

National Fuel Gas Company

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Annual Report
and Form 10-K



CORPORATE PROFILE

National Fuel Gas Company, incorporated in 1902, is a diversified energy company with its headquarters in Buffalo, New York. The Company's \$2.8 billion in assets is distributed among six business segments: Exploration and Production, Pipeline and Storage, Utility, International, Energy Marketing and Timber.

National Fuel's history dates to the earliest days of the natural gas and oil industry in the United States, and the Company has been responsible for many industry firsts. As we begin the new century, the Company continues to be managed in the same innovative and entrepreneurial spirit.



EXPLORATION AND PRODUCTION

Seneca Resources Corporation explores for, develops and purchases natural gas and oil reserves in the Gulf Coast Region of Texas and Louisiana, the Appalachian Region, the Rocky Mountain Region and in California. Currently, Seneca's exploration emphasis is centered around the Gulf Coast in offshore waters, while development drilling has expanded in California.

PIPELINE AND STORAGE

National Fuel Gas Supply Corporation provides interstate natural gas transportation and storage for affiliated and non-affiliated companies through an integrated gas pipeline system that extends 3,065 miles from southwestern Pennsylvania to the New York-Canadian border at the Niagara River. It also owns 29 underground natural gas storage areas and is co-owner and operator of four others.

UTILITY

National Fuel Gas Distribution Corporation sells or transports natural gas to over 733,000 customers through a local distribution system located in western New York and northwestern Pennsylvania. The major areas served by this system include Buffalo, Niagara Falls and Jamestown in New York, and Erie and Sharon in Pennsylvania.

INTERNATIONAL

Horizon Energy Development, Inc. engages in foreign energy projects through the investments of its indirect subsidiaries as the sole or substantial owner of various business entities. One of its wholly owned entities has a majority ownership in three district heating and power generation companies located in the Czech Republic.

ENERGY MARKETING

National Fuel Resources, Inc. is engaged in the marketing and brokerage of natural gas and electricity and the performance of energy management services for industrial, commercial, public authority and residential end-users throughout the northeast United States.

TIMBER

Highland Land & Minerals, Inc. and *Seneca Resources Corporation, Northeast Division* carry out the Timber segment operations for the Company. Highland operates four sawmills in northwestern Pennsylvania. Seneca markets timber from its New York and Pennsylvania land holdings.

