Executive Officer, under Item 5, "Other Events." Related exhibits were reported under Item 7, "Financial Statements, Pro Forma Financial Information and Exhibits."

A report on Form 8-K dated September 7, 2001 was filed on September 7, 2001, to report information related to the Company's two-for-one stock split, under Item 5, "Other Events." A related exhibit was reported under Item 7, "Financial Statements, Pro Forma Financial Information and Exhibits."

A report on Form 8-K dated July 25, 2001 was filed on July 27, 2001, to report the release of revised earnings projections for fiscal year 2002 for the Company and its subsidiary, Seneca Resources Corporation, under Item 5, "Other Events." Related exhibits were reported under Item 7, "Financial Statements, Pro Forma Financial Information and Exhibits."

Signatures

[Back to Table of Contents](#)

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

National Fuel Gas Company
(Registrant)

By /s/ B. J. Kennedy

B. J. Kennedy
Chairman of the Board

Date: December 13, 2001

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature**Title**

/s/ B. J. Kennedy Chairman of the Board

B. J. Kennedy

Date: December 13, 2001

/s/ P. C. Ackerman Chief Executive Officer,
P. C. Ackerman President, Principal Financial
Officer and Director

Date: December 13, 2001

/s/ R. T. Brady Director

R. T. Brady

Date: December 13, 2001

/s/ J. V. Glynn Director

J. V. Glynn

Date: December 13, 2001

/s/ W. J. Hill Director

W. J. Hill

Date: December 13, 2001

/s/ B. S. Lee Director

B. S. Lee

Date: December 13, 2001

/s/ E. T. Mann Director
E. T. Mann

Date: December 13, 2001

/s/ G. L. Mazanec Director
G. L. Mazanec

Date: December 13, 2001

/s/ J. F. Riordan Director
J. F. Riordan

Date: December 13, 2001

/s/ J. P. Pawlowski Treasurer and Principal
J. P. Pawlowski Accounting Officer

Date: December 13, 2001

APPENDIX TO ITEM 2 - PROPERTIES

Six maps outlining the Company's operating areas at September 30, 2001 are included on the back of the front cover and page 1 of the paper format version of the Company's Annual Report to Shareholders. The first map identifies the Company's Exploration and Production operating area (i.e., Seneca's operating area). The second map identifies the Company's Pipeline and Storage operating area (i.e., Supply Corporation's storage areas and pipelines). The third map identifies the Company's Utility operating area (i.e., Distribution Corporation's service area). The fourth map identifies the Company's Energy Marketing operating area (i.e., NFR's marketing service area). The fifth map identifies the Company's Timber operating area (i.e., Seneca's and Highland's timber and sawmill operations). The sixth map identifies the Company's International operating area (i.e., Horizon's Czech Republic operations).

APPENDIX TO ITEM 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION - GRAPHS

A. The Revenue Dollar - 2001

Two pie graphs detailing the revenue dollar in 2001: where it came from and where it went to, broken down as follows:

Where it came from:

\$.414 Residential Gas Sales
.161 Oil and Gas Production Revenues
.126 Commercial, Industrial and Off-System Gas Sales
.123 Energy Marketing Revenues
.051 Gas Transportation Revenues
.033 District Heating Revenues
.020 Timber and Sawmill Revenues
.014 Gas Storage Service Revenues
.012 Electric Generation Revenues
.046 Other Revenues
\$1.000 Total

Where it went to:

\$.495 Gas Purchased
.089 Wages, Including Benefits
.085 Impairment of Oil and Gas Producing Properties

.083 Other Materials and Services
 .083 Depreciation
 .057 Taxes
 .050 Interest
 .031 Earnings
 .026 Fuel Used in Heat and Electric Generation
 .001 Minority Interest in Foreign Subsidiaries
 \$1.000 Total

Exhibit Index

- 3.1 National Fuel Gas Company By-Laws as amended on September 20, 2001
- 10.1 National Fuel Gas Company 1997 Award and Option Plan, amended through June 14, 2001
- 10.2 National Fuel Gas Company 1997 Award and Option Plan, amended through June 14, 2001
- 10.3 Amendment to National Fuel Gas Company Deferred Compensation Plan, dated June 15, 2001
- (12) Statements regarding Computation of Ratios:
 Ratio of Earnings to Fixed Charges for the fiscal years ended September 30, 1977 through 2001
- 23.1 Consent of Ralph E. Davis Associates, Inc. regarding Seneca Resources Corporation
- 23.2 Consent of Ralph E. Davis Associates, Inc. regarding National Fuel Exploration Corp.
- 23.3 Consent of Ralph E. Davis Associates, Inc. regarding Player Resources Ltd.
- 23.4 Consent of Independent Accountants
- 99.1 Report of Ralph E. Davis Associates, Inc. regarding Seneca Resources Corporation
- 99.2 Report of Ralph E. Davis Associates, Inc. regarding National Fuel Exploration Corp.
- 99.3 Report of Ralph E. Davis Associates, Inc. regarding Player Resources Ltd.

Amended 2/21/85
 6/19/86
 7/07/88
 6/14/90
 6/18/92
 12/8/93
 6/09/94
 9/19/96
 1/01/97
 3/20/97
 6/19/97

9/18/97
9/17/98
6/17/99
9/16/99
2/17/00
6/15/00
9/13/01
9/20/01

NATIONAL FUEL GAS COMPANY
BY-LAWS

ARTICLE I

Meeting of Stockholders

1. Meetings of stockholders may be held at such place, within or without the State of New Jersey, as may be fixed by the Board of Directors and stated in the notice of the meeting.

2. In 1999 and thereafter, the annual meeting of stockholders shall be held on the third Thursday in February in each year beginning at ten o'clock in the forenoon, local time, unless such day shall be on a holiday, in which event such meeting shall be held at the same hour on the next succeeding business day. In 1998, the Annual Meeting of Stockholders shall be held on Thursday, February 26, 1998 at ten o'clock in the forenoon, local time.

3. Except as otherwise provided by New Jersey law, written notice of the time, place and purpose or purposes of every meeting of stockholders shall be given not less than 10 nor more than 60 days before the date of the meeting, either personally or by mail, to each stockholder of record entitled to vote at the meeting.

4. Unless otherwise provided by statute, all Special Meetings shall be called upon the written request of three or more directors or of stockholders owning one-fourth of the capital stock issued and outstanding.

5. Unless otherwise provided in the Company's Certificate of Incorporation or in New Jersey law, (i) the holders of shares entitled to cast a majority of the votes at any meeting of stockholders shall constitute a quorum at such meeting except that the votes that holders of any class or series of shares are entitled to cast shall not be counted in the determination of a quorum for action to be taken at a meeting with respect to which such class or series has no vote, and (ii) the holders of shares of any class or series entitled to cast a majority of the votes of such class or series entitled to vote separately on a specified item of business shall constitute a quorum of such class or series for the transaction of such specified item of business.

If a quorum shall not be so represented, the stockholders present at any meeting of stockholders shall have power to adjourn the meeting to another time at the same or at another place. If the time and place to which the meeting is adjourned are announced at the meeting at which the adjournment is taken and at the adjourned meeting only such business is transacted as might have been transacted at the original meeting, it shall not be necessary to give notice of the adjourned meeting unless after the adjournment the Board of Directors fixes a new record date for the adjourned meeting. In the event the Board of Directors fixes such a new record date, a notice of the adjourned meeting shall be given to each stockholder of record at the new record date entitled to notice under Article I paragraph 3 of these By-Laws.

6. At each election of Directors, the proxies and ballots shall be received and all questions respecting the qualification of voters shall be decided by two inspectors, who shall be appointed by the presiding officer of the meeting; provided however, that no candidate for election as Director shall act as inspector. Such inspectors shall be sworn faithfully to perform their duties and shall report in writing the results of the ballot.

7.A. Business transacted at an annual meeting of stockholders may include all such business as may properly come before the meeting. Nominations of persons for election to the Board of Directors and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders:

- (i) pursuant to the Corporation's notice of meeting;
- (ii) by or at the direction of the Board of Directors; or
- (iii) by any stockholder who was a stockholder of record at the time of giving of notice of the meeting, who is entitled to vote at the meeting and who complies with the notice procedures set forth in this Section 7.

B. For nominations or other business to be properly brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation and such other business must otherwise be a proper matter for stockholder action. Such stockholder's notice shall set forth:

- (i) as to each person whom the stockholder proposes to nominate for election or reelection as a director:
 - (a) the name, age, business address of such person,
 - (b) the principal occupation of employment of such person,
 - (c) the class and number of shares of the Corporation which are owned beneficially by such person, and
 - (d) all other information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case under applicable SEC regulations (as of February 1999, Regulation 14A under the Securities Exchange Act of 1934, as amended, and Rule 14a-11 thereunder), including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected;
- (ii) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and
- (iii) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made:
 - (a) the name and address of such stockholder, as they appear on the Corporation's books, and of such beneficial owner, and
 - (b) the class and number of shares of the Corporation which are owned beneficially and of record by such stockholder and such beneficial owner.

C. To be timely, a stockholder's notice under this Section 7 must be delivered to the Secretary at the principal executive offices of the Corporation not less than 110 days prior to the date corresponding to the date on which the Corporation first mailed its proxy materials for the prior year's annual meeting of stockholders; provided, however, that if both:

- (i) the date of the annual meeting is changed more than 30 days from the date corresponding to the date of the prior year's annual meeting; and
- (ii) notice (or, if earlier, public disclosure of the date of the annual meeting) is given or made to the stockholders of the Corporation less than 120 days before the date corresponding to the date on which the Corporation first mailed its proxy materials for the prior year's meeting of stockholders; then
- (iii) a stockholder's notice to be timely must be so received not later than the close of business on the tenth day following the date on which such notice (or, if earlier, such public disclosure of the date

of the annual meeting) was mailed or made by the Corporation.

In no event shall the public announcement of an adjournment of an annual meeting commence a new time period for the giving of a stockholder's notice under this Section 7.

D. Only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Section 7. Other than persons nominated by the full Board or any nominating committee thereof, only such persons who are nominated in accordance with the procedures set forth in this Section 7 shall be eligible to serve as directors. The chairman of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with the procedures set forth in this Section 7 and, if any proposed nomination or business is not in compliance with this Section 7, to declare that such defective proposal or nomination shall be disregarded, unless otherwise provided by any applicable law.

E. Notwithstanding the foregoing provisions of this Section 7, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 7. Nothing in this Section 7 shall be deemed to affect any rights of:

- (i) the stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act; or
- (ii) the holders of any series of Preferred Stock to elect directors under specified circumstances.

F. Business transacted at a special meeting of the stockholders shall be limited to the purposes set forth in the notice of the special meeting.

G. For purposes of this Section 7, the term "public disclosure" shall mean disclosure in a news release reported by the Dow Jones News Service, the Associated Press or a comparable national news service, or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Securities Exchange Act of 1934, as amended.

8. At each meeting of stockholders, the chairman of the meeting shall fix and announce the date and time of the opening and the closing of the polls for each matter upon which the stockholders will vote at the meeting and shall determine the order of business and all other matters of procedure. The Board of Directors may adopt by resolution such rules and regulations for the conduct of meetings of stockholders as it shall deem appropriate. Except to the extent inconsistent with any such rules and regulations as adopted by the Board of Directors, the chairman of the meeting may establish rules, which need not be in writing, to maintain order and safety and for the conduct of the meeting. Without limiting the foregoing, the chairman of the meeting may:

A. Determine and declare to the meeting that any business is not properly before the meeting and therefore shall not be considered;

B. Restrict attendance at any time to bona fide shareholders of record and their proxies and other persons in attendance at the invitation of the chairman of the meeting;

C. Restrict dissemination of solicitation materials and use of audio or visual recording devices at the meeting;

D. Adjourn the meeting without a vote of the stockholders, whether or not there is a quorum present; and

E. Make rules governing speeches and debate, including time limits and access to microphones.

ARTICLE II

Board of Directors

1. The Board of Directors shall consist of (i) such number of directors, not less than seven nor more than eleven,

as may be determined from time to time by resolution adopted by the affirmative vote of a majority of the entire Board of Directors, and (ii) such directors as may be elected by vote of the holders of shares of preferred stock, when and as provided in the Certificate of Incorporation of the Company. In order to qualify for election as a director, a nominee must be a shareholder of the Company.

2. Subject to the provisions of the Statutes of the State of New Jersey, the Certificate of Incorporation, and the By-Laws of the Corporation, the Board of Directors shall have full and complete management and control of the business and affairs of the Corporation.

3. The Board of Directors may hold its meetings or any adjournment thereof either in the State of New Jersey or elsewhere and keep the books of the Corporation at such places within or without the State of New Jersey as the Board of Directors may from time to time determine.

4. Meetings of the Board of Directors may be called at the direction of the Chairman of the Board, the President, or any three of the Directors for the time being in office.

5. Notice of any meetings of the Board of Directors shall be given to each Director by mailing the same to him at his last known address, as the same appears upon the records of the Corporation at least five days before the meeting or by telegraphing, telephoning or delivering the same to him personally at least one day before the meeting.

6. At any meeting of the Board of Directors, there may be transacted without special notice, any business within the powers of the Directors to transact, except that of which the Statutes of the State of New Jersey expressly require special notice shall be given.

7. A. A majority of the Directors in office shall constitute a quorum for the transaction of any business which may properly come before them. If a majority of said Directors shall not be present at any meeting, the Directors present shall have power to adjourn to a day certain, and notice of the adjourned meeting shall be given by mailing the same addressed to each Director at his address as the same appears upon the records of the Corporation, at least two days prior to the adjourned meeting, or by telegraphing, telephoning or delivering the same to him personally at least one day before said adjourned meeting. But, if a majority of the Board of Directors are present, the said meeting, or any adjourned meeting thereof, may be adjourned to a subsequent day; such adjournment may be without notice of such adjournment if such notice is not required by New Jersey Law (as of June 1997, N.J.S.A. 14A:6-10(2)).

B. Unless a greater vote is required by applicable law or by the Certificate of Incorporation of the Company or these By-laws (including, but not limited to, subparagraph C of this paragraph 7), any action approved by a majority of the votes of directors present at a meeting at which a quorum is present shall be the act of the Board of Directors.

C. Anything in these By-laws to the contrary notwithstanding, any action taken by the Board of Directors pursuant to the terms of any Rights Plan (as hereinafter defined) of the Company shall, unless otherwise provided by the terms of the Rights Plan, be approved by the affirmative vote of three-fourths (3/4ths) of the entire Board of Directors. For purposes of these By-laws, the term "Rights Plan" shall mean any plan pursuant to which shareholders of the Company are, upon the occurrence of certain specified events (including, but not limited to, the acquisition by any person of a specified number of shares of capital stock of the corporation), entitled to purchase shares of capital stock or other securities of either the Company or the acquiring person at a discounted price.

8. A. The Corporation shall indemnify any person who is or was a director or officer of the Corporation, to the fullest extent permitted and in the manner provided by the laws of the State of New Jersey, including, without limitation, the indemnification permitted by N.J.S. 14A:3-5(8), against all liabilities (including amounts paid or incurred in satisfaction of settlements, judgments, fines and penalties) and expenses (including, without limitation, attorneys' fees and disbursements) imposed upon or incurred by such person in connection with any pending, threatened or completed civil, criminal, administrative or arbitral action, suit or proceeding, and any appeal therein and any inquiry or investigation which could lead to such action, suit or proceeding ("Proceeding") in which such person may be made, or threatened to be made, a party, or in which such person may become involved by reason of such person being or having been a director or officer of the Corporation, or of serving or having served at the request of the Corporation as a director, officer, trustee, employee or agent of, or in any other capacity with, another foreign or domestic corporation, or any partnership, joint venture, sole proprietorship, employee benefit plan, trust or other

enterprise, whether or not for profit.

B. During the pendency of any such Proceeding, the Corporation shall, to the fullest extent permitted by law, promptly advance expenses (including, without limitation, attorneys' fees and disbursements) that are incurred, from time to time, in connection therewith by any such current or former director or officer of the Corporation, subject to the receipt by the Corporation of an undertaking of such person as required by law.