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HIGHLIGHTS

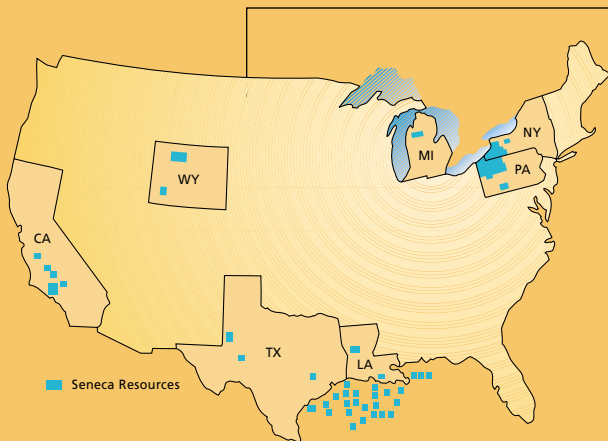
Year Ended September 30	1999	1998	1997	1996	1995
Operating Revenues (Thousands)	\$1,263,274	\$1,248,000	\$1,265,812	\$1,208,017	\$ 975,496
Net Income Available for Common Stock (Thousands)	\$ 115,037	\$ 23,188	\$ 114,688	\$ 104,671	\$ 75,894
Net Income Available for Common					
Stock Before Special Items (Thousands)	\$ 115,037	\$ 111,418 ⁽¹⁾	\$ 114,688	\$ 104,671	\$ 75,894
Return on Average Common Equity	12.6%	2.6%	13.0%	12.6%	9.6%
Return on Average Common Equity Before					
Special Items	12.6%	11.9% ⁽¹⁾	13.0%	12.6%	9.6%
Per Common Share					
Basic Earnings	\$ 2.98	\$ 0.61	\$ 3.01	\$ 2.78	\$ 2.03
Diluted Earnings	\$ 2.95	\$ 0.60	\$ 2.98	\$ 2.77	\$ 2.03
Basic Earnings Before Special Items	\$ 2.98	\$ 2.91 ⁽¹⁾	\$ 3.01	\$ 2.78	\$ 2.03
Diluted Earnings Before Special Items	\$ 2.95	\$ 2.88 ⁽¹⁾	\$ 2.98	\$ 2.77	\$ 2.03
Dividends Paid	\$ 1.82	\$ 1.76	\$ 1.70	\$ 1.64	\$ 1.59
Dividend Rate at Year-End	\$ 1.86	\$ 1.80	\$ 1.74	\$ 1.68	\$ 1.62
Book Value at Year-End	\$24.19	\$23.14	\$23.94	\$22.61	\$21.39
Common Shares Outstanding at Year-End	38,837,499	38,468,795	38,165,888	37,851,655	37,434,363
Weighted Average Common Shares Outstanding					
Basic	38,663,981	38,316,397	38,083,514	37,613,305	37,396,875
Diluted	39,041,728	38,703,526	38,440,018	37,825,453	37,476,534
Average Common Shares Traded Daily	60,663	62,741	59,456	50,143	43,531
Common Stock Price					
High	\$50	\$49 ¹ / ₈	\$45 ⁷ / ₁₆	\$38	\$30 ³ / ₄
Low	\$37¹/₂	\$39 ⁵ / ₈	\$36 ⁵ / ₈	\$28 ¹ / ₂	\$25
Close	\$47³/₁₆	\$47	\$44	\$36 ³ / ₄	\$28 ³ / ₄
Net Cash Provided by Operating Activities (Thousands)	\$ 271,890	\$ 252,978	\$ 294,662	\$ 168,469	\$ 174,361
Total Assets (Thousands)	\$2,842,586	\$2,684,459	\$2,267,331	\$2,149,772	\$2,036,823
Expenditures for Long-Lived Assets (Thousands)	\$ 269,913	\$ 510,652	\$ 248,311	\$ 174,502	\$ 182,826
Volume Information					
Utility Throughput-MMcf					
Gas Sales	101,675	108,599	127,501	132,742	116,297
Gas Transportation	64,284	60,386	57,875	58,218	52,830
Pipeline & Storage Throughput-MMcf					
Gas Transportation	308,303	313,048	300,302	325,006	290,739
Production Volumes					
Gas-MMcf	37,166	36,474	38,586	38,767	20,942
Oil-Mbbl	4,016	2,614	1,902	1,742	739
Total-MMcfe	61,262	52,161	49,998	49,219	25,376
Proved Reserves					
Gas-MMcf	320,792	325,065	232,449	207,082	221,459
Oil-Mbbl	75,819	66,591	17,981	25,749	22,865
Total-MMcfe	775,706	724,611	340,335	361,576	358,649
Energy Marketing Volumes-MMcf					
Gas	34,454	26,453	21,024	20,232	18,841
International Sales Volumes					
Heating (Gigajoules)	10,047,042	7,116,776	262,615	36,652	—
Electricity (Megawatt hours)	1,138,980	763,848	—	—	—
Average Number of Utility Retail Customers	693,023	704,217	731,034	732,493	729,945
Average Number of Utility					
Transportation Customers	41,515	28,224	2,013	1,733	1,528
Number of Employees at September 30	3,807⁽²⁾	3,944 ⁽²⁾	2,524	2,843	2,925

(1) Excludes oil and gas asset impairment of (\$79.1) million or (\$2.06) per common share (basic) and (\$2.04) per common share (diluted) and Cumulative Effect of Change in Accounting of (\$9.1) million or (\$0.24) per common share (basic and diluted).

(2) Includes 1,406 and 1,390 international employees at September 30, 1999 and 1998, respectively.

At A Glance

EXPLORATION AND PRODUCTION



IN 1999

- Net income of \$7.1 million contributed 6% of total Company earnings.
- Drilled a total of 118 wells with 91% success rate; 95 successful wells were in California.
- Record production of 61.3 Bcf equivalent.
- Total reserves increased 7% to 776 Bcf equivalent.

OUTLOOK*

- Increase total production in 2000 by over 20% to 74.4 Bcf equivalent.
- 2000 capital budget of \$112.2 million, excluding acquisitions; 84% targeted for Gulf Region.
- 40 development wells planned in California for 2000.
- Continue cost containment policies to be low cost operator and producer.

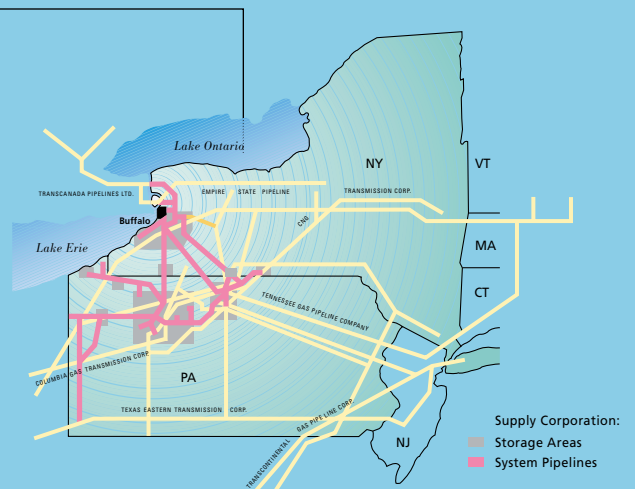
PIPELINE AND STORAGE

IN 1999

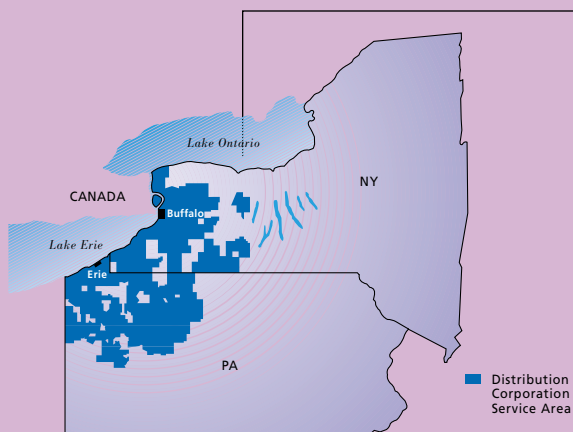
- Net income of \$39.8 million was nearly 35% of total Company earnings.
- Independence Pipeline project continues on track; received final Environmental Impact Statement in November 1999 from Federal Energy Regulatory Commission (FERC).
- Ellisburg, Pennsylvania compressor station capacity increased 62 MMcf per day.

OUTLOOK*

- Awaiting FERC final certification on Independence Pipeline project.
- Anticipate expanding capacity incrementally in the Niagara Spur as demand increases.
- Seek other opportunities to expand into new geographic areas.



UTILITY



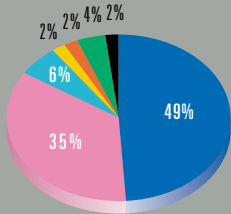
IN 1999

- Net income of \$56.9 million contributed 49% of total Company earnings.
- Completed first year of two year rate plan effective October 1, 1998 in New York.
- Traditional customer service performance measures improved or remained at historically high levels.
- Customer choice programs now available to all customers in New York and Pennsylvania.

OUTLOOK*

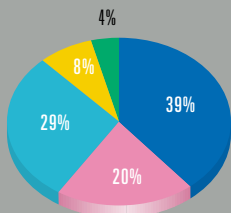
- Continue to work with the NYPSC and the PaPUC on defining industry restructuring.
- Explore value added services and products for entire Utility customer base.
- Continue emphasis on strengths: cost containment, superior customer service, and a managed transition to competition.

NET INCOME
by Segment



Total: \$115.0 million

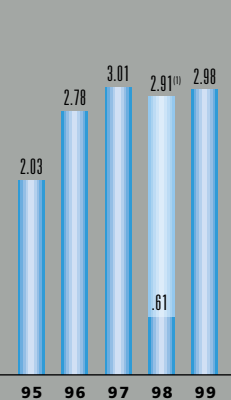
NET PLANT
by Segment



Total: \$2.4 billion

- Utility
- Pipeline and Storage
- Exploration and Production
- International
- Energy Marketing
- Timber
- All Other and Corporate

BASIC EARNINGS
PER COMMON SHARE
Dollars Per Common Share



(1) Excludes special items for impairment of oil and gas producing assets and for cumulative effect of change in accounting.

INTERNATIONAL



IN 1999

- Net income of \$2.3 million was 78% higher than 1998 earnings.
- Net plant now \$203.5 million.

OUTLOOK*

- Merger of SCT and PSZT on target for 2000.
- Prague base allows us to look at opportunities within Eastern Europe.