C. Nothing in this paragraph 8 shall restrict or limit the power of the Corporation to indemnify its employees, agents and other persons, to advance expenses (including attorneys' fees) on their behalf and to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation in connection with any Proceeding.

D. The indemnification provided by this paragraph 8 shall not exclude any other rights to which a person seeking indemnification may be entitled under the Certificate of Incorporation, By-Laws, agreement, vote of shareholders or otherwise. The indemnification provided by this paragraph 8 shall continue as to a person who has ceased to be a director or officer, and shall extend to the estate or personal representative of any deceased director or officer.

9. A. Each Director who is not a regular full-time employee of the Corporation or one or more of its subsidiaries, shall be paid an annual fee of \$14,000 in cash and 480 shares of the common stock of the Corporation, payable in equal quarterly increments, in advance (i.e., as of the first business day of the quarter). There will be proration of payments during quarters in which such Director has only partial service. Each such share of stock of the Corporation will be non-transferable until the later of two years from its issuance or six months after such Director's cessation of service.

B. Each Director of the Corporation who is not a regular full-time employee of the Corporation or one or more of its subsidiaries shall also receive a fee of \$1,200 for attendance at any meeting of the Board of Directors and a fee of \$800 for attendance at any meeting of any committee of the Board of Directors, except that if a Director participates in a committee meeting by telephone, the fee shall be \$500. Also a Director who is not a regular full-time employee of the Corporation or one or more of its subsidiaries and who has been appointed as Chairman of any committee of the Board of Directors shall be paid an annual retainer fee of \$3,000 for assuming these additional responsibilities. This retainer shall be paid July 1 of each year. Each Director shall be reimbursed for the travel expenses incurred by him or her in attending any meeting of the Board of Directors or any committee of the Board of Directors.

C. Each Director of the Corporation who is not a regular full-time employee of the Corporation or one or more of its subsidiaries shall be paid \$600 for each special consultation as a Director that is with or at the request of the Corporation's Chief Executive Officer.

10. Any contract or other transaction between the Corporation or a subsidiary of the Corporation and any other entity shall not be void or voidable because a Director of the Corporation is interested therein if the Corporation has complied with the provisions of any then-applicable New Jersey statute(s) necessary or sufficient to make the transaction not void or voidable, including, as of June 1997, N.J.S.A. 14A:6-8(1).

ARTICLE III

Officers

1. At the first meeting after the annual election, the Board of Directors shall choose a Chairman of the Board and a President, both of whom shall be members of the Board of Directors, and one or more Vice Presidents, a Secretary, a Treasurer and a Controller, who need not be members of the Board of Directors, and who shall hold their respective offices until others are chosen and qualify in their stead. The offices of Secretary and Treasurer may be filled by the same person.

2. In its discretion, the Board of Directors may leave unfilled for such period as it may determine, any office except the offices of the President, Treasurer and Secretary.

3. The Chairman of the Board shall preside at all meetings of the Board of Directors and at stockholders' meetings.

4. The Chief Executive Officer shall, during the recess of the Board of Directors, have general control and management of the affairs and business of the Corporation.

5. In addition to the duties and responsibilities specified in the laws of the State of New Jersey and these By-Laws, the President shall perform such other duties as from time to time may be assigned to him or her by the Board of Directors, and shall preside at stockholders' meetings in the absence of the Chairman of the Board. In the absence of the Chairman of the Board, or in the event that there is a vacancy in the office of the Chairman of the Board, the President shall be the Chief Executive Officer of the Corporation and shall perform all the duties of the Chairman of the Board as well as those of President.

6. Each Vice President shall perform such duties as shall from time to time be assigned to him by the Board of Directors, the Chairman of the Board, or the President.

7. The Secretary, in addition to his statutory duties, shall give proper notice of all meetings of the stockholders and of the Board of Directors. He shall act as Secretary of all meetings of the stockholders and shall perform such other duties as shall from time to time be assigned to him by the Board of Directors or President.

8. The Treasurer, in addition to his statutory duties, shall keep full and accurate accounts of receipts and disbursements of the funds belonging to the Corporation, and shall cause to be deposited all moneys and other valuable effects in the name and to the credit of the Corporation in such depositories as may from time to time be designated by the Board of Directors. He shall disburse the funds of the Corporation as may be ordered by the Board, taking proper vouchers for such disbursements, and shall render to the President and Directors whenever they may require it, account of all his transactions as Treasurer, and of the financial condition of the Corporation. He shall perform such other duties as shall be assigned to him by the Board or President, and shall give a bond for the faithful discharge of his duties in such sum and with such surety or sureties as the Board of Directors may from time to time require.

9. The Controller shall see that adequate records of all assets, liabilities and transactions of the Corporation are maintained; that adequate audits thereof, are currently and regularly made, and in conjunction with other officers, initiate and enforce measures and procedures whereby the business of the Corporation shall be conducted with maximum efficiency, safety and economy. He shall also perform all such other duties as usually pertain to the office of Controller. He shall be in all matters subject to the control of and responsible to the Board of Directors alone.

10. The Board of Directors may from time to time appoint such other officers and agents as they may deem necessary or advisable for the transaction of the business of the Corporation, who shall hold their offices during the pleasure of the Board of Directors and perform such duties as may from time to time be designated or assigned to them by said Board of Directors.

11. If the office of the Chairman of the Board, the President, Vice President, Secretary, Treasurer, or Controller or one or more of them becomes vacant for any reason whatsoever, the Board of Directors at any duly convened meeting may, by a majority vote of those present, fill such vacancy and the person elected shall hold office for the unexpired term of such office and until his successor shall be chosen.

12. All officers and agents chosen or appointed by the Board of Directors shall be subject to removal by the Board of Directors at any time with or without cause, and in the case of the absence of any officer or agent of the Corporation, or for any other reason that may seem sufficient to the Board of Directors, the said Board of Directors subject to the limitations herein contained and the statutes in such case made and provided, may, without removal, delegate his powers and duties to any other officer or suitable person for such period as it shall deem proper.

13. All duly authorized bonds and debentures of the Corporation shall be signed on behalf of the Corporation by its Chairman of the Board or its President, or one of its Vice Presidents or, if so provided by resolution of the Board of Directors, by one or more of such officers and such other officer or officers designated by the Board of Directors; any or all such signatures may be manual or facsimile signatures, the signature on interest coupons attached to any said bonds or debentures shall be a facsimile signature; and the corporate seal or a facsimile of such seal may be impressed, affixed, imprinted or otherwise reproduced on said bonds and debentures and, if attested, shall be attested by the Corporation's Secretary or Assistant Secretary by manual or facsimile signature. In case any person whose signature (manual or facsimile) appears upon any said bond or debenture or coupons attached thereto shall cease to be an officer

of the Corporation, or shall cease to be the officer specified thereon, before the bonds or debentures so signed shall have been authenticated by the trustee under the indenture or other instrument pursuant to which the bonds or debentures are delivered or sold, such bonds or debentures or coupons may nevertheless be adopted by the Corporation, without further action by the Board of Directors, and authenticated and delivered and sold as though the person or persons who so signed or attested such bonds or debentures or coupons had not ceased to be an officer of the Corporation or the officer specified thereof; and any bonds or debentures may be signed as aforesaid; and the seal of the Corporation impressed, affixed, imprinted or otherwise reproduced thereon may be attested on behalf of the Corporation as aforesaid, and coupons attached may be signed as aforesaid by such persons as at the actual date of the execution of the bonds or debentures or coupons shall be the proper officers of the Corporations, although at the time of the date of the bonds or debentures, such persons may not have been officers of the Corporation.

ARTICLE IV

Executive Committee

1. The Directors may appoint an executive committee and one or more other committees of not less than three members to be chosen from among the members of the Board of Directors. Such committees may meet at such times and places as the committee shall, by resolution, determine and it shall make its own rules of procedure. A majority of the members of any such committee shall constitute a quorum.

2. Except as otherwise provided by Board resolution or statute (as of June 1997, N.J.S.A. 14A:6-9(1)), each such committee shall have and may exercise the power of the Board of Directors in the management of the business and affairs of the Corporation at any time when the Board of Directors are not in session. Each such committee shall, however, be subject to the specific directions of the Board of Directors.

3. Each such committee shall keep regular minutes of their transactions and shall cause them to be recorded in books to be kept for that purpose in the office of the Corporation, and shall report the same to the Board of Directors at their regular meetings.

ARTICLE V

Transfer of Shares

1. Except as otherwise provided by statute, shares evidenced by certificates shall be transferred on the books of the Corporation only by the holder thereof in person or by his attorney upon the surrender and cancellation of the certificate or certificates of a like number of shares, except in the case of lost or destroyed certificates, and in that case only after the receipt of a satisfactory bond.

2. The Board of Directors may appoint a transfer agent and a registrar of transfers, and may, in the case of shares represented by certificates, require all stock certificates to bear the signature of either or both.

ARTICLE VI

Fiscal Year

1. The fiscal year of the Corporation shall begin on the 1st day of October in each calendar year and end on the 30th day of September of the next succeeding year.

ARTICLE VII

Dividends and Working Capital

1. Before declaring any dividends or making any distribution of profits, the Directors may set apart out of the net profits or out of the surplus of the Corporation as a reserve fund to be used as working capital or for any other proper purpose, such sum or sums as the Directors shall in their discretion deem just and proper and most for the benefit of the Corporation.

2. Dividends upon the capital stock of the Corporation when declared shall be payable on dates to be determined

by the Board of Directors.

ARTICLE VIII

Closing of Transfer Books and Fixing A Record Book

The Board of Directors may close the stock transfer books of the Corporation for a period not exceeding sixty days preceding the date of any meeting of stockholders or the date for payment of any dividend, or the date for the allotment of rights, or the date when any change or conversion or exchange of capital stock shall go into effect.

In lieu of so closing the stock transfer books, the Board of Directors may fix, in advance, a date, not exceeding sixty days preceding the date of any meeting of stockholders, or the date for the payment of any dividend, or the date for the allotment of rights, or the date when any change or conversion or exchange of capital stock shall go into effect, as a record date for the determination of the stockholders entitled to notice of, and to vote at, any such meeting, or entitled to receive payment of any such dividend, or any such allotment of rights, or to exercise the rights in respect to any such change, conversion or exchange of capital stock, and in such case only stockholders of record on the date so fixed shall be entitled to such notice of, and to vote at, such meeting, or to receive payment of such dividend, or allotment of rights or exercise of such rights, as the case may be, and notwithstanding any transfer of any stock on the books of the Corporation after any such record date fixed as aforesaid.

ARTICLE IX

Waiver of Notice

1. Any notice required to be given by these By-Laws may be waived by the person entitled thereto.

ARTICLE X

Seal

1. The common corporate seal is and until otherwise ordered by the Board of Directors shall be an impression upon paper or wax bearing the words - "NATIONAL FUEL GAS COMPANY, NEW JERSEY, INCORPORATED 1902".

ARTICLE XI

Amendment of By-Laws

1. Except as otherwise provided by statute, the Board of Directors shall have power to make, alter or repeal the By-Laws of the Corporation by a vote of a majority of all the Directors at any duly convened meeting of the Board, but any By-Laws so made or otherwise promulgated may be altered or repealed and new By-Laws made by the stockholders at any duly convened meeting thereof.

NATIONAL FUEL GAS COMPANY 1993 AWARD AND OPTION PLAN

As Amended October 27, 1995, December 11, 1996, December 18, 1996 and June 14, 2001

1. Purpose

The purposes of the Plan are to advance the interests of the Company and its stockholders, by providing a long-term incentive compensation program that will be an incentive to the Key Employees of the Company and its Subsidiaries whose contributions are important to the continued success of the Company and its Subsidiaries, and by enhancing their ability to attract and retain in their employ highly qualified persons for the successful conduct of their businesses.

2. Definitions

2.1 “*Acceleration Date*” means (i) in the event of a Change in Ownership, the date on which such change occurs, or (ii) with respect to a Participant who is eligible for treatment under paragraph 25 hereof on account of the termination of his employment following a Change in Control, the date on which such termination occurs.

2.2 “*Award*” means any form of stock option, stock appreciation right, Restricted Stock, performance unit, performance share or other incentive award granted by the Committee to a Participant under the Plan pursuant to such terms and conditions as the Committee may establish. An Award may be granted singly, in combination or in the alternative.

2.3 “*Award Notice*” means a written notice from the Company to a Participant that sets forth the terms and conditions of an Award in addition to those established by this Plan and by the Committee’s exercise of its administrative powers.

2.4 “*Board*” means the Board of Directors of the Company.

2.5 “*Cause*” means (i) the willful and continued failure by a Key Employee to substantially perform his duties with his employer after written warnings specifically identifying the lack of substantial performance are delivered to him by his employer, or (ii) the willful engaging by a Key Employee in illegal conduct which is materially and demonstrably injurious to the Company or a Subsidiary.

2.6 “*Change in Control*” shall be deemed to have occurred at such time as (i) any “person” within the meaning of Section 14(d) of the Exchange Act, other than the Company, a Subsidiary, or any employee benefit plan or plans sponsored by the Company or any Subsidiary, is or has become the “beneficial owner,” as defined in Rule 13d-3 under the Exchange Act, directly or indirectly, of twenty percent (20%) or more of the combined voting power of the outstanding securities of the Company ordinarily having the right to vote at the election of directors, or (ii) approval by the stockholders of the Company of (a) any consolidation or merger of the Company in which the Company is not the continuing or surviving corporation or pursuant to which shares of stock of the Company would be converted into cash, securities or other property, other than a consolidation or merger of the Company in which the common stockholders of the Company immediately prior to the consolidation or merger have substantially the same proportionate ownership of common stock of the surviving corporation immediately after the consolidation or merger as immediately before, or (b) any consolidation or merger in which the Company is the continuing or surviving corporation but in which the common stockholders of the Company immediately prior to the consolidation or merger do not hold at least a majority of the outstanding common stock of the continuing or surviving corporation (except where such holders of Common Stock hold at least a majority of the common stock of the corporation which owns all of the common stock of the Company), or (c) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all the assets of the Company, or (iii) individuals who constitute the Board on February 17, 1993 (the “Incumbent Board”) have ceased for any reason to constitute at least a majority thereof, provided that any person becoming a director subsequent to February 17, 1993 whose election, or nomination for election by the Company’s stockholders, was approved by a vote of at least three-quarters (3/4) of the directors comprising the Incumbent Board (either by specific vote or by approval of the proxy statement of the Company in which such person is named as nominee for director without objection to such nomination) shall be, for purposes of this Plan, considered as though such person were a member of the Incumbent Board.

2.7 “*Change in Control Price*” means, in respect of a Change in Control, the highest closing price per share paid for the purchase of Common Stock on the New York Stock Exchange, another national stock exchange or the National Association of Securities Dealers Automated Quotation System during the ninety (90) day period ending on the date the Change in Control occurs, and in respect of a Change in Ownership, the highest closing price per share paid for the purchase of Common Stock on the New York Stock Exchange, another national stock exchange or the National Association of Securities Dealers Automated Quotation System during the ninety (90) day period ending on the date the Change in Ownership occurs.

2.8 “*Change in Ownership*” means a change which results directly or indirectly in the Company’s Common Stock ceasing to be actively traded on a national securities exchange or the National Association of Securities Dealers Automated Quotation System.

2.9 “*Code*” means the Internal Revenue Code of 1986, as amended from time to time.

2.10 “*Committee*” means the Compensation Committee of the Board, or such other committee designated by the Board as authorized to administer the Plan. The Committee shall consist of not less than two (2) members of the Board, each of whom shall be a Disinterested Board Member. A Disinterested Board Member means a member who (a) is not a current employee of the Company or a Subsidiary, (b) is not a former employee of the Company or a Subsidiary who receives compensation for prior services (other than benefits under a tax-qualified retirement plan) during the taxable year, (c) has not been an officer of the Company, (d) does not receive remuneration from the Company or a Subsidiary, either directly or indirectly, in any capacity other than as a director and (e) does not possess an interest in any other transaction, and is not engaged in a business relationship, for which disclosure would be required pursuant to Item 404 (a) or (b) of Regulation S-K under the Securities Act of 1933, as amended. The term Disinterested Board Member shall be interpreted in such manner as shall be necessary to conform to the requirements of Section 162(m) of the Code and Rule 16b-3 promulgated under the Exchange Act.