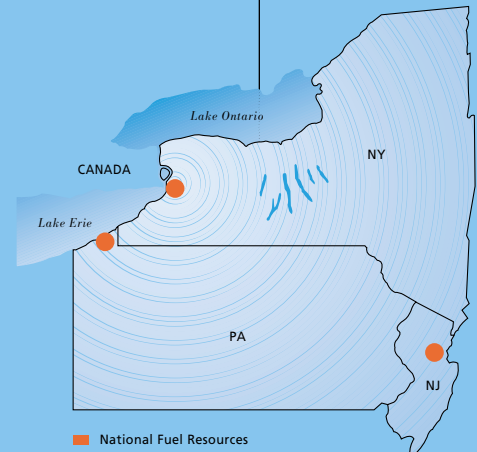
ENERGY MARKETING

IN 1999

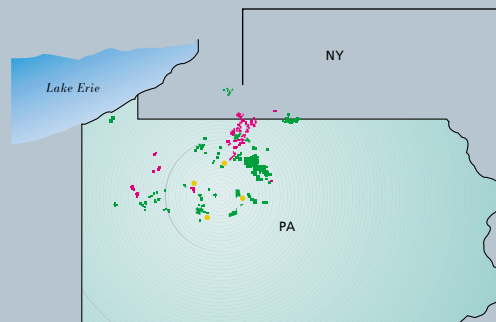
- Net income of \$2.1 million was 161% higher than 1998.
- Residential customer base more than tripled; natural gas volumes increased 30% to 34.5 Bcf.

OUTLOOK*

- Pursue opportunities from electric and gas industry restructuring.



TIMBER



IN 1999

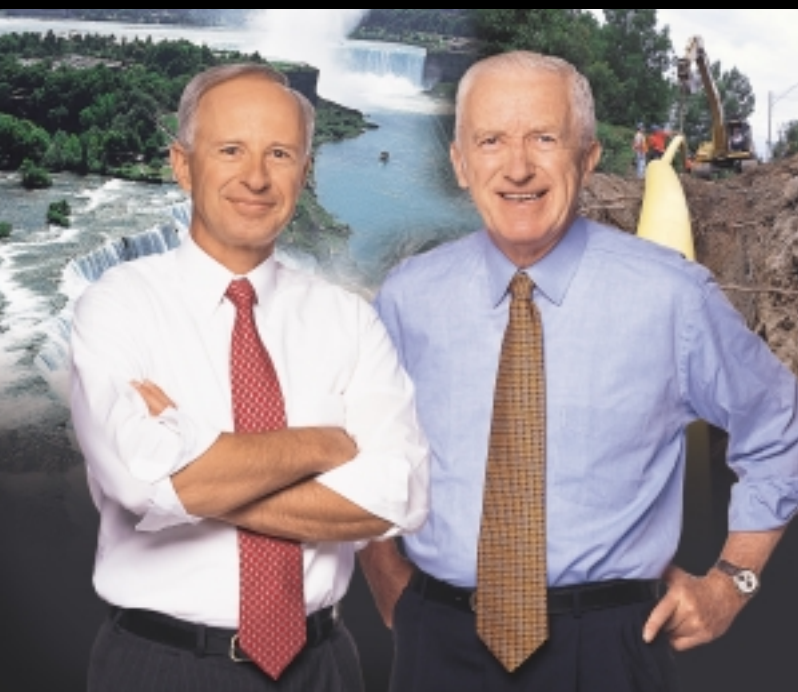
- Net income increased nearly 151% to \$4.8 million, or 4% of total Company earnings.
- Acquired from PennzEnergy over 36,000 acres of high-quality timber contiguous to our holdings in Pennsylvania.

OUTLOOK*

- Complete timber inventory to effectively evaluate our timber assets.

- Seneca Acreage
- PennzEnergy Acreage Acquired
- Sawmills

In 1999, our earnings per share of \$2.98 not only exceeded last year's earnings of \$2.91 (exclusive of the oil and gas impairment and the cumulative effect of



PHILIP C. ACKERMAN
President

BERNARD J. KENNEDY
Chairman of the Board and Chief Executive Officer

the change in accounting methods), but more importantly, it was our second best year ever. The fact that we came within one percent of our

record-breaking performance in 1997 of \$3.01 per share, despite some serious handicaps, demonstrates the strength of your Company and the tremendous potential that we feel could be realized in a year when conditions are more favorable.*

While 1999 was not “the worst of times,” we began the first half of the year with three rather challenging obstacles: first, a winter that was warmer than normal not only in our Utility service areas, but also in Europe; second, extremely low oil and gas prices which reduced the profitability of our Exploration and Production operations; and third, as part of a two year settlement with the New York Public Service Commission (NYPSC), a base rate reduction and agreement to fund the costs of restructuring. However, with the dedicated efforts of our employees and some recent relief in commodity pricing, “the best of times” came within our grasp by the closing months of the year.

With today’s strong oil prices coupled with an expected 20% increase in our production for 2000, we anticipate record earnings in the coming year.* While the market price of our stock closed at \$47³/₁₆ at fiscal year end, it reached a new high in November of \$52¹⁵/₁₆. Further, although our expectations in 2000 center around our Exploration and Production segment, we think that prospects in general have never been better for your Company.*

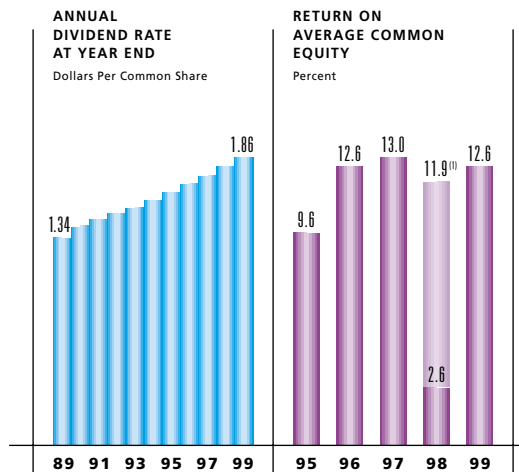
While opinions may vary about magnitude and timing, knowledgeable authorities agree that consumption of natural gas for power generation will increase because of increasing demands for electric power, growing concerns

about air quality and the environmental impact of using coal and oil, and the age of many of this country’s coal and nuclear power plants.* As the increase in consumption comes to pass, we believe your Company is prepared to capitalize on this opportunity.* An increase in demand for natural gas should also lead to an increase in prices benefiting our Exploration and Production segment with its substantial reserves and undeveloped acreage.*

As gas moves to northeast markets from either the Gulf Coast or the Canadian Rockies, the configuration of our country’s pipeline system is such that the obvious paths for the gas is through our service territory either south of Lake Erie on the proposed Independence Pipeline, of which we are a 1/3 owner, or north across the Niagara River and down our system.* The increased gas flow should also provide expansion opportunities for our storage services and Leidy Hub.* In addition, increased use of gas on our system could benefit our Utility segment and offer additional potential for our Energy Marketing segment.*

Meanwhile, on a state level, deregulation has continued to move ahead in both Pennsylvania and New York. Pennsylvania revoked the gross receipts tax on gas utility sales and passed legislation to implement its restructuring plan. Although New York has not yet completed its restructuring plans, the NYPSC is currently working to transform its “vision” statement on deregulation into reality.*

Notes:
 All references to years in this Annual Report are to the Company’s fiscal year, which ends September 30.
 All references to earnings per share are for basic earnings per common share.
 This document contains “forward-looking statements” as defined by the Private Securities Litigation Reform Act of 1995. Forward-looking statements, including those designated by a “*”, should be read with the cautionary statements and important factors included in this Annual Report on Form 10-K at Item 7, under the heading “Safe Harbor for Forward-Looking Statements.”



(1) Excludes special items for impairment of oil and gas producing assets and for cumulative effect of change in accounting.

Paradoxically, despite the slower pace of its deregulation initiative, opportunities appear greater for marketers in New York where residential and small commercial customers of the Utility have turned to gas marketers at a rate of over 1,000 per week during the past several months.* Our Energy Marketing segment has been one of the fastest growing marketers in the State and has added as its sales customers many of those former Utility customers who have switched to transportation.

During the year, three particular management changes were made to assist in the growth of the Company. Philip C. Ackerman was elected President of National Fuel Gas Company, David F. Smith was elected to replace Phil as President of National Fuel Gas Distribution Corporation (Distribution Corporation) and Donna L. DeCarolis was appointed Assistant Vice President of Distribution Corporation. Phil had been involved for many years in the nonregulated aspects of our business before he became President of the Utility, and his new position will permit an integrated approach to expanding the entire Company.* Dave has been with the Utility for 21 years and led the Company's efforts in the Pennsylvania restructuring collaborative. Donna has been assigned the specific task of seeking growth opportunities for the Utility.

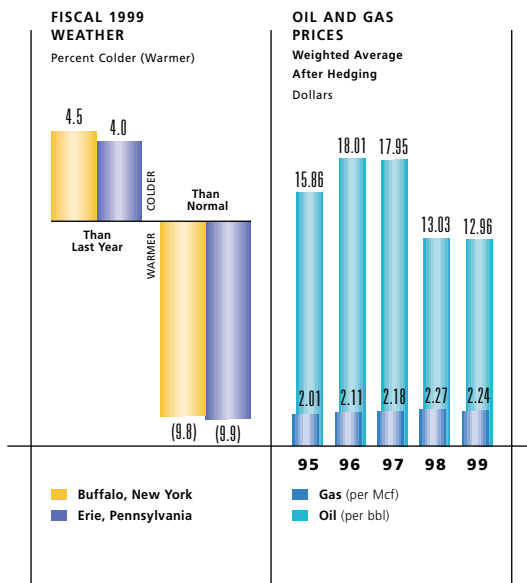
Following 28 consecutive years of increased dividends and, with 1999 being another year of solid performance, it

was decided that in 1999 our dividend would be increased again. In June your Board of Directors raised the dividend over 3%, or \$.06 per share, to \$1.86 on an annual basis. This 29th consecutive annual increase also marks 97 years of uninterrupted dividend payments, a record of which few companies on the New York Stock Exchange can boast.