2.11 “*Common Stock*” means the common stock of the Company.

2.12 “*Company*” means National Fuel Gas Company.

2.13 “*Exchange Act*” means the Securities Exchange Act of 1934, as amended from time to time.

2.14 “*Fair Market Value*” of a share of Common Stock on any date means the average of the high and low sales prices of a share of Common Stock as reflected in the report of consolidated trading of New York Stock Exchange-listed securities for that date (or, if no such shares were publicly traded on that date, the next preceding date that such shares were so traded) published in The Wall Street Journal or in any other publication selected by the Committee; provided, however, that if shares of Common Stock shall not have been publicly traded for more than ten (10) days immediately preceding such date, then the Fair Market Value of a share of Common Stock shall be determined by the Committee in such manner as it may deem appropriate.

2.15 “*Good Reason*” means a good faith determination made by a Participant that there has been any (i) material change by the Company of the Participant’s functions, duties or responsibilities which change could cause the Participant’s position with the Company to become of less dignity, responsibility, importance, prestige or scope, including, without limitation, the assignment to the Participant of duties and responsibilities inconsistent with his positions, (ii) assignment or reassignment by the Company of the Participant without the Participant’s consent, to another place of employment more than 30 miles from the Participant’s current place of employment, or (iii) reduction in the Participant’s total compensation or benefits or any component thereof, provided in each case that the Participant shall specify the event relied upon for such determination by written notice to the Board at any time within six months after the occurrence of such event.

2.16 “*Key Employee*” means an officer or other key employee of the Company or a Subsidiary as determined by the Committee.

2.17 “*Participant*” means any individual to whom an Award has been granted by the Committee under this Plan.

2.18 “*Plan*” means the National Fuel Gas Company 1993 Award and Option Plan.

2.19 “*Pre-Split*” and “*Post-Split*” means before and after giving effect to the two-for-one stock split of all shares outstanding at close of business August 24, 2001, to be effective on September 7, 2001.

2.20 “*Restricted Stock*” means an Award granted pursuant to paragraph 10 hereof.

2.21 “*Subsidiary*” means a corporation or other business entity in which the Company directly or indirectly has an ownership interest of eighty percent (80%) or more.

2.22 “*Unit*” means a bookkeeping entry used by the Company to record and account for the grant of the following Awards until such time as the Award is paid, cancelled, forfeited or terminated, as the case may be: Units of Common Stock, performance units, and performance shares which are expressed in terms of Units of Common Stock.

3. Administration

The Plan shall be administered by the Committee. The Committee shall have the authority to: (a) interpret the Plan; (b) establish such rules and regulations as it deems necessary for the proper administration of the Plan; (c) select Key Employees to receive Awards under the Plan; (d) determine the form of an Award, whether a stock option, stock appreciation right, Restricted Stock, performance unit, performance share, or other incentive award established by the Committee in accordance with (h) below, the number of shares or Units subject to the Award, all the terms and conditions of an Award, including the time and conditions of exercise or vesting; (e) determine whether Awards would be granted singly, in combination or in the alternative; (f) grant waivers of Plan terms and conditions, provided that any such waiver granted to an executive officer of the Company shall not be inconsistent with Section 16 of the Exchange Act and the rules promulgated thereunder; (g) accelerate the vesting, exercise or payment of any Award or the performance period of an Award when any such action would be in the best interest of the Company; (h) establish such other types of Awards, besides those specifically enumerated in paragraph 2.2 hereof, which the Committee determines are consistent with the Plan's purposes; and (i) take any and all other action it deems advisable for the proper administration of the Plan. The Committee shall also have the authority to grant Awards in replacement of Awards previously granted under this Plan or any other executive compensation or stock option plan of the Company or a Subsidiary. All determinations of the Committee shall be made by a majority of its members, and its determinations shall be final, binding and conclusive. The Committee, in its discretion, may delegate its authority and duties under the Plan to the Chief Executive Officer or to other senior officers of the Company to the extent permitted by Section 16 of the Exchange Act and notwithstanding any other provision of this Plan or an Award Notice, under such conditions as the Committee may establish; provided, however, that only the Committee may select and grant Awards and render other decisions as to the timing, pricing and amount of Awards to Participants who are subject to Section 16 of the Exchange Act.

4. Eligibility

Any Key Employee is eligible to become a Participant of the Plan.

5. Shares Available

The maximum number of post-split shares of Common Stock, \$1.00 par value, of the Company which shall be available for grant of Awards under the Plan (including incentive stock options) during its term shall not exceed 4,290,900; subject to adjustment as provided in paragraph 18. Awards covering no more than 650,000 post-split shares of Common Stock (subject to adjustment as provided in paragraph 18) may be granted to any Participant in any fiscal year of the Company. The 1,090,900 post-split shares made available by the Plan Amendment approved at the 2001 Special Meeting of Shareholders will be available only for Awards of stock options. Any shares of Common Stock related to Awards which terminate by expiration, forfeiture, cancellation or otherwise without the issuance of such shares, are settled in cash in lieu of Common Stock, or are exchanged with the Committee's permission for Awards not involving Common Stock, shall be available again for grant under the Plan, provided, however, that if dividends or dividend equivalents pursuant to paragraph 14, or other benefits of share ownership (not including the right to vote the shares) have been received by the Participant in respect of an Award prior to such termination, settlement or exchange, the shares which were the subject of the Award shall not again be available for grant under the Plan. Further, any shares of Common Stock which are used by a Participant for the full or partial payment to the Company of the purchase price of shares of Common Stock upon exercise of a stock option, or for any withholding taxes due as a result of such exercise, shall again be available for Awards under the Plan. Similarly, shares of Common Stock with respect to which an Alternative SAR has been exercised and paid in cash shall again be available for grant under the Plan. Shares to which independent or combination SARs relate shall not count against the 4,290,900 post-split limit set forth in this paragraph 5. The shares of Common Stock available for issuance under the Plan may be authorized and unissued shares or treasury shares. The number of shares of Common Stock issued under this Plan on or before August 24, 2001 was doubled pursuant to the two-for-one stock split effective September 7, 2001. The additional shares issued under this Plan as a result of that stock split count against the 4,290,900 shares of post-split stock available as set forth in this paragraph 5 for grant of Awards under this Plan.

6. Term

The Plan shall become effective as of February 18, 1993, subject to its approval by the Company's stockholders at the 1993 Annual Meeting of Stockholders and subject to the approval of the Securities and Exchange Commission under the Public Utility Holding Company Act of 1935, as amended. No Awards shall be exercisable or payable before

these approvals of the Plan have been obtained. Awards shall not be granted pursuant to the Plan after February 17, 2003; provided, however, that incentive stock options shall not be granted pursuant to the Plan after December 9, 2002.

7. Participation

The Committee shall select Participants, determine the type of Awards to be made, and establish in the related Award Notices the applicable terms and conditions of the Awards in addition to those set forth in this Plan and the administrative rules issued by the Committee.

8. Stock Options

(a) *Grants* . Awards may be granted in the form of stock options. These stock options may be incentive stock options within the meaning of Section 422 of the Code or non-qualified stock options (i.e., stock options which are not incentive stock options), or a combination of both.

(b) *Terms and Conditions of Options* . Unless the Award Notice provides otherwise, an option shall be exercisable in whole or in part. The price at which Common Stock may be purchased upon exercise of a stock option shall be established by the Committee, but such price shall not be less than the Fair Market Value of the Common Stock on the date of the stock option's grant. An Award Notice evidencing a stock option may, in the discretion of the Committee, provide that a Participant who pays the option price of a stock option by an exchange of shares of Common Stock previously owned by the Participant shall automatically be issued a new stock option to purchase additional shares of Common Stock equal to the number of shares of Common Stock so exchanged. Such new stock option shall have an option price equal to the Fair Market Value of the Common Stock on the date such new stock option is issued and shall be subject to such other terms and conditions as the Committee deems appropriate. Unless the Award Notice provides otherwise, each incentive stock option shall first become exercisable on the first anniversary of its date of grant, and each non-qualified stock option shall first become exercisable on the first anniversary of its date of grant, or, if earlier (i) on the date of the Participant's death occurring after the date of grant, (ii) six months after the date of grant, if the Participant has voluntarily resigned on or after his 60th birthday, after the date of grant, and before such six months, or (iii) on the date of the Participant's voluntary resignation on or after his 60th birthday and at least six months after the date of grant. Unless the Award Notice provides otherwise, each non-qualified stock option shall expire on the day after the tenth anniversary of its date of grant, and incentive stock options and non-qualified stock options granted in combination may be exercised separately.

(c) *Restrictions Relating to Incentive Stock Options* . Stock options issued in the form of incentive stock options shall, in addition to being subject to all applicable terms and conditions established by the Committee, comply with Section 422 of the Code. Accordingly, the aggregate Fair Market Value (determined at the time the option was granted) of the Common Stock with respect to which incentive stock options are exercisable for the first time by a Participant during any calendar year (under this Plan or any other plan of the Company or any of its Subsidiaries) shall not exceed \$100,000 (or such other limit as may be required by the Code). Unless the Award Notice provides a shorter period, each incentive stock option shall expire on the tenth anniversary of its date of grant. The number of post-split shares of Common Stock that shall be available for incentive stock options granted under the Plan is 4,290,900.

(d) *Exercise of Option* . Upon exercise, the option price of a stock option may be paid in cash, shares of Common Stock, shares of Restricted Stock, a combination of the foregoing, or such other consideration as the Committee may deem appropriate. The Committee shall establish appropriate methods for accepting Common Stock, whether restricted or unrestricted, and may impose such conditions as it deems appropriate on the use of such Common Stock to exercise a stock option. The Committee, in its sole discretion, may establish procedures whereby a Participant to the extent permitted by and subject to the requirements of Rule 16b-3 under the Exchange Act, Regulation T issued by the Board of Governors of the Federal Reserve System pursuant to the Exchange Act, federal income tax laws, and other federal, state and local tax and securities laws, can exercise an option or a portion thereof without making a direct payment of the option price to the Company. If the Committee so elects to establish a cashless exercise program, the Committee shall determine, in its sole discretion and from time to time, such administrative procedures and policies as it deems appropriate. Such procedures and policies shall be binding on any Participant wishing to utilize the cashless exercise program.

9. Stock Appreciation Rights

(a) *Grants and Valuation* . Awards may be granted in the form of stock appreciation rights (“SARs”) until June 15, 2001. SARs may be granted singly (“Independent SARs”), in combination with all or a portion of a related stock option under the Plan (“Combination SARs”), or in the alternative (“Alternative SARs”). Combination or Alternative SARs may be granted either at the time of the grant of related stock options or at any time thereafter during the term of the stock options. Combination SARs shall be subject to paragraph 9(b) hereof. Alternative SARs shall be subject to paragraph 9(c) hereof. Independent SARs shall be subject to paragraph 9(d) hereof. Unless this Plan or the Award Notice provides otherwise, SARs shall entitle the recipient to receive a payment equal to the appreciation in the Fair Market Value of a stated number of shares of Common Stock from the award date to the date of exercise. In the case of SARs granted in combination with, or in the alternative to, stock options granted prior to the grant of such SARs, the appreciation in value is from the option price of such related stock option to the Fair Market Value on the date of exercise. Unless this Plan or the Award Notice provides otherwise, SARs granted in conjunction with stock options shall be Combination SARs, and all SARs shall be exercisable between one year and ten years and one day after the date of their award.

(b) *Terms and Conditions of Combination SARs* . Both the stock options granted in conjunction with Combination SARs and the Combination SARs may be exercised. Combination SARs shall be exercisable only to the extent the related stock option is exercisable, and the base from which the value of the Combination SARs is measured at its exercise shall be the option price of the related stock option. Combination SARs may be exercised either together with the related stock option or separately. If a Participant exercises a Combination SAR or related stock option, but not both, the other shall remain outstanding and shall remain exercisable during the entire exercise period.

(c) *Terms and Conditions of Alternative SARs* . Either the stock options granted in the alternative to Alternative SARs or the Alternative SARs may be exercised, but not both. Alternative SARs shall be exercisable only to the extent that the related stock option is exercisable, and the base from which the value of the Alternative SARs is measured at its exercise shall be the option price of the related stock option. If related stock options are exercised as to some or all of the shares covered by the Award, the related Alternative SARs shall be cancelled automatically to the extent of the number of shares covered by the stock option exercise. Upon exercise of Alternative SARs as to some or all of the shares covered by the Award, the related stock option shall be cancelled automatically to the extent of the number of shares covered by such exercise, and such shares shall again be eligible for grant in accordance with paragraph 5 hereof.

(d) *Terms and Conditions of Independent SARs* . Independent SARs shall be exercisable in whole or in such installments and at such time as may be determined by the Committee. The base price from which the value of an Independent SAR is measured shall also be determined by the Committee; provided, however, that such price shall not be less than the Fair Market Value of the Common Stock on the date of the grant of the Independent SAR.

(e) *Deemed Exercise* . The Committee may provide that an SAR shall be deemed to be exercised at the close of business on the scheduled expiration date of such SAR, if at such time the SAR by its terms remains exercisable and, if so exercised, would result in a payment to the holder of such SAR.

(f) *Conversion of SARs to Non-Qualified Stock Options* . Each unexercised SAR shall be convertible to a non-qualified option to purchase one share of Common Stock, at the option of the Committee and with the consent of the Participant to whom that SAR was awarded (or his successor or assignee). Notwithstanding paragraph 8(b), such an option will have the same exercise price and expiration date as did the converted SAR, and will have the same other terms and conditions as the other non-qualified stock options issued to the same Participant and on the same day as the converted SAR. A share issued upon exercise of such an option will count against the 4,290,900 post-split shares available under paragraph 5. For purposes of the limit set forth in paragraph 5 that Awards covering no more than 650,000 post-split shares of Common Stock may be granted to a Participant in a fiscal year, the conversion of a SAR into an option in accordance with this paragraph 9(f) will not count as an Award granted in the fiscal year in which the conversion takes place.

10. Restricted Stock

(a) *Grants* . Awards may be granted in the form of Restricted Stock. Shares of Restricted Stock shall be awarded in such amounts and at such times during the term of the Plan as the Committee shall determine.

(b) *Award Restrictions* . Restricted Stock shall be subject to such terms and conditions as the Committee deems appropriate, including restrictions on transferability and continued employment. No more than 50,000 restricted pre-split shares may be issued in a single fiscal year. The Committee may modify or accelerate the delivery of shares of Restricted Stock under such circumstances as it deems appropriate.

(c) *Rights as Stockholders* . During the period in which any shares of Restricted Stock are subject to the restrictions imposed under paragraph 10(b), the Committee may, in its discretion, grant to the Participant to whom shares of Restricted Stock have been awarded all or any of the rights of a stockholder with respect to such shares, including, but not by way of limitation, the right to vote such shares and to receive dividends.

(d) *Evidence of Award* . Any shares of Restricted Stock granted under the Plan may be evidenced in such manner as the Committee deems appropriate, including, without limitation, book-entry registration or issuance of a stock certificate or certificates.

11. Performance Units

(a) *Grants* . Awards may be granted in the form of performance units. Performance units shall refer to the Units valued by reference to designated criteria established by the Committee, other than Units which are expressed in terms of Common Stock.

(b) *Performance or Service Criteria* . Performance units shall be contingent on the attainment during a performance period of certain performance and/or service objectives. The length of the performance period, the performance or service objectives to be achieved, and the extent to which such objectives have been attained shall be conclusively determined by the Committee in the exercise of its absolute discretion. Performance and service objectives may be revised by the Committee during the performance period, in order to take into consideration any unforeseen events or changes in circumstances.