During the past 25 years we have grown your Company from a local distribution company to one which reaches the breadth and depth of this great country, from our Niagara import station on the north, south to the Gulf Coast, west to our California operations, and back east to Leidy Hub. We have also expanded internationally with our operations in the Czech Republic. This year, our Company-wide capital expenditures including acquisitions and other investments was \$269.9 million; in 2000, our planned capital budget is \$211.0 million, excluding acquisitions and other investments.*

Now, on the following pages, a senior officer from each of the Company's reporting segments will tell you about the significant accomplishments of that segment's operations, and how he envisions that segment's participation in this changing environment.

Emerson once said, "Nothing great was ever achieved without enthusiasm." We cannot hide our enthusiasm and confidence that the solid, fundamental strength of National Fuel Gas Company, together with natural gas's expanding role in the national energy equation, will help us build an even bigger and more profitable Company in the 21st century.*



Bernard J. Kennedy
Chairman of the Board and Chief Executive Officer

Philip C. Ackerman
President

December 9, 1999

Geologists and geophysicists use computer technology to interpret three dimensional (3-D) seismic data in order to recommend prospective oil and gas drilling sites. Pictured here: Scott Gorham and Gerald Langille of Seneca's Houston office.



JAMES A. BECK
President, Seneca Resources Corporation



In the Gulf Coast, our successful offshore exploration program continued. The most significant of these was... Vermilion 253 where the first well had over 900 feet of oil and gas pay sands.

Exploration and Production

If this discussion had taken place in March, six months into 1999, the tone and message would have been considerably different. Oil prices were excessively low at \$9.03 per bbl and natural gas prices of \$1.92 per Mcf were dropping significantly because of record storage volumes resulting mostly from a warmer than normal winter. This segment had only contributed about \$.01 per share to the Company's earnings.

What a difference six months makes! By the end of 1999 oil prices were moving toward \$25.00 per bbl and natural gas prices increased to approximately \$2.80 per Mcf. This segment's earnings for 1999 of \$7.1 million, or \$.18 per share, contributed 6% of Company earnings, and we also finished the year with a stellar production record. Total revenue this year was \$147.0 million which was 18% higher than 1998. Production

increased 17% from 1998 levels to 61.3 Bcf equivalent. A total of 118 wells were drilled this year, and our team, aided by 3-D seismic technology achieved a 91% success rate. We replaced 187% of 1999 production with new reserves from our exploration program, and total reserves increased 7% in 1999 to 776 Bcf equivalent.

Performance improvements in our California operations were truly impressive in 1999. After completing our three acquisitions in 1998, initial operating costs were nearly \$6.00 per bbl of oil. At the end of 1999, those costs were reduced to \$4.07 per bbl. Production had also significantly improved, primarily due to a 95-well drilling program completed this year. At the end of 1999, daily oil production had increased 17% from initial production to 7,333 barrels per day.

These pumping units are part of the heavy oil operation on Seneca's Cherokee property at the Midway-Sunset Field. In 1999, Seneca drilled 51 wells at this site, which is located in California's San Joaquin Basin.



Recommendations from analysis of 3-D seismic data are carefully reviewed and evaluated. Pictured here: Seneca Houston personnel Linda Holmberg and John McKnight.



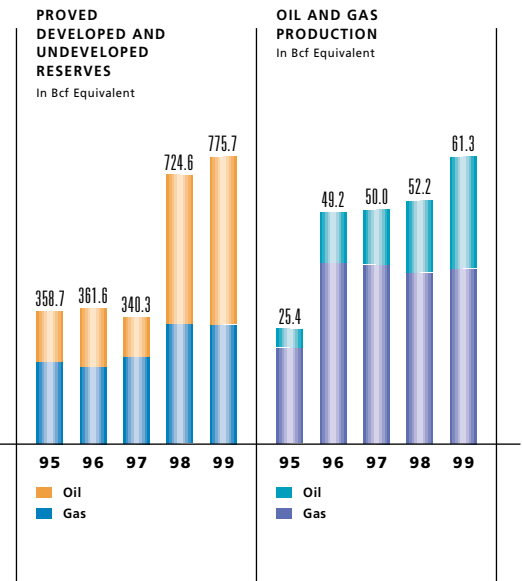
In the Gulf Coast, our successful offshore exploration program continued. New discoveries at Vermilion 309, Vermilion 253, West Delta 78, High Island 365, and Galveston 225 contributed to the reserve replacement discussed above. The most significant of these was the announced discovery at Vermilion 253 where the first well had over 900 feet of oil and gas pay sands. Production platforms and facilities are being installed, and we anticipate production to begin in late Spring 2000.* Drilling will continue on both Vermilion 253 and 309 in 2000 with more production expected to be placed on line from these blocks.*