12. Performance Shares

(a) *Grants* . Awards may be granted in the form of performance shares. Performance shares shall refer to shares of Common Stock or Units which are expressed in terms of Common Stock, including shares of phantom stock.

(b) *Performance or Service Criteria* . Performance shares shall be contingent upon the attainment during a performance period of certain performance or service objectives. The length of the performance period, the performance or service objectives to be achieved, and the extent to which such objectives have been attained shall be conclusively determined by the Committee in the exercise of its absolute discretion. Performance and service objectives may be revised by the Committee during the performance period, in order to take into consideration any unforeseen events or changes in circumstances.

13. Payment of Awards

At the discretion of the Committee, payment of Awards may be made in cash, Common Stock, a combination of cash and Common Stock, or any other form of property as the Committee shall determine.

14. Dividends and Dividend Equivalents

If an Award is granted in the form of Restricted Stock, stock options, or performance shares, or in the form of any other stock-based grant, the Committee may, at any time up to the time of payment, include as part of an Award an entitlement to receive dividends or dividend equivalents, subject to such terms and conditions as the Committee may establish. Dividends and dividend equivalents shall be paid in such form and manner (i.e., lump sum or installments), and at such time as the Committee shall determine. All dividends or dividend equivalents which are not paid currently may, at the Committee's discretion, accrue interest, be reinvested into additional shares of Common Stock or, in the case of dividends or dividend equivalents credited in connection with performance shares, be credited as additional performance shares and paid to the Participant if and when, and to the extent that, payment is made pursuant to such Award.

15. Deferral of Awards

At the discretion of the Committee, the receipt of the payment of shares of Restricted Stock, performance shares, performance units, dividends, dividend equivalents, or any portion thereof, may be deferred by a Participant until such time as the Committee may establish. All such deferrals shall be accomplished by the delivery of a written, irrevocable election by the Participant prior to such time payment would otherwise be made, on a form provided by the Company. Further, all deferrals shall be made in accordance with administrative guidelines established by the Committee to ensure that such deferrals comply with all applicable requirements of the Code and its regulations. Deferred payments shall be paid in a lump sum or installments, as determined by the Committee. The Committee may also credit interest, at such rates to be determined by the Committee, on cash payments that are deferred and credit dividends or dividend equivalents on deferred payments denominated in the form of Common Stock.

16. Termination of Employment

(a) *General Rule* . Subject to paragraph 20, if a Participant's employment with the Company or a Subsidiary terminates for a reason other than death, disability, retirement, or any approved reason, all unexercised, unearned or unpaid. Awards shall be cancelled or forfeited as the case may be, unless otherwise provided in this paragraph or in the Participant's Award Notice. The Committee shall have the authority to promulgate rules and regulations to (i) determine what events constitute disability, retirement, or termination for an approved reason for purposes of the Plan, and (ii) determine the treatment of a Participant under the Plan in the event of his death, disability, retirement, or termination for an approved reason.

(b) *Incentive Stock Options* . Unless the Award Notice provides otherwise, any incentive stock option which has not theretofore expired, shall terminate upon termination of the Participant's employment with the Company whether by death or otherwise, and no shares of Common Stock may thereafter be purchased pursuant to such incentive stock option, except that:

(i) Upon termination of employment (other than by death), a Participant may, within three months after the date of termination of employment, purchase all or part of any shares of Common Stock which the Participant was entitled to purchase under such incentive stock option on the date of termination of employment.

(ii) Upon the death of any Participant while employed with the Company or within the three-month period referred to in paragraph 16(b)(i) above, the Participant's estate or the person to whom the Participant's rights under the incentive stock option are transferred by will or the laws of descent and distribution may, within one year after the date of the Participant's death, purchase all or part of any shares of Common Stock which the Participant was entitled to purchase under such incentive stock option on the date of death.

Notwithstanding anything in this paragraph 16(b) to the contrary, the Committee may at any time within the three-month period after the date of termination of a Participant's employment, with the consent of the Participant, the Participant's estate or the person to whom the Participant's rights under the incentive stock options are transferred by will or the laws of descent and distribution, extend the period for exercise of the Participant's incentive stock options to any date not later than the date on which such incentive stock options would have otherwise expired absent such termination of employment. Nothing in this paragraph 16(b) shall authorize the exercise of an incentive stock option after the expiration of the exercise period therein provided, nor later than ten years after the date of grant.

(c) *Non-Qualified Stock Options* . Unless the Award Notice provides otherwise, any non-qualified stock option which has not theretofore expired shall terminate upon termination of the Participant's employment with the Company, and no shares of Common Stock may thereafter be purchased pursuant to such non-qualified stock option, except that:

(i) Upon termination of employment for any reason other than death, discharge by the Company for cause, or voluntary resignation of the Participant prior to age 60, a Participant may, within five years after the date of termination of employment, exercise all or part of the non-qualified stock option which the Participant was entitled to exercise on the date of termination of employment or subsequently becomes eligible to exercise pursuant to paragraph 8(b) above.

(ii) Upon the death of a Participant while employed with the Company or within the period referred to in paragraph 16(c)(i) above, the Participant's estate or the person to whom the Participant's rights under the non-qualified

stock option are transferred by will or the laws of descent and distribution may, within five years after the date of the Participant's death while employed, or within the period referred to in paragraph 16(c)(i) above, exercise all or part of the non-qualified stock option which the Participant was entitled to exercise on the date of death.

Nothing in this paragraph 16(c) shall authorize the exercise of a non-qualified stock option later than the exercise period set forth in the Award Notice.

17. Nonassignability

No Award under the Plan shall be subject in any manner to alienation, anticipation, sale, transfer (except by will or the laws of descent and distribution or pursuant to a qualified domestic relations order), assignment, pledge or encumbrance, except that all awards of nonqualified stock options or SAR's shall be transferable without consideration, subject to all the terms and conditions to which such nonqualified stock options or SARs are otherwise subject, to (i) members of a Participant's immediate family as defined in Rule 16a-1 promulgated under the Exchange Act, or any successor rule or regulation, (ii) trusts for the exclusive benefit of the Participant or such immediate family members or (iii) entities which are wholly-owned by the Participant or such immediate family members, provided that (x) there may be no consideration for any such transfer, and (y) subsequent transfers of transferred options shall be prohibited except those by will or the laws of descent and distribution. Following transfer, any such options shall continue to be subject to the same terms and conditions as were applicable immediately prior to transfer, and except as provided in the next sentence, the term "Participant" shall be deemed to refer to the transferee. The events of termination of employment under Section 16(c) hereof shall continue to be applied with reference to the original Participant and following the termination of employment of the original Participant, the options shall be exercisable by the transferee only to the extent, and for the periods specified in Section 16(c), that the original Participant could have exercised such option. Except as expressly permitted by this paragraph, an Award shall be exercisable during the Participant's lifetime only by him.

18. Adjustment of Shares Available

(a) *Changes in Stock* . In the event of changes in the Common Stock by reason of a Common Stock dividend or stock split-up or combination, appropriate adjustment shall be made by the Committee in the aggregate number of shares available under the Plan and the number of shares, SARs, performance shares, Common Stock units and other stock-based interests subject to outstanding Awards, without, in the case of stock options, change in the aggregate purchase price to be paid therefor. Such proper adjustment as may be deemed equitable may be made by the Committee in its discretion to give effect to any other change affecting the Common Stock.

(b) *Changes in Capitalization* . In case of a merger or consolidation of the Company with another corporation, a reorganization of the Company, a reclassification of the Common Stock of the Company, a spin-off of a significant asset, or other changes in the capitalization of the Company, appropriate provision shall be made for the protection and continuation of any outstanding Awards by either (i) the substitution, on an equitable basis, of appropriate stock or other securities or other consideration to which holders of Common Stock of the Company will be entitled pursuant to such transaction or succession of transactions, or (ii) by appropriate adjustment in the number of shares issuable pursuant to the Plan, the number of shares covered by outstanding Awards, the option price of outstanding stock options, the exercise price of outstanding SARs, the performance or service criteria or performance period of outstanding performance units, and the performance or service criteria or performance period of outstanding performance shares, as deemed appropriate by the Committee.

19. Withholding Taxes

The Company shall be entitled to deduct from any payment under the Plan, regardless of the form of such payment, the amount of all applicable income and employment taxes required by law to be withheld with respect to such payment or may require the participant to pay to it such tax prior to and as a condition of the making of such payment. A Participant may pay the amount of taxes required by law to be withheld from an Award by requesting that the Company withhold from any payment of Common Stock due as a result of such Award, or by delivering to the Company, shares of Common Stock having a Fair Market Value less than or equal to the amount of such required withholding taxes.

20. Noncompetition Provision

Notwithstanding anything contained in this Plan to the contrary, unless the Award Notice specifies otherwise, a Participant shall forfeit all unexercised, unearned, and/or unpaid Awards, including Awards earned but not yet paid, all unpaid dividends and dividend equivalents, and all interest, if any, accrued on the foregoing if, (i) in the opinion of the Committee, the Participant, without the written consent of the Company, engages directly or indirectly in any manner or capacity as principal, agent, partner, officer, director, employee, or otherwise, in any business or activity competitive with the business conducted by the Company or any Subsidiary; or (ii) the Participant performs any act or engages in any activity which in the opinion of the Committee is inimical to the best interests of the Company. In addition, the Committee may, in its discretion, condition the deferral of any Award, dividend, or dividend equivalent under paragraph 15 hereof on a Participant's compliance with the terms of this paragraph 20, and cause such a Participant to forfeit any payment which is so deferred if the Participant fails to comply with the terms hereof.

21. Amendments to Awards

The Committee may at any time unilaterally amend any unexercised, unearned, or unpaid Award, including Awards earned but not yet paid, to the extent it deems appropriate; provided, however, that any such amendment which is adverse to the Participant shall require the Participant's consent.

22. Regulatory Approvals and Listings

Notwithstanding anything contained in this Plan to the contrary, the Company shall have no obligation to issue or deliver certificates of Common Stock evidencing Awards resulting in the payment of Common Stock prior to (a) the obtaining of any approval from any governmental agency which the Company shall, in its sole discretion, determine to be necessary or advisable, (b) the admission of such shares to listing on the stock exchange on which the Common Stock may be listed, and (c) the completion of any registration or other qualification of said shares under any state or federal law or ruling of any governmental body which the Company shall, in its sole discretion, determine to be necessary or advisable.

23. No Right to Continued Employment or Grants

Participation in the Plan shall not give any Key Employee any right to remain in the employ of the Company or any Subsidiary. The Company or, in the case of employment with a Subsidiary, the Subsidiary, reserves the right to terminate any Key Employee at any time. Further, the adoption of this Plan shall not be deemed to give any person any right to be selected as a Participant or to be granted an Award.

24. Amendment

The Board may suspend or terminate the Plan at any time. In addition, the Board may, from time to time, amend the Plan in any manner, provided, however, that any such amendment may be subject to stockholder approval (i) at the discretion of the Board and (ii) to the extent that shareholder approval may be required by law, including, but not limited to, the requirements of Rule 16b-3 under the Exchange Act, or any successor rule or regulation.

25. Change in Control and Change in Ownership

(a) *Background* . All Participants shall be eligible for the treatment afforded by this paragraph 25 if there is a Change in Ownership or if their employment terminates within two years following a Change in Control, unless the termination is due to (i) death; (ii) disability entitling the Participant to benefits under his employer's long-term disability plan; (iii) Cause; (iv) resignation by the Participant other than for Good Reason; or (v) retirement entitling the Participant to benefits under his employer's retirement plan.

(b) *Vesting and Lapse of Restrictions* . If a Participant is eligible for treatment under this paragraph 25, (i) all of the terms and conditions in effect on any unexercised, unearned, unpaid or deferred Awards shall immediately lapse as of the Acceleration Date; (ii) no other terms or conditions shall be imposed upon any Awards on or after such date, and in no event shall any Award be forfeited on or after such date; and (iii) all of his unexercised, unvested, unearned and/or unpaid Awards or any other outstanding Awards shall automatically become one hundred percent (100%) vested immediately upon such date.

(c) *Dividends and Dividend Equivalents* . If a Participant is eligible for treatment under this paragraph 25, all unpaid dividends and dividend equivalents and all interest accrued thereon, if any, shall be treated and paid under this paragraph 25 in the identical manner and time as the Award under which such dividends or dividend equivalents have been credited. For example, if upon a Change in Ownership, an Award under this paragraph 25 is to be paid in a prorated fashion, all unpaid dividends and dividend equivalents with respect to such Award shall be paid according to the same formula used to determine the amount of such prorated Award.

(d) *Treatment of Performance Units and Performance Shares* . If a Participant holding either performance units or performance shares is eligible for treatment under this paragraph 25, the provisions of this paragraph (d) shall determine the manner in which such performance units and/or performance shares shall be paid to him. For purposes of making such payment, each “current performance period” (defined to mean a performance period or term of a performance unit or performance share which period or term has commenced but not yet ended), shall be treated as terminating upon the Acceleration Date, and for each such “current performance period” and each “completed performance period” (defined to mean a performance period or term of a performance unit or performance share which has ended but for which the Committee has not, on the Acceleration Date, made a determination as to whether and to what degree the performance or service objectives for such period have been attained), it shall be assumed that the performance or service objectives have been attained at a level of one hundred percent (100%) or the equivalent thereof. If the Participant is participating in one or more “current performance periods,” he shall be considered to have earned and, therefore, to be entitled to receive, a prorated portion of the Awards previously granted to him for each such performance period. Such prorated portion shall be determined by multiplying the number of performance shares or performance units, as the case may be, granted to the Participant by a fraction, the numerator of which is the total number of whole and partial years (with each partial year being treated as a whole year) that have elapsed since the beginning of the performance period, and the denominator of which is the total number of years in such performance period. A Participant in one or more “completed performance periods” shall be considered to have earned and, therefore, be entitled to receive all the performance shares and performance units previously granted to him during each performance period.

(e) *Valuation of Awards* . If a Participant is eligible for treatment under this paragraph 25, his Awards (including those earned as a result of the application of paragraph 25(d) above) shall be valued and cashed out on the basis of the Change in Control Price.

(f) *Payment of Awards* . If a Participant is eligible for treatment under this paragraph 25, whether or not he is still employed by the Company or a Subsidiary, he shall be paid, in a single lump sum cash payment, as soon as practicable but in no event later than 90 days after the Acceleration Date, for all outstanding Units of Common Stock, Independent and Combination SARs, stock options (including incentive stock options), performance units (including those earned as a result of the application of paragraph 25(d) above), and performance shares (including those earned as a result of paragraph 25(d) above), and all other outstanding Awards, including those granted by the Committee pursuant to its authority under paragraph 3(h) hereof.

(g) *Deferred Awards* . If a Participant is eligible for treatment under this paragraph 25, all deferred Awards for which payment has not been received as of the Acceleration Date shall be paid in a single lump sum cash payment as soon as practicable, but in no event later than 90 days after such date. For purposes of making such payment, the value of all Awards which are stock-based shall be determined by the Change in Control Price.

(h) *Miscellaneous* . Upon a Change in Control or a Change in Ownership, (i) the provisions of paragraphs 16, 20 and 21 hereof shall become null and void and of no force and effect insofar as they apply to a Participant who has been terminated under the conditions described in (a) above; and (ii) no action shall be taken which would affect the rights of any Participant or the operation of the Plan with respect to any Award to which the Participant may have become entitled hereunder on or prior to the date of the Change in Control or Change in Ownership or to which he may become entitled as a result of such Change in Control or Change in Ownership.

(i) *Legal Fees* . The Company shall pay all legal fees and related expenses incurred by a Participant in seeking to obtain or enforce any payment, benefit or right he may be entitled to under the Plan after a Change in Control or Change in Ownership; provided, however, the Participant shall be required to repay any such amounts to the Company to the extent a court of competent jurisdiction issues a final and non-appealable order setting forth the determination that the position taken by the Participant was frivolous or advanced in bad faith.

26. No Right, Title or Interest in Company Assets

No Participant shall have any rights as a stockholder as a result of participation in the Plan until the date of issuance of a stock certificate in his name, and, in the case of Restricted Stock, stock options, performance shares or any other stock-based grant, such rights are granted to the Participant under paragraph 10(c) hereof. To the extent any person acquires a right to receive payments from the Company under this Plan, such rights shall be no greater than the rights of an unsecured creditor of the Company.

NATIONAL FUEL GAS COMPANY 1997 AWARD AND OPTION PLAN

As Amended December 9, 1999, February 17, 2000 and June 14, 2001

1. Purpose

The purpose of the Plan is to advance the interests of the Company and its stockholders, by providing a long-term incentive compensation program that will be an incentive to the Core Employees of the Company and its Subsidiaries whose contributions are important to the continued success of the Company and its Subsidiaries, and by enhancing their ability to attract and retain in their employ highly qualified persons for the successful conduct of their businesses.

2. Definitions

2.1 “*Acceleration Date*” means (i) in the event of a Change in Ownership, the date on which such change occurs, or (ii) with respect to a Participant who is eligible for treatment under paragraph 25 hereof on account of the termination of his employment following a Change in Control, the date on which such termination occurs.

2.2 “*Award*” means any form of stock option, stock appreciation right, Restricted Stock, performance unit, performance share or other incentive award granted by the Committee to a Participant under the Plan pursuant to such terms and conditions as the Committee may establish. An Award may be granted singly, in combination or in the alternative.

2.3 “*Award Notice*” means a written notice from the Company to a Participant that sets forth the terms and conditions of an Award in addition to those established by this Plan and by the Committee’s exercise of its administrative powers.

2.4 “*Board*” means the Board of Directors of the Company.

2.5 “*Cause*” means (i) the willful and continued failure by a Core Employee to substantially perform his duties with his employer after written warnings specifically identifying the lack of substantial performance are delivered to him by his employer, or (ii) the willful engaging by a Core Employee in illegal conduct which is materially and demonstrably injurious to the Company or a Subsidiary.

2.6 “*Change in Control*” shall be deemed to have occurred at such time as (i) any “person” within the meaning of Section 14(d) of the Exchange Act, other than the Company, a Subsidiary, or any employee benefit plan or plans sponsored by the Company or any Subsidiary, is or has become the “beneficial owner,” as defined in Rule 13d-3 under the Exchange Act, directly or indirectly, of twenty percent (20%) or more of the combined voting power of the outstanding securities of the Company ordinarily having the right to vote at the election of directors, or (ii) approval by the stockholders of the Company of (a) any consolidation or merger of the Company in which the Company is not the continuing or surviving corporation or pursuant to which shares of stock of the Company would be converted into cash, securities or other property, other than a consolidation or merger of the Company in which the common stockholders of the Company immediately prior to the consolidation or merger have substantially the same proportionate ownership of common stock of the surviving corporation immediately after the consolidation or merger as immediately before, or (b) any consolidation or merger in which the Company is the continuing or surviving corporation but in which the common stockholders of the Company immediately prior to the consolidation or merger do not hold at least a majority of the outstanding common stock of the continuing or surviving corporation (except where such holders of Common Stock hold at least a majority of the common stock of the corporation which owns all of the Common Stock of the

Company), or (c) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all the assets of the Company, or (iii) individuals who constitute the Board on January 1, 1997 (the “Incumbent Board”) have ceased for any reason to constitute at least a majority thereof, provided that any person becoming a director subsequent to January 1, 1997 whose election, or nomination for election by the Company’s stockholders, was approved by a vote of at least three-quarters (3/4) of the directors comprising the Incumbent Board (either by specific vote or by approval of the proxy statement of the Company in which such person is named as nominee for director without objection to such nomination) shall be, for purposes of this Plan, considered as though such person were a member of the Incumbent Board.

2.7 “*Change in Control Price*” means, in respect of a Change in Control, the highest closing price per share paid for the purchase of Common Stock on the New York Stock Exchange, another national stock exchange or the National Association of Securities Dealers Automated Quotation System during the ninety (90) day period ending on the date the Change in Control occurs, and in respect of a Change in Ownership, the highest closing price per share paid for the purchase of Common Stock on the New York Stock Exchange, another national stock exchange or the National Association of Securities Dealers Automated Quotation System during the ninety (90) day period ending on the date the Change in Ownership occurs.

2.8 “*Change in Ownership*” means a change which results directly or indirectly in the Company’s Common Stock ceasing to be actively traded on a national securities exchange or the National Association of Securities Dealers Automated Quotation System.

2.9 “*Code*” means the Internal Revenue Code of 1986, as amended from time to time.

2.10 “*Committee*” means the Compensation Committee of the Board, or such other committee designated by the Board, authorized to administer the Plan. The Committee shall consist of not less than two (2) members of the Board, each of whom shall be a Disinterested Board Member. A “Disinterested Board Member” means a member who (a) is not a current employee of the Company or a Subsidiary, (b) is not a former employee of the Company or a Subsidiary who receives compensation for prior services (other than benefits under a tax-qualified retirement plan) during the taxable year, (c) has not been an officer of the Company (d) does not receive remuneration from the Company or a Subsidiary, either directly or indirectly, in any capacity other than as a director and (e) does not possess an interest in any other transaction, and is not engaged in a business relationship, for which disclosure would be required pursuant to Item 404(a) or (b) of Regulation S-K under the Securities Act of 1933, as amended. The term Disinterested Board Member shall be interpreted in such manner as shall be necessary to conform to the requirements of Section 162(m) of the Code and Rule 16b-3 promulgated under the Exchange Act.

2.11 “*Common Stock*” means the common stock of the Company.

2.12 “*Company*” means National Fuel Gas Company.

2.13 “*Core Employee*” means an officer or other core management employee of the company or a Subsidiary as determined by the Committee. Every Key Management Employee is also a Core Employee.

2.14 “*Exchange Act*” means the Securities Exchange Act of 1934, as amended from time to time.

2.15 “*Fair Market Value*” of a share of Common Stock on any date means the average of the high and low sales prices of a share of Common Stock as reflected in the report of consolidated trading of New York Stock Exchange-listed securities for that date (or, if no such shares were publicly traded on that date, the next preceding date that such shares were so traded) published in *The Wall Street Journal* or in any other publication selected by the Committee; provided, however, that if shares of Common Stock shall not have been publicly traded for more than ten (10) days immediately preceding such date, then the Fair Market Value of a share of Common Stock shall be determined by the Committee in such manner as it may deem appropriate.

2.16 “*Good Reason*” means a good faith determination made by a Participant that there has been any (i) material change by the Company of the Participant’s functions, duties or responsibilities which change could cause the Participant’s position with the Company to become of less dignity, responsibility, importance, prestige or scope, including, without limitation, the assignment to the Participant of duties and responsibilities inconsistent with his

positions, (ii) assignment or reassignment by the Company of the Participant without the Participant's consent, to another place of employment more than 30 miles from the Participant's current place of employment, or (iii) reduction in the Participant's total compensation or benefits or any component thereof, provided in each case that the Participant shall specify the event relied upon for such determination by written notice to the Board at any time within six months after the occurrence of such event.

2.17 "*Key Management Employee*" means a management employee of the Company or a Subsidiary (i) who has significant policymaking responsibilities, and (ii) whose current base salary at the time an Award is issued is among the highest two percent (2%) of the current base salaries of all the employees of the Company or any Subsidiary, all as determined by the Committee.

2.18 "*Participant*" means any individual to whom an Award has been granted by the Committee under this Plan.

2.19 "*Plan*" means the National Fuel Gas Company 1997 Award and Option Plan.

2.20 "*Pre-Split*" and "*Post-Split*" means before and after giving effect to the two-for-one stock split of all shares outstanding at close of business August 24, 2001, to be effective on September 7, 2001.

2.21 "*Restricted Stock*" means an Award granted pursuant to paragraph 10 hereof.

2.22 "*Subsidiary*" means a corporation or other business entity in which the Company directly or indirectly has an ownership interest of eighty percent (80%) or more.

2.23 "*Unit*" means a bookkeeping entry used by the Company to record and account for the grant of the following Awards until such time as the Award is paid, cancelled, forfeited or terminated, as the case may be: Units of Common Stock, performance units, and performance shares which are expressed in terms of Units of Common Stock.

3. Administration

The Plan shall be administered by the Committee. The Committee shall have the authority to: (a) interpret the Plan; (b) establish such rules and regulations as it deems necessary for the proper administration of the Plan; (c) select Key Management Employees and Core Employees to receive Awards under the Plan; (d) determine the form of an Award, whether a stock option, stock appreciation right, Restricted Stock, performance unit, performance share, or other incentive award established by the Committee in accordance with (h) below, the number of shares or Units subject to the Award, all the terms and conditions of an Award, including the time and conditions of exercise or vesting; (e) determine whether Awards would be granted singly, in combination or in the alternative; (f) grant waivers of Plan terms and conditions, provided that any such waiver granted to an executive officer of the Company shall not be inconsistent with Section 16 of the Exchange Act and the rules promulgated thereunder; (g) accelerate the vesting, exercise or payment of any Award or the performance period of an Award when any such action would be in the best interest of the Company; (h) establish such other types of Awards, besides those specifically enumerated in paragraph 2.2 hereof, which the Committee determines are consistent with the Plan's purposes; and (i) take any and all other action it deems advisable for the proper administration of the Plan. The Committee shall also have the authority to grant Awards in replacement of Awards previously granted under this Plan or any other executive compensation or stock option plan of the Company or a Subsidiary. All determinations of the Committee shall be made by a majority of its members, and its determinations shall be final, binding and conclusive. The Committee, in its discretion, may delegate its authority and duties under the Plan to the Chief Executive Officer or to other senior officers of the Company to the extent permitted by Section 16 of the Exchange Act and notwithstanding any other provision of this Plan or an Award Notice, under such conditions as the Committee may establish; provided, however, that only the Committee may select and grant Awards and render other decisions as to the timing, pricing and amount of Awards to Participants who are subject to Section 16 of the Exchange Act.

4. Eligibility

Any Core Employee is eligible to become a Participant of the Plan who receives Stock Options only. A Key Management Employee is also eligible to become a Participant of the Plan who receives other awards under the Plan.

5. Shares Available

(a) The maximum number of post-split shares of Common Stock, \$1.00 par value, of the Company which shall be available for grant of Awards under the Plan (including incentive stock options) during its term shall not exceed 12,509,100, subject to adjustment as provided in paragraph 18. Awards covering no more than 600,000 post-split shares of Common Stock of the Company may be granted to any Participant in any fiscal year subject to adjustment as provided in paragraph 18. Of the 1,900,000 pre-split shares which were made available by the Plan amendment approved at the 2000 Annual Meeting of Stockholders, 1,200,000 of such shares will be available only for awards of stock options. Of the 4,909,100 post-split shares which were made available by the Plan amendment approved at the 2001 Special Meeting of Stockholders, 4,000,000 of such shares will be available only for awards of stock options.

(b) Any shares of Common Stock related to Awards which terminate by expiration, forfeiture, cancellation or otherwise without the issuance of such shares, are settled in cash in lieu of Common Stock, or are exchanged with the Committee's permission for Awards not involving Common Stock, shall be available again for grant under the Plan, provided, however, that if dividends or dividend equivalents pursuant to paragraph 14, or other benefits of share ownership (not including the right to vote the shares) have been received by the Participant in respect of an Award prior to such termination, settlement or exchange, the shares which were the subject of the Award shall not again be available for grant under the Plan. Further, any shares of Common Stock which are used by a Participant for the full or partial payment to the Company of the purchase price of shares of Common Stock upon exercise of a stock option, or for any withholding taxes due as a result of such exercise, shall again be available for Awards under the Plan. Similarly, shares of Common Stock with respect to which an Alternative SAR has been exercised and paid in cash shall again be available for grant under the Plan. Shares to which independent or combination SARs relate shall not count against the 12,509,100 post-split share limit set forth in this paragraph 5.

(c) The shares of Common Stock available for issuance under the Plan may be authorized and unissued shares or treasury shares. The number of shares of Common Stock issued under this Plan on or before August 24, 2001 was doubled pursuant to the two-for-one stock split effective September 7, 2001. The additional shares issued under this Plan as a result of that stock split count against the 12,509,100 shares of post-split stock available as set forth in paragraph 5(a) for grant of Awards under this Plan.

6. Term

The Plan shall become effective as of December 13, 1996 subject to its approval by the Company's stockholders at the 1997 Annual Meeting of Stockholders and subject to the approval of the Securities and Exchange Commission under the Public Utility Holding Company Act of 1935, as amended. No Awards shall be exercisable or payable before these approvals of the Plan have been obtained and all Awards made prior to approval of the Plan by the Company's stockholders and approval of the Plan by the Securities and Exchange Commission under the Public Utility Holding Company Act of 1935, as amended, are contingent upon such approval. Awards shall not be granted pursuant to the Plan after December 12, 2006.

7. Participation

The Committee shall select Participants, determine the type of Awards to be made, and establish in the related Award Notices the applicable terms and conditions of the Awards in addition to those set forth in this Plan and the administrative rules issued by the Committee.

8. Stock Options

(a) *Grants.* Awards may be granted in the form of stock options. These stock options may be incentive stock options within the meaning of Section 422 of the Code or non-qualified stock options (i.e., stock options which are not incentive stock options), or a combination of both.

(b) *Terms and Conditions of Options.* Unless the Award Notice provides otherwise, an option shall be exercisable in whole or in part. The price at which Common Stock may be purchased upon exercise of a stock option shall be established by the Committee, but such price shall not be less than the Fair Market Value of the Common Stock on the date of the stock option's grant. The Committee shall not have the authority to decrease such price after the date of the

stock option's grant, except for adjustments appropriate to reflect a Common Stock dividend, stock split, reverse stock-split or other combination pursuant to Section 18(a). An Award Notice evidencing a stock option may, in the discretion of the Committee, provide that a Participant who pays the option price of a stock option by an exchange of shares of Common Stock previously owned by the Participant shall automatically be issued a new stock option to purchase additional shares of Common Stock equal to the number of shares of Common Stock so exchanged. Such new stock option shall have an option price equal to the Fair Market Value of the Common Stock on the date such new stock option is issued and shall be subject to such other terms and conditions as the Committee deems appropriate. Unless the Award Notice provides otherwise, each incentive stock option shall first become exercisable on the first anniversary of its date of grant, and each non-qualified stock option shall first become exercisable on the first anniversary of its date of grant, or, if earlier (i) on the date of the Participant's death occurring after the date of grant, (ii) six months after the date of grant, if the Participant has voluntarily resigned on or after his 60th birthday, after the date of grant, and before such six months, or (iii) on the date of the Participant's voluntary resignation on or after his 60th birthday and at least six months after the date of grant. Unless the Award Notice provides otherwise, each non-qualified stock option shall expire on the day after the tenth anniversary of its date of grant, and incentive stock options and non-qualified stock options granted in combination may be exercised separately.

(c) *Restrictions Relating to Incentive Stock Options.* Stock options issued in the form of incentive stock options shall, in addition to being subject to all applicable terms and conditions established by the Committee, comply with Section 422 of the Code. Accordingly, the aggregate Fair Market Value (determined at the time the option was granted) of the Common Stock with respect to which incentive stock options are exercisable for the first time by a Participant during any calendar year (under this Plan or any other plan of the Company or any of its Subsidiaries) shall not exceed \$100,000 (or such other limit as may be required by the Code). Unless the Award Notice provides a shorter period, each incentive stock option shall expire on the tenth anniversary of its date of grant. The number of post-split shares of Common Stock that shall be available for incentive stock options granted under the Plan is 12,509,100.