Cost controls and an extremely efficient operation helped make us one of the lowest cost operators in the Appalachian region. The nearly 450,000 acres controlled by Seneca Resources Corporation (Seneca) in Pennsylvania and New York are a potential

untapped opportunity.* However, the relatively low reserves per well and the long lives of the wells mean that we have to be convinced that gas prices would reach a sustainable \$3.00 per Mcf before we will commence large scale development.*

Total production for Seneca for 2000 is expected to increase over 20% to 74.4 Bcf equivalent in a ratio of approximately 64% gas and 36% oil, and nearly 60% of this production is locked in through financial hedges.* Capital spending, exclusive of acquisitions, is anticipated to be \$112.2 million with approximately 84% targeted for the Gulf Coast Region and the remainder for an additional 40 development well program which has begun in our West Coast operations.*

Although 2000 could be as volatile as 1999, we expect it to present many opportunities as consolidation, strategic selling and asset monetization continue in the exploration and production sector.* The management and employees of Seneca will concentrate on continuing our success in reducing production costs, enhancing reserve replacement and growing your Company through the drill bit and through acquisitions.* Seneca is prepared to take advantage of these opportunities.*



Timber

The Timber segment is an increasingly important source of earnings.* This year's earnings of \$4.8 million, or \$.12 per share, increased nearly 151% from 1998.

This past July we acquired approximately 36,300 acres of land, timber and minerals from PennzEnergy Company for approxi-

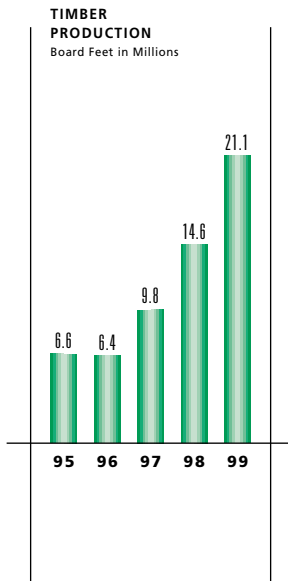
mately \$47.0 million. This property is largely quality timber acreage located within the "cherry corridor" of Pennsylvania.

Presently, we are conducting a timber inventory, or "cruise," of all our holdings in order to better optimize the value of our timber assets. Many of our trees are nearing their economic maturity and detailed information is required to plan the most efficient realization of this value. We presently estimate that we own over 400 million board feet of hardwood timber, consisting mostly of cherry, maple and oak. Even after the cruise is completed and our plans are developed, it is likely that the maximum level of production will not be achieved for many years because of the sheer physical magnitude of carefully dealing with over 140,000 acres.* However, in the interim, we expect to sell certain noncore portions of our holdings in order to reduce debt.*



Gregory Ochs operates the edger at the Marienville, Pennsylvania sawmill. The four sawmills owned by the Timber segment sold approximately 21.1 million board feet of logs and lumber this year.

Right, Much of the timber harvested is taken from the 140,000 acres owned by Seneca Resources.



This year National Fuel Gas Supply Corporation replaced 14,000 feet of Line K, a major supply line which runs from Clarion, Pennsylvania to Buffalo, New York. Here, a welding crew works on a section of the new 20-inch steel pipe.



RICHARD HARE
President, National Fuel Gas Supply Corporation



Your Company is, indeed, the “Gateway to the East” ... We stand directly between the gas supplies heading from Western Canada to the East Coast markets ...

Pipeline and Storage

Currently the third largest segment in terms of net plant, this segment continued to be a strong contributor to Company earnings, second only to the Utility. Net income of \$39.8 million, or \$1.03 per share, provided nearly 35% of 1999 Company earnings.