(d) *Exercise of Option.* Upon exercise, the option price of a stock option may be paid in cash, shares of Common Stock, shares of Restricted Stock, a combination of the foregoing, or such other consideration as the Committee may deem appropriate. The Committee shall establish appropriate methods for accepting Common Stock, whether restricted or unrestricted, and may impose such conditions as it deems appropriate on the use of such Common Stock to exercise a stock option. The Committee, in its sole discretion, may establish procedures whereby a Participant to the extent permitted by and subject to the requirements of Rule 16b-3 under the Exchange Act, Regulation T issued by the Board of Governors of the Federal Reserve System pursuant to the Exchange Act, federal income tax laws, and other federal, state and local tax and securities laws, can exercise an option or a portion thereof without making a direct payment of the option price to the Company. If the Committee so elects to establish a cashless exercise program, the Committee shall determine, in its sole discretion and from time to time, such administrative procedures and policies as it deems appropriate. Such procedures and policies shall be binding on any Participant wishing to utilize the cashless exercise program.

9. Stock Appreciation Rights

(a) *Grants and Valuation.* Awards may be granted in the form of stock appreciation rights ("SARs") until June 15, 2001. SARs may be granted singly ("Independent SARs"), in combination with all or a portion of a related stock option under the Plan ("Combination SARs"), or in the alternative ("Alternative SARs"). Combination or Alternative SARs may be granted either at the time of the grant of related stock options or at any time thereafter during the term of the stock options. Combination SARs shall be subject to paragraph 9(b) hereof. Alternative SARs shall be subject to paragraph 9(c) hereof. Independent SARs shall be subject to paragraph 9(d) hereof. Unless this Plan or the Award Notice provides otherwise, SARs shall entitle the recipient to receive a payment equal to the appreciation in the Fair Market Value of a stated number of shares of Common Stock from the award date to the date of exercise. Once a SAR has been issued, the Committee shall not reprice the SAR by changing the initial Fair Market Value from which the payment is calculated except for adjustments appropriate to reflect a Common Stock dividend, stock split, reverse stock-split or other combination pursuant to Section 18(a). In the case of SARs granted in combination with, or in the alternative to, stock options, the appreciation in value is from the option price of such related stock option to the Fair Market Value on the date of exercise of such SARs. Unless this Plan or the Award Notice provides otherwise, SARs granted in conjunction with stock options shall be Combination SARs, and all SARs shall be exercisable between one year and ten years and one day after the date of their award.

(b) *Terms and Conditions of Combination SARs.* Both the stock options granted in conjunction with Combination SARs and the Combination SARs may be exercised. Combination SARs shall be exercisable only to the extent the related stock option is exercisable, and the base from which the value of the Combination SARs is measured at its exercise shall be the option price of the related stock option. Combination SARs may be exercised either together with the related stock option or separately. If a Participant exercises a Combination SAR or related stock option, but not both, the other shall remain outstanding and shall remain exercisable during the entire exercise period.

(c) *Terms and Conditions of Alternative SARs.* Either the stock options granted in the alternative to Alternative SARs or the Alternative SARs may be exercised, but not both. Alternative SARs shall be exercisable only to the extent that the related stock option is exercisable, and the base from which the value of the Alternative SARs is measured at its exercise shall be the option price of the related stock option. If related stock options are exercised as to some or all of the shares covered by the Award, the related Alternative SARs shall be cancelled automatically to the extent of the number of shares covered by the stock option exercise. Upon exercise of Alternative SARs as to some or all of the shares covered by the Award, the related stock option shall be cancelled automatically to the extent of the number of shares covered by such exercise, and such shares shall again be eligible for grant in accordance with paragraph 5 hereof.

(d) *Terms and Conditions of Independent SARs.* Independent SARs shall be exercisable in whole or in such installments and at such time as may be determined by the Committee. The base price from which the value of an Independent SAR is measured shall also be determined by the Committee; provided, however, that such price shall not be less than the Fair Market Value of the Common Stock on the date of the grant of the Independent SAR.

(e) *Deemed Exercise.* The Committee may provide that a SAR shall be deemed to be exercised at the close of business on the scheduled expiration date of such SAR, if at such time the SAR by its terms remains exercisable and, if so exercised, would result in a payment to the holder of such SAR.

(f) *Conversion of SARs to Non-Qualified Stock Options.* Each unexercised SAR shall be convertible to a non-qualified option to purchase one share of Common Stock, at the option of the Committee and with the consent of the Participant to whom that SAR was awarded (or his successor or assignee). Notwithstanding paragraph 8(b), such an option will have the same exercise price and expiration date as did the converted SAR, and will have the same other terms and conditions as the other non-qualified stock options issued to the same Participant and on the same day as the converted SAR. A share issued upon exercise of such an option will count against the 12,509,100 post-split shares available under paragraph 5(a). For purposes of the limit set forth in paragraph 5(a) that Awards covering no more than 600,000 post-split shares of Common Stock may be granted to a Participant in a fiscal year, the conversion of a SAR into an option in accordance with this paragraph 9(f) will not count as an Award granted in the fiscal year in which the conversion takes place.

10. Restricted Stock

(a) *Grants.* Awards may be granted in the form of Restricted Stock. Shares of Restricted Stock shall be awarded in such amounts and at such times during the term of the Plan as the Committee shall determine.

(b) *Award Restrictions.* Restricted Stock shall be subject to such terms and conditions as the Committee deems appropriate, including restrictions on transferability and continued employment. No more than 50,000 pre-split restricted shares may be issued in a single fiscal year. The Committee may modify or accelerate the delivery of shares of Restricted Stock under such circumstances as it deems appropriate.

(c) *Rights as Stockholders.* During the period in which any shares of Restricted Stock are subject to the restrictions imposed under paragraph 10(b), the Committee may, in its discretion, grant to the Participant to whom shares of Restricted Stock have been awarded all or any of the rights of a stockholder with respect to such shares, including, but not by way of limitation, the right to vote such shares and to receive dividends.

(d) *Evidence of Award.* Any shares of Restricted Stock granted under the Plan may be evidenced in such manner as the Committee deems appropriate, including, without limitation, book-entry registration or issuance of a stock certificate or certificates.

11. Performance Units

(a) *Grants.* Awards may be granted in the form of performance units. Performance units shall refer to the Units valued by reference to designated criteria established by the Committee, other than Units which are expressed in terms of Common Stock.

(b) *Performance or Service Criteria.* Performance units shall be contingent on the attainment during a performance period of certain performance and/or service objectives. The length of the performance period, the performance or service objectives to be achieved, and the extent to which such objectives have been attained shall be conclusively determined by the Committee in the exercise of its absolute discretion. Performance and service objectives may be revised by the Committee during the performance period, in order to take into consideration any unforeseen events or changes in circumstances.

12. Performance Shares

(a) *Grants.* Awards may be granted in the form of performance shares. Performance shares shall refer to shares of Common Stock or Units which are expressed in terms of Common Stock, including shares of phantom stock.

(b) *Performance or Service Criteria.* Performance shares shall be contingent upon the attainment during a performance period of certain performance or service objectives. The length of the performance period, the performance or service objectives to be achieved, and the extent to which such objectives have been attained shall be conclusively determined by the Committee in the exercise of its absolute discretion. Performance and service objectives may be revised by the Committee during the performance period, in order to take into consideration any unforeseen events or changes in circumstances.

13. Payment of Awards

At the discretion of the Committee, payment of Awards may be made in cash, Common Stock, a combination of cash and Common Stock, or any other form of property as the Committee shall determine.

14. Dividends and Dividend Equivalents

If an Award is granted in the form of Restricted Stock, stock options, or performance shares, or in the form of any other stock-based grant, the Committee may, at any time up to the time of payment, include as part of an Award an entitlement to receive dividends or dividend equivalents, subject to such terms and conditions as the Committee may establish. Dividends and dividend equivalents shall be paid in such form and manner (i.e., lump sum or installments), and at such time as the Committee shall determine. All dividends or dividend equivalents which are not paid currently may, at the Committee's discretion, accrue interest, be reinvested into additional shares of Common Stock or, in the case of dividends or dividend equivalents credited in connection with performance shares, be credited as additional performance shares and paid to the Participant if and when, and to the extent that, payment is made pursuant to such Award.

15. Deferral of Awards

At the discretion of the Committee, the receipt of the payment of shares of Restricted Stock, performance shares, performance units, dividends, dividend equivalents, or any portion thereof, may be deferred by a Participant until such time as the Committee may establish. All such deferrals shall be accomplished by the delivery of a written, irrevocable election by the Participant prior to such time payment would otherwise be made, on a form provided by the Company. Further, all deferrals shall be made in accordance with administrative guidelines established by the Committee to ensure that such deferrals comply with all applicable requirements of the Code and its regulations. Deferred payments shall be paid in a lump sum or installments, as determined by the Committee. The Committee may also credit interest, at such rates to be determined by the Committee, on cash payments that are deferred and credit dividends or dividend equivalents on deferred payments denominated in the form of Common Stock.

16. Termination of Employment

(a) *General Rule.* Subject to paragraph 20, if a Participant's employment with the Company or a Subsidiary terminates for a reason other than death, disability, retirement, or any approved reason, all unexercised, unearned or unpaid Awards shall be cancelled or forfeited as the case may be, unless otherwise provided in this paragraph or in the Participant's Award Notice. The Committee shall have the authority to promulgate rules and regulations to (i) determine what events constitute disability, retirement, or termination for an approved reason for purposes of the Plan, and (ii) determine the treatment of a Participant under the Plan in the event of his death, disability, retirement, or termination for an approved reason.

(b) *Incentive Stock Options.* Unless the Award Notice provides otherwise, any incentive stock option which has not theretofore expired, shall terminate upon termination of the Participant's employment with the Company whether by death or otherwise, and no shares of Common Stock may thereafter be purchased pursuant to such incentive stock option, except that:

(i) Upon termination of employment (other than by death), a Participant may, within three months after the date of termination of employment, purchase all or part of any shares of Common Stock which the Participant was entitled to purchase under such incentive stock option on the date of termination of employment.

(ii) Upon the death of any Participant while employed with the Company or within the three-month period referred to in paragraph 16(b)(i) above, the Participant's estate or the person to whom the Participant's rights under the incentive stock option are transferred by will or the laws of descent and distribution may, within one year after the date of the Participant's death, purchase all or part of any shares of Common Stock which the Participant was entitled to purchase under such incentive stock option on the date of death.

Notwithstanding anything in this paragraph 16(b) to the contrary, the Committee may at any time within the three-month period after the date of termination of a Participant's employment, with the consent of the Participant, the Participant's estate or the person to whom the Participant's rights under the incentive stock options are transferred by will or the laws of descent and distribution, extend the period for exercise of the Participant's incentive stock options to any date not later than the date on which such incentive stock options would have otherwise expired absent such termination of employment. Nothing in this paragraph 16(b) shall authorize the exercise of an incentive stock option after the expiration of the exercise period therein provided, nor later than ten years after the date of grant.

(c) *Non-Qualified Stock Options.* Unless the Award Notice provides otherwise, any nonqualified stock option which has not theretofore expired shall terminate upon termination of the Participant's employment with the Company, and no shares of Common Stock may thereafter be purchased pursuant to such non-qualified stock option, except that:

(i) Upon termination of employment for any reason other than death, discharge by the Company for cause, or voluntary resignation of the Participant prior to age 60, a Participant may, within five years after the date of termination of employment, or any such greater period of time as the Committee, in its sole discretion, deems appropriate, exercise all or part of the non-qualified stock option which the Participant was entitled to exercise on the date of termination of employment or subsequently becomes eligible to exercise pursuant to paragraph 8(b) above.

(ii) Upon the death of a Participant while employed with the Company or within the period referred to in paragraph 16(c)(i) above, the Participant's estate or the person to whom the Participant's rights under the non-qualified stock option are transferred by will or the laws of descent and distribution may, within five years after the date of the Participant's death while employed, or within the period referred to in paragraph 16(c)(i) above, exercise all or part of the non-qualified stock option which the Participant was entitled to exercise on the date of death.

Nothing in this paragraph 16(c) shall authorize the exercise of a non-qualified stock option later than the exercise period set forth in the Award Notice.

17. Nonassignability

No Award under the Plan shall be subject in any manner to alienation, anticipation, sale, transfer (except by will or the laws of descent and distribution or pursuant to a qualified domestic relations order), assignment, pledge, or

encumbrance, except that, unless the Committee specifies otherwise, all awards of non-qualified stock options or SARs shall be transferable without consideration, subject to all the terms and conditions to which such non-qualified stock options or SARs are otherwise subject, to (i) members of a Participant's immediate family as defined in Rule 16a-1 promulgated under the Exchange Act, or any successor rule or regulation, (ii) trusts for the exclusive benefit of the Participant or such immediate family members or (iii) entities which are wholly-owned by the Participant or such immediate family members, provided that (x) there may be no consideration for any such transfer, and (y) subsequent transfers of transferred options shall be prohibited except those by will or the laws of descent and distribution. Following transfer, any such options shall continue to be subject to the same terms and conditions as were applicable immediately prior to transfer, and except as provided in the next sentence, the term "Participant" shall be deemed to refer to the transferee. The events of termination of employment of Section 16(c) hereof shall continue to be applied with reference to the original Participant and following the termination of employment of the original Participant, the options shall be exercisable by the transferee only to the extent, and for the periods specified in Section 16(c), that the original Participant could have exercised such option. Except as expressly permitted by this paragraph, an Award shall be exercisable during the Participant's lifetime only by him.

18. Adjustment of Shares Available

(a) *Changes in Stock.* In the event of changes in the Common Stock by reason of a Common Stock dividend, stock split, reverse stock-split or other combination, appropriate adjustment shall be made by the Committee in the aggregate number of shares available under the Plan, the number of shares with respect to which Awards may be granted to any Participant in any fiscal year, and the number of shares, SARs, performance shares, Common Stock units and other stock-based interests subject to outstanding Awards, without, in the case of stock options, causing a change in the aggregate purchase price to be paid therefor. Such proper adjustment as may be deemed equitable may be made by the Committee in its discretion to give effect to any other change affecting the Common Stock.

(b) *Changes in Capitalization.* In case of a merger or consolidation of the Company with another corporation, a reorganization of the Company, a reclassification of the Common Stock of the Company, a spinoff of a significant asset, or other changes in the capitalization of the Company, appropriate provision shall be made for the protection and continuation of any outstanding Awards by either (i) the substitution, on an equitable basis, of appropriate stock or other securities or other consideration to which holders of Common Stock of the Company will be entitled pursuant to such transaction or succession of transactions, or (ii) by appropriate adjustment in the number of shares issuable pursuant to the Plan, the number of shares covered by outstanding Awards, the option price of outstanding stock options, the exercise price of outstanding SARs, the performance or service criteria or performance period of outstanding performance units, and the performance or service criteria or performance period of outstanding performance shares, as deemed appropriate by the Committee.

19. Withholding Taxes

The Company shall be entitled to deduct from any payment under the Plan, regardless of the form of such payment, the amount of all applicable income and employment taxes required by law to be withheld with respect to such payment or may require the participant to pay to it such tax prior to and as a condition of the making of such payment. Subject to the administrative guidelines established by the Committee, a Participant may pay the amount of taxes required by law to be withheld from an Award, in whole or in part, by requesting that the Company withhold from any payment of Common Stock due as a result of such Award, or by delivering to the Company, shares of Common Stock having a Fair Market Value less than or equal to the amount of such required withholding taxes.

20. Noncompetition Provision

Notwithstanding anything contained in this Plan to the contrary, unless the Award Notice specifies otherwise, a Participant shall forfeit all unexercised, unearned, and/or unpaid Awards, including Awards earned but not yet paid, all unpaid dividends and dividend equivalents, and all interest, if any, accrued on the foregoing if, (i) in the opinion of the Committee, the Participant, without the written consent of the Company, engages directly or indirectly in any manner or capacity as principal, agent, partner, officer, director, employee, or otherwise, in any business or activity competitive with the business conducted by the Company or any Subsidiary; or (ii) the Participant performs any act or engages in any activity which in the opinion of the Committee is inimical to the best interests of the Company. In addition, the Committee may, in its discretion, condition the deferral of any Award, dividend, or dividend equivalent under

paragraph 15 hereof on a Participant's compliance with the terms of this paragraph 20, and cause such a Participant to forfeit any payment which is so deferred if the Participant fails to comply with the terms hereof.

21. Amendments to Awards

The Committee may at any time unilaterally amend any unexercised, unearned, or unpaid Award, including Awards earned but not yet paid, to the extent it deems appropriate; provided, however, that any such amendment which is adverse to the Participant shall require the Participant's consent.

22. Regulatory Approvals and Listings

Notwithstanding anything contained in this Plan to the contrary, the Company shall have no obligation to issue or deliver certificates of Common Stock evidencing Awards resulting in the payment of Common Stock prior to (a) the obtaining of any approval from any governmental agency which the Company shall, in its sole discretion, determine to be necessary or advisable, (b) the admission of such shares to listing on the stock exchange on which the Common Stock may be listed, and (c) the completion of any registration or other qualification of said shares under any state or federal law or ruling of any governmental body which the Company shall, in its sole discretion, determine to be necessary or advisable.

23. No Right to Continued Employment or Grants

Participation in the Plan shall not give any Participant any right to remain in the employ of the Company or any Subsidiary. The Company or, in the case of employment with a Subsidiary, the Subsidiary, reserves the right to terminate any Participant at any time. Further, the adoption of this Plan shall not be deemed to give any person any right to be selected as a Participant or to be granted an Award.

24. Amendment

The Board may suspend or terminate the Plan at any time. In addition, the Board may, from time to time, amend the Plan in any manner, provided however, that any such amendment may be subject to stockholder approval (i) at the discretion of the Board and (ii) to the extent that shareholder approval may be required by law, including, but not limited to, the requirements of Rule 16b-3 under the Exchange Act, or any successor rule or regulation.

25. Change in Control and Change in Ownership

(a) *Background.* All Participants shall be eligible for the treatment afforded by this paragraph 25 if there is a Change in Ownership or if their employment terminates within two years following a Change in Control, unless the termination is due to (i) death; (ii) disability entitling the Participant to benefits under his employer's long-term disability plan; (iii) Cause; (iv) resignation by the Participant other than for Good Reason; or (v) retirement entitling the Participant to benefits under his employer's retirement plan.

(b) *Vesting and Lapse of Restrictions.* If a Participant is eligible for treatment under this paragraph 25, (i) all of the terms and conditions in effect on any unexercised, unearned, unpaid or deferred Awards shall immediately lapse as of the Acceleration Date; (ii) no other terms or conditions shall be imposed upon any Awards on or after such date, and in no event shall any Award be forfeited on or after such date; and (iii) all of his unexercised, unvested, unearned and/or unpaid Awards or any other outstanding Awards shall automatically become one hundred percent (100%) vested immediately upon such date.

(c) *Dividends and Dividend Equivalents.* If a Participant is eligible for treatment under this paragraph 25, all unpaid dividends and dividend equivalents and all interest accrued thereon, if any, shall be treated and paid under this paragraph 25 in the identical manner and time as the Award under which such dividends or dividend equivalents have been credited. For example, if upon a Change in Ownership, an Award under this paragraph 25 is to be paid in a prorated fashion, all unpaid dividends and dividend equivalents with respect to such Award shall be paid according to the same formula used to determine the amount of such prorated Award.

(d) *Treatment of Performance Units and Performance Shares.* If a Participant holding either performance units or

performance shares is eligible for treatment under this paragraph 25, the provisions of this paragraph (d) shall determine the manner in which such performance units and/or performance shares shall be paid to him. For purposes of making such payment, each “current performance period” (defined to mean a performance period or term of a performance unit or performance share which period or term has commenced but not yet ended), shall be treated as terminating upon the Acceleration Date, and for each such “current performance period” and each “completed performance period” (defined to mean a performance period or term of a performance unit or performance share which has ended but for which the Committee has not, on the Acceleration Date, made a determination as to whether and to what degree the performance or service objectives for such period have been attained), it shall be assumed that the performance or service objectives have been attained at a level of one hundred percent (100%) or the equivalent thereof. If the Participant is participating in one or more “current performance periods,” he shall be considered to have earned and, therefore, to be entitled to receive, a prorated portion of the Awards previously granted to him for each such performance period. Such prorated portion shall be determined by multiplying the number of performance shares or performance units, as the case may be, granted to the Participant by a fraction, the numerator of which is the total number of whole and partial years (with each partial year being treated as a whole year) that have elapsed since the beginning of the performance period, and the denominator of which is the total number of years in such performance period. A Participant in one or more “completed performance periods” shall be considered to have earned and, therefore, be entitled to receive all the performance shares and performance units previously granted to him during each performance period.

(e) *Valuation of Awards.* If a Participant is eligible for treatment under this paragraph 25, his Awards (including those earned as a result of the application of paragraph 25(d) above) shall be valued and cashed out on the basis of the Change in Control Price.

(f) *Payment of Awards.* If a Participant is eligible for treatment under this paragraph 25, whether or not he is still employed by the Company or a Subsidiary, he shall be paid, in a single lump sum cash payment, as soon as practicable but in no event later than 90 days after the Acceleration Date, for all outstanding Units of Common Stock, Independent and Combination SARs, stock options (including incentive stock options), performance units (including those earned as a result of the application of paragraph 25(d) above), and performance shares (including those earned as a result of paragraph 25(d) above), and all other outstanding Awards, including those granted by the Committee pursuant to its authority under paragraph 3(h) hereof.

(g) *Deferred Awards.* If a Participant is eligible for treatment under this paragraph 25, all deferred Awards for which payment has not been received as of the Acceleration Date shall be paid in a single lump sum cash payment as soon as practicable, but in no event later than 90 days after such date. For purposes of making such payment, the value of all Awards which are stock-based shall be determined by the Change in Control Price.

(h) *Miscellaneous.* Upon a Change in Control or a Change in Ownership, (i) the provisions of paragraphs 16, 20 and 21 hereof shall become null and void and of no force and effect insofar as they apply to a Participant who has been terminated under the conditions described in (a) above; and (ii) no action shall be taken which would affect the rights of any Participant or the operation of the Plan with respect to any Award to which the Participant may have become entitled hereunder on or prior to the date of the Change in Control or Change in Ownership or to which he may become entitled as a result of such Change in Control or Change in Ownership.

(i) *Legal Fees.* The Company shall pay all legal fees and related expenses incurred by a Participant in seeking to obtain or enforce any payment, benefit or right he may be entitled to under the Plan after a Change in Control or Change in Ownership; provided, however, the Participant shall be required to repay any such amounts to the Company to the extent a court of competent jurisdiction issues a final and non-appealable order setting forth the determination that the position taken by the Participant was frivolous or advanced in bad faith.

26. No Right, Title or Interest in Company Assets

No Participant shall have any rights as a stockholder as a result of participation in the Plan until the date of issuance of a stock certificate in his name, and, in the case of Restricted Stock, stock options, performance shares or any other stock-based grant, such rights are granted to the Participant under paragraph 10(c) hereof. To the extent any person acquires a right to receive payments from the Company under this Plan, such rights shall be no greater than the rights of an unsecured creditor of the Company.

**AMENDMENT TO THE
NATIONAL FUEL GAS COMPANY
DEFERRED COMPENSATION PLAN**

I, P.C. Ackerman, pursuant to Article 10 of the National Fuel Gas Company Deferred Compensation Plan (the "Plan") and to resolutions adopted by the Board of Directors of National Fuel Gas Company on June 14, 2001, do hereby execute the following amendment to the Plan, effective July 1, 2001 for all cycles of the Plan.

1. Section 10.2 shall be amended by restating the last sentence to read as follows:

"The Company has eliminated the Supplemental Interest Rate with respect to Cycle III-A, IV and all subsequent cycles."

2. A new Section 11.5 is hereby added to the Plan, which shall read as follows:

11.5 Claims Procedures .

- (a) It is the intent of the Company to make payments under the Plan without the Participant having to complete or submit a claim for benefits. However, a Participant who believes he or she is entitled to a payment under the Plan may submit a claim for payment to the Committee. Any claim for payments under the Plan must be made by the Participant or his or her beneficiary in writing and state the Participant's name and the nature of benefits payable under the Plan on a form acceptable to the Committee. The Participant's claim shall be deemed to be filed when received in writing by the Committee. The committee's decision shall be in writing delivered to the Participant within 90 days of the date the claim is filed, unless circumstances require the extension of such 90-day period. If such extension is necessary, the Committee shall provide the Participant or his or her beneficiary with written notification of such extension before the expiration of the initial 90-day period. Such notice shall specify the reason or reasons for such extension and the date by which a final decision can be expected.

If for any reason a claim for payments under the Plan is wholly or partially denied by the Committee, the Committee shall deliver to the Participant a written explanation setting forth the specific reasons for the denial, specific references to the pertinent provisions of the Plan on which the denial is based, a description of any additional material or information necessary, an explanation of why such material or information is necessary, and information on the procedures to be followed by the Participant in obtaining a review of his or her claim.

- (b) The Participant shall have 60 days following his or her receipt of the denial of the claim to file with the Committee a written request for review of the denial. In connection with such review, the Participant or the Participant's representative may review pertinent documents and submit written comments, documents, records, and other information relevant to the claim.
- (c) The Committee shall decide the issues on review and furnish the Participant with a copy of its decision within 60 days of receipt of the Participant's request for review, unless circumstances require the extension of such 60-day period. If such extension is necessary, the Committee shall provide the Participant with written notification of such extension before the expiration of such initial 60-day period. The Committee's decision on review shall be in writing and shall include specific reasons for the decision, as well as specific references to the pertinent provisions in the Plan on which the decision is based. In no event may a Participant commence legal action for benefits the Participant believes are due the Participant until the Participant has exhausted all of the remedies and procedures afforded the Participant by this Section.

3. A new Section 12.13 is hereby added to the Plan, which shall read as follows:

12.13 Hardship Withdrawals .

- (a) In addition to the other distribution provisions of this Plan, and notwithstanding any provision herein to the contrary, in the event a participant incurs an unforeseeable emergency, the Participant may make a written request to the Committee for a hardship withdrawal from his or her Savings Account or retirement Account established under the Plan.
- (b) An unforeseeable emergency is a severe financial hardship to the Participant resulting from a sudden and

unexpected illness or accident of the Participant or of a dependent of the Participant, loss of the participant's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. An unforeseeable emergency shall not include the need to meet educational expenses or the costs related to the purchase of a residence.

- (c) If such a request is approved by the committee, which decision by the Committee shall be made in its sole discretion on a case by case basis, a hardship withdrawal may be permitted under this Section. Withdrawals of amounts because of an unforeseeable emergency are only permitted to the extent reasonably needed to satisfy the emergency need. In addition, the Committee, in its discretion, may require the Participant to suspend deferrals under the Plan for the remainder of the Deferral Period in which the hardship withdrawal is taken.

4. In all other respects, the Plan shall remain unchanged.

NATIONAL FUEL GAS COMPANY

June 15, 2001/s/ P. C. Ackerman

Dated

P.C. Ackerman
President

EXHIBIT 12

COMPUTATION OF R
EARNINGS TO FIXED
CHARGES
UNAUDITED

Fiscal Year Ended

	2001	2000	1999
EARNINGS:			
Income Before Interest Charges and Minority Interest in Foreign Subsidiaries (2)	\$172,060	\$226,696	\$202,512
Allowance for Borrowed Funds Used in Construction	438	424	303
Federal Income Tax	71,625	22,143	44,583
State Income Tax	21,330	13,067	6,215
Deferred Inc. Taxes - Net (3)	(55,844)	41,858	14,030
Investment Tax Credit - Net	(353)	(1,051)	(729)
Rentals (1)	4,893	4,561	4,281
	\$214,149	\$307,698	\$271,195
FIXED CHARGES:			
Interest & Amortization of Premium and Discount of Funded Debt	\$81,851	\$67,195	\$65,402
Interest on Commercial Paper and Short-Term Notes Payable	21,733	23,840	17,319
Other Interest (2)	2,072	7,495	2,835
Rentals (1)	4,893	4,561	4,281
	\$110,549	\$103,091	\$89,837
RATIO OF EARNINGS TO FIXED CHARGES	1.94	2.98	3.02

Notes:

- (1) Rentals shown above represent the portion of all rentals (other than delay rentals) deemed representative of the interest factor.
- (2) The twelve months ended September 30, 2001 and fiscal 2000, 1999, 1998 and 1997 reflect the reclassification of \$1,927, \$1,979, \$1,927, \$1,839 and \$1,716 representing the loss on reacquired debt amortized during each period, from Other Interest Charges to Operation Expense.
- (3) Deferred Income Taxes - Net for fiscal 1998 excludes the cumulative effect of change in accounting.

RALPH E. DAVIS ASSOCIATES, INC.

Consultants-Petroleum and Natural Gas
3555 Timmons Lane - Suite 1105
Houston, Texas 77027
(713) 622-8955

CONSENT OF ENGINEER

We hereby consent to the reproduction of our audit report for Seneca Resources Corporation dated October 18, 2001, and to the reference to our estimate dated October 1, 2001, appearing in this National Fuel Gas Company Annual Report on Form 10-K.

We also consent to the incorporation by reference in (i) the Registration Statement (Form S-8, No. 2-95439), as amended, relating to the National Fuel Gas Company 1983 Incentive Stock Option Plan and the National Fuel Gas Company 1984 Stock Plan, and in the related Prospectuses, (ii) the Registration Statements (Form S-8, No. 33-28037, No. 333-3055, and Nos. 2-97641, 33-17341 and 333-3057), as amended, relating to the National Fuel Gas Company Tax-Deferred Savings Plan and the National Fuel Gas Company Tax-Deferred Savings Plan for Non-Union Employees, respectively, and in the related Prospectuses, (iii) the Registration Statement (Form S-3, No. 333-03803), as amended, relating to \$500,000,000 of National Fuel Gas Company debentures and/or medium term notes and, in the related Prospectus, (iv) the Registration Statements (Form S-3, No. 33-51881 and Form S-3D, No. 333-51769), as amended, relating to the National Fuel Gas Company Dividend Reinvestment and Stock Purchase Plan, and in the related Prospectuses, (v) the Registration Statement (Form S-3, No. 33-36868), as amended, relating to the National Fuel Gas Company Customer Stock Purchase Plan, and in the related Prospectus, (vi) the Registration Statement (Form S-8, No. 33-49693), as amended, relating to the National Fuel Gas Company 1993 Award and Option Plan, and in the related Prospectus, and (vii) the Registration Statement (Form S-8, No. 333-51595) relating to the National Fuel Gas Company 1997 Award and Option Plan, and in the related Prospectus, (viii) the Registration Statement (Form S-4, No. 333-74887), as amended, relating to the acquisition of the assets of Cunningham Natural Gas, and in the related Prospectus, (ix) the Registration Statement (Form S-3, No. 333-83497), as amended, relating to \$625,000,000 of National Fuel Gas Company debentures and/or common stock, and in the related Prospectus, (x) the Registration Statement (Form S-3, No. 333-85711) relating to National Fuel Gas Company Direct Stock Purchase and Dividend Reinvestment Plan, and in the related Prospectus, of the reproduction of our report dated October 18, 2001, appearing in this National Fuel Gas Company Annual Report on Form 10-K.

RALPH E. DAVIS ASSOCIATES, INC.

/s/ Allen C. Barron, P.E.

Allen C. Barron, P.E.
Vice President

RALPH E. DAVIS ASSOCIATES, INC.

Consultants-Petroleum and Natural Gas
3555 Timmons Lane - Suite 1105
Houston, Texas 77027
(713) 622-8955

CONSENT OF ENGINEER

We hereby consent to the reproduction of our audit report for National Fuel Exploration Corporation dated October 18, 2001, and to the reference to our estimate dated October 1, 2001, appearing in this National Fuel Gas Company Annual Report on Form 10-K.

We also consent to the incorporation by reference in (i) the Registration Statement (Form S-8, No. 2-95439), as amended, relating to the National Fuel Gas Company 1983 Incentive Stock Option Plan and the National Fuel Gas Company 1984 Stock Plan, and in the related Prospectuses, (ii) the Registration Statements (Form S-8, No. 33-28037, No. 333-3055, and Nos. 2-97641, 33-17341 and 333-3057), as amended, relating to the National Fuel Gas Company Tax-Deferred Savings Plan and the National Fuel Gas Company Tax-Deferred Savings Plan for Non-Union Employees, respectively, and in the related Prospectuses, (iii) the Registration Statement (Form S-3, No. 333-03803), as amended, relating to \$500,000,000 of National Fuel Gas Company debentures and/or medium term notes and, in the related Prospectus, (iv) the Registration Statements (Form S-3, No. 33-51881 and Form S-3D, No. 333-51769), as amended, relating to the National Fuel Gas Company Dividend Reinvestment and Stock Purchase Plan, and in the related Prospectuses, (v) the Registration Statement (Form S-3, No. 33-36868), as amended, relating to the National Fuel Gas Company Customer Stock Purchase Plan, and in the related Prospectus, (vi) the Registration Statement (Form S-8, No. 33-49693), as amended, relating to the National Fuel Gas Company 1993 Award and Option Plan, and in the related Prospectus, and (vii) the Registration Statement (Form S-8, No. 333-51595) relating to the National Fuel Gas Company 1997 Award and Option Plan, and in the related Prospectus, (viii) the Registration Statement (Form S-4, No. 333-74887), as amended, relating to the acquisition of the assets of Cunningham Natural Gas, and in the related Prospectus, (ix) the Registration Statement (Form S-3, No. 333-83497), as amended, relating to \$625,000,000 of National Fuel Gas Company debentures and/or common stock, and in the related Prospectus, (x) the Registration Statement (Form S-3, No. 333-85711) relating to National Fuel Gas Company Direct Stock Purchase and Dividend Reinvestment Plan, and in the related Prospectus, of the reproduction of our report dated October 18 2001, appearing in this National Fuel Gas Company Annual Report on Form 10-K.

RALPH E. DAVIS ASSOCIATES, INC.

/s/ Allen C. Barron, P.E.

Allen C. Barron, P.E.
Vice President

Houston, Texas
November 9, 2001

RALPH E. DAVIS ASSOCIATES, INC.

Consultants-Petroleum and Natural Gas
3555 Timmons Lane - Suite 1105
Houston, Texas 77027
(713) 622-8955

CONSENT OF ENGINEER

We hereby consent to the reproduction of our audit report for Players Resources Ltd. dated October 18, 2001, and to the reference to our estimate dated October 1, 2001, appearing in this National Fuel Gas Company Annual Report on Form 10-K.

We also consent to the incorporation by reference in (i) the Registration Statement (Form S-8, No. 2-95439), as

amended, relating to the National Fuel Gas Company 1983 Incentive Stock Option Plan and the National Fuel Gas Company 1984 Stock Plan, and in the related Prospectuses, (ii) the Registration Statements (Form S-8, No. 33-28037, No. 333-3055, and Nos. 2-97641, 33-17341 and 333-3057), as amended, relating to the National Fuel Gas Company Tax-Deferred Savings Plan and the National Fuel Gas Company Tax-Deferred Savings Plan for Non-Union Employees, respectively, and in the related Prospectuses, (iii) the Registration Statement (Form S-3, No. 333-03803), as amended, relating to \$500,000,000 of National Fuel Gas Company debentures and/or medium term notes and, in the related Prospectus, (iv) the Registration Statements (Form S-3, No. 33-51881 and Form S-3D, No. 333-51769), as amended, relating to the National Fuel Gas Company Dividend Reinvestment and Stock Purchase Plan, and in the related Prospectuses, (v) the Registration Statement (Form S-3, No. 33-36868), as amended, relating to the National Fuel Gas Company Customer Stock Purchase Plan, and in the related Prospectus, (vi) the Registration Statement (Form S-8, No. 33-49693), as amended, relating to the National Fuel Gas Company 1993 Award and Option Plan, and in the related Prospectus, and (vii) the Registration Statement (Form S-8, No. 333-51595) relating to the National Fuel Gas Company 1997 Award and Option Plan, and in the related Prospectus, (viii) the Registration Statement (Form S-4, No. 333-74887), as amended, relating to the acquisition of the assets of Cunningham Natural Gas, and in the related Prospectus, (ix) the Registration Statement (Form S-3, No. 333-83497), as amended, relating to \$625,000,000 of National Fuel Gas Company debentures and/or common stock, and in the related Prospectus, (x) the Registration Statement (Form S-3, No. 333-85711) relating to National Fuel Gas Company Direct Stock Purchase and Dividend Reinvestment Plan, and in the related Prospectus, of the reproduction of our report dated October 18 2001, appearing in this National Fuel Gas Company Annual Report on Form 10-K.

RALPH E. DAVIS ASSOCIATES, INC.

/s/ Allen C. Barron, P.E.

Allen C. Barron, P.E.
Vice President

Houston, Texas
November 9, 2001

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (No. 333-85711), Form S-3 (No. 333-83497), Form S-3 (No. 33-51881), Form S-3 (No. 33-36868), Form S-3 (No. 333-03803), Form S-3 (No. 333-51769), Form S-8 (No. 2-94539), Form S-8 (No. 33-49693), Form S-8 (No. 333-03057), Form S-8 (No. 333-03055), Form S-8 (No. 333-51595), and Form S-4 (No. 333-74887) of National Fuel Gas Company of our report dated October 24, 2001, except for Note F, as to which the date is December 3, 2001, relating to the financial statements and financial statement schedule, which appears in this Form 10-K.

/s/PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Buffalo, New York
December 17, 2001

**RALPH E. DAVIS ASSOCIATES, INC.
CONSULTANTS-PETROLEUM AND NATURAL GAS
3555 TIMMON LANE-SUITE 1105
HOUSTON, TEXAS 77027
(713) 622 - 8955**

October 18, 2001

Seneca Resources Corporation
 1201 Louisiana, Suite 400
 Houston, Texas 77002

Attention: Mr. Don A. Brown
 Vice President

Re: Oil, Condensate and Natural Gas Reserves,

Seneca Resources Corporation
 As of October 1, 2001

Gentlemen:

At your request, the firm of Ralph E. Davis Associates, Inc. has audited an evaluation of the proved oil, condensate and natural gas reserves on leaseholds in which Seneca Resources Corporation has certain interests. This report presents a summary of the Proved Developed (producing, nonproducing and shut-in) and Proved Undeveloped reserves anticipated to be produced from Seneca Resources' interest.

Liquid volumes are expressed in thousands of barrels (MBbls) of stock tank oil. Gas volumes are expressed in millions of standard cubic feet (MMSCF) at the official temperature and pressure bases of the areas wherein the gas reserves are located.

The summarized results of the reserve audit are as follows:

Consultants to the Petroleum and Natural Gas Industries Since the 1920's

RALPH E. DAVIS ASSOCIATES, INC.

Seneca Resources Corp.
 Mr. Don A. Brown
 October 18, 2001
 Page 2

**Estimated Proved Reserves
 Net to Seneca Resources Corporation
 As of October 1, 2001**

<u>Proved Developed</u>	<u>Proved</u>			
<u>Division:ProducingNon ProducingShut-InUndevelopedTotal</u>	<u>Produced</u>	<u>Proved</u>	<u>Undeveloped</u>	<u>Proved</u>
EAST COAST:				
Oil/Condensate: MBbls	76.9	0.0	0.0	0.0
Gas: MMcf	78,457.1	0.0	0.0	0.0
GULF COAST:				
Oil/Condensate: MBbls	5,413.5	845.5	0.0	35.4
Gas: MMcf	56,787.6	31,105.3	0.0	1964.4
WEST COAST:				
Oil/Condensate: MBbls	42,322.2	1,511.7	470.1	24,119.9
Gas: MMcf	43,415.7	3,073.5	952.8	51,056.8
TOTAL COMPANY:				
Oil/Condensate: MBbls	47,812.6	2,357.2	470.1	24,155.3
Gas: MMcf	178,660.4	34,178.8	952.8	53,021.2

DISCUSSION:

The scope of this study was to audit the proved reserves attributable to the interests of Seneca Resources Corporation. Reserve estimates were prepared by Seneca using acceptable evaluation principals for each source. The quantities presented herein are estimated reserves of oil, condensate and natural gas that geologic and engineering data demonstrate can be recovered from known reservoirs under existing economic conditions with reasonable certainty.

Ralph E. Davis Associates, Inc. has audited the reserve estimates, the data incorporated into

RALPH E. DAVIS ASSOCIATES, INC.

Seneca Resources Corp.
Mr. Don A. Brown
October 18, 2001
Page 3

preparing the estimates and the methodology used to evaluate the reserves. In each of Seneca's producing divisions all current year additions and those properties of significant value were reviewed by Ralph E. Davis. Reserve estimates of current producing zones, productive zones behind pipe and undrilled well locations were reviewed in detail. Certain changes to either individual reserve estimates or the categorization of reserves were suggested by Ralph E. Davis Associates, Inc. and accepted by Seneca Resources. It is our opinion that the reserves presented herein meet all the criteria of Proved Reserves.

Neither Ralph E. Davis Associates, Inc. nor any of its employees have any significant interest in Seneca Resources Corporation or the properties reported herein. The employment and compensation to make this study are not contingent on our estimate of reserves.

We appreciate the opportunity to be of service to you in this matter, and will be glad to address any questions or inquiries you may have.

Very truly yours,

RALPH E. DAVIS ASSOCIATES, INC.

Allen C Barron, PE
President

**RALPH E. DAVIS ASSOCIATES, INC.
CONSULTANTS-PETROLEUM AND NATURAL GAS
3555 TIMMON LANE-SUITE 1105
HOUSTON, TEXAS 77027
(713) 622 - 8955**

October 18, 2001

National Fuel Exploration Corp.
c/o Seneca Resources Corporation
1201 Louisiana, Suite 400
Houston, Texas 77002

Attention: Mr. Don A. Brown
Vice President

Re: Oil, Condensate and Natural Gas Reserves,

National Fuel Exploration Corp.
As of October 1, 2001

Gentlemen:

At your request, the firm of Ralph E. Davis Associates, Inc. has audited an evaluation of the proved oil, condensate and natural gas reserves on leaseholds in which National Fuel Exploration Corp. has certain interests. This report presents a summary of the Proved Developed (producing, nonproducing and shut-in) and Proved Undeveloped reserves anticipated to be produced from National Fuel Exploration' interest.

Liquid volumes are expressed in thousands of barrels (MBbls) of stock tank oil. Gas volumes are expressed in millions of standard cubic feet (MMSCF) at the official temperature and pressure bases of the areas wherein the gas reserves are located.

Consultants to the Petroleum and Natural Gas Industries Since the 1920's

The summarized results of the reserve audit are as follows:

RALPH E. DAVIS ASSOCIATES, INC.

National Fuel Exploration Corp.
Mr. Don A. Brown
October 18, 2001
Page 2

**Estimated Proved Reserves
Net to National Fuel Exploration Corp.
As of October 1, 2001**

<u>Proved Developed</u>		<u>Proved</u>		
<u>Division:ProducingNon</u>	<u>ProducingShut-In</u>	<u>Undeveloped</u>	<u>Total</u>	<u>Proved</u>
TOTAL COMPANY:				
Oil/Condensate: MBbls	32,487.8	0.0	0.0	6,852.0
Gas: MMcf	2,546.0	0.0	0.0	0.0

DISCUSSION:

The scope of this study was to audit the proved reserves attributable to the interests of National Fuel Exploration Corp. Reserve estimates were prepared by National Fuel Exploration using acceptable evaluation principals for each source. The quantities presented herein are estimated reserves of oil, condensate and natural gas that geologic and engineering data demonstrate can be recovered from known reservoirs under existing economic conditions with reasonable certainty.

Ralph E. Davis Associates, Inc. has audited the reserve estimates, the data incorporated into preparing the estimates and the methodology used to evaluate the reserves. In each of National Fuel Exploration's producing areas all current year additions and those properties of significant value were reviewed by Ralph E. Davis. Reserve estimates of current producing zones, productive zones behind pipe and undrilled well locations were reviewed in detail. Certain changes to either individual reserve estimates or the categorization of reserves were suggested by Ralph E. Davis Associates, Inc. and accepted by National Fuel Exploration. It is our opinion that the reserves presented herein meet all the criteria of Proved Reserves.

RALPH E. DAVIS ASSOCIATES, INC.

Neither Ralph E. Davis Associates, Inc. nor any of its employees have any significant interest in National Fuel Exploration Corp. or Seneca Resources Corporation or the properties reported herein. The employment and compensation to make this study are not contingent on our estimate of reserves.

We appreciate the opportunity to be of service to you in this matter, and will be glad to address any questions or inquiries you may have.

Very truly yours,

RALPH E. DAVIS ASSOCIATES, INC.

Allen C Barron, PE
President

**RALPH E. DAVIS ASSOCIATES, INC.
CONSULTANTS-PETROLEUM AND NATURAL GAS
3555 TIMMON LANE-SUITE 1105
HOUSTON, TEXAS 77027
(713) 622 - 8955**

October 18, 2001

Player Resources Ltd.
c/o Seneca Resources Corporation
1201 Louisiana, Suite 400
Houston, Texas 77002

Attention: Mr. Don A. Brown
Vice President

Re: Oil, Condensate and Natural Gas Reserves,

Player Resources Ltd.
As of October 1, 2001

Gentlemen:

At your request, the firm of Ralph E. Davis Associates, Inc. has audited an evaluation of the proved oil, condensate and natural gas reserves on leaseholds in which Player Resources Ltd. has certain interests. This report presents a summary of the Proved Developed (producing, nonproducing and shut-in) and Proved Undeveloped reserves anticipated to be produced from Player Resources interest.

Liquid volumes are expressed in thousands of barrels (MBbls) of stock tank oil. Gas volumes are expressed in millions of standard cubic feet (MMSCF) at the official temperature and pressure bases of the areas wherein the gas reserves are located.

The summarized results of the reserve audit are as follows:

Consultants to the Petroleum and Natural Gas Industries Since the 1920's

RALPH E. DAVIS ASSOCIATES, INC.

**Estimated Proved Reserves
Net to Player Resources Corporation
As of October 1, 2001**

<u>Proved</u>	<u>Developed</u>	<u>Proved</u>	<u>Total</u>	<u>Proved</u>
<u>Division:Producing</u>	<u>Non Producing</u>	<u>Shut-In</u>	<u>Undeveloped</u>	<u>Total</u>
TOTAL COMPANY:				
Oil/Condensate: MBbls	1,184.6	3.1	0.0	4.8
Gas: MMcf	45,229.0	5,688.0	0.0	2,104.0

DISCUSSION:

The scope of this study was to audit the proved reserves attributable to the interests of Player Resources Corporation. Reserve estimates were prepared by Player Resources using acceptable evaluation principals for each source. The quantities presented herein are estimated reserves of oil, condensate and natural gas that geologic and engineering data demonstrate can be recovered from known reservoirs under existing economic conditions with reasonable certainty.

Ralph E. Davis Associates, Inc. has audited the reserve estimates, the data incorporated into preparing the estimates and the methodology used to evaluate the reserves. In each of Player Resources' producing areas all current year additions and those properties of significant value were reviewed by Ralph E. Davis. Reserve estimates of current producing zones, productive zones behind pipe and undrilled well locations were reviewed in detail. Certain changes to either individual reserve estimates or the categorization of reserves were suggested by Ralph E. Davis Associates, Inc. and accepted by Player Resources. It is our opinion that the reserves presented herein meet all the criteria of Proved Reserves.

RALPH E. DAVIS ASSOCIATES, INC.

Neither Ralph E. Davis Associates, Inc. nor any of its employees have any significant interest in Player Resources Ltd. or the properties reported herein. The employment and compensation to make this study are not contingent on our estimate of reserves.

We appreciate the opportunity to be of service to you in this matter, and will be glad to address any questions or inquiries you may have.

Very truly yours,

RALPH E. DAVIS ASSOCIATES, INC.

Allen C Barron, PE
President