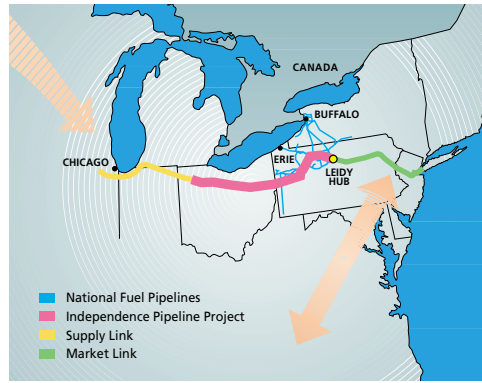
In anticipation of the growing demand for natural gas in the East Coast markets, a portion of this year’s capital budget was spent expanding the throughput capacity of our Ellisburg, Pennsylvania compressor station from 369 MMcf per day to over 431 MMcf per day. This additional capacity is designed to increase both pipeline throughput and storage customer access to Leidy Hub, a key link to the East Coast. We also anticipate expanding capacity incrementally in the Niagara Spur as demand increases.*

Discussion at this Fall’s annual meeting of the Interstate Natural Gas Association of America centered on the increasing use of

gas-powered combined-cycle electric generation plants and gas peaking units and the anticipated construction of new power plants, the vast majority of which will be gas-fired.* Some of the reasons for gas-fired electric generation include reduced environmental air quality issues from coal-fired generation and efficiencies from technological advances in combined-cycle turbines and other types of gas-fired units.* This anticipated movement towards gas-fired generation presents tremendous growth opportunities for gas pipeline companies.*

Much of this new power plant construction is expected to be directed to, and constructed near, the East Coast markets.* The question then becomes, where will these power generators get the gas for these new plants? We expect that some of it will come from the Gulf Coast, but that supply is likely

Plans are in place to construct and operate the Independence Pipeline, a 370-mile interstate pipeline, of which we are 1/3 owner. This pipeline would transport about 900,000 Dth per day of natural gas from Defiance, Ohio to Leidy, Pennsylvania.



to mainly feed the West Coast, lower Rockies, and the Southeast.* Much of the gas is therefore expected to come from the hubs near Chicago which are fed by Canadian producers via the Northern Border Pipeline Expansion, completed in 1998, and the Alliance Pipeline, which is currently under construction.* With this influx of Canadian gas, Chicago should have pent up capacity, while markets on the East Coast are expected to have pent up demand.* Consequently, capacity needs to be made available to move gas from Chicago eastward.* Another pipeline project, Vector, has received approval from the Federal Energy Regulatory Commission (FERC) to build a pipeline from Chicago to Dawn, Ontario. Designed to transport 1 Bcf per day of gas, we understand the Vector Pipeline has approximately half of its capacity subscribed to Eastern Canadian markets.* We expect the remaining capacity from Vector should most logically come across the Niagara River and through our system.*

Of course, we are convinced that the best route for the Canadian gas is still through the Independence Pipeline. We are pursuing this \$680 million project with our partners, affiliates of Transcontinental Gas Pipe Line Corporation (one of the Williams Companies) and ANR Pipeline Company (a subsidiary of

The Coastal Corporation).* This pipeline, when constructed, should be the key link in a chain of pipelines from the Canadian Rockies to the East Coast.* In November 1999 the project received the FERC final Environmental Impact Statement which is a very positive step toward project certification. We are awaiting final certification of the project. We believe that by supplying over 900,000 Dth per day of gas to the East Coast markets, this pipeline will be instrumental in capitalizing on the anticipated movement by the power generation industry toward gas-fired generation.*

Your Company is, indeed, the “Gateway to the East” more so than it has ever been. We stand directly between the gas supplies heading from Western Canada to the East Coast markets, and we believe our pipeline and storage facilities are strategically located to take advantage of this growth opportunity.*

Right, A \$5.7 million investment was made in this 3,200 horsepower compressor at the Ellisburg, Pennsylvania Station, near the Leidy Hub. Put into service in March 1999, this new equipment increased capacity for both pipeline throughput and customer access to storage.

Below, Dramatic gas flare-ups at Summit Storage Field near Erie, Pennsylvania could be seen from quite a distance. This operation removes deposits that have accumulated in the wells and improves deliverability of natural gas out of the storage field.



Plastic pipe is now used more frequently by the Utility for mainline replacement projects. In addition to being lighter and more flexible than steel pipe, it is resistant to corrosion and lessens the time and costs associated with pipe fitting and welding.

DAVID F. SMITH

President, National Fuel Gas Distribution Corporation



While we have seen an increase in customer choice activity... we remain focused on building restructured services that preserve reliability and provide a framework for fair competition.

Utility

This segment's earnings of \$56.9 million, or \$1.47 per share, contributed the largest portion, approximately 49%, of the Company's net income in 1999. This is a remarkable achievement since our two year rate settlement in New York required an annual rate reduction of \$7.2 million, and required us to set aside \$7.2 million of 1999 revenues to fund future restructuring expenses incurred as New York State separates the sale of gas from transportation.

Our continuing emphasis on cost containment has been instrumental in helping us to achieve better than expected results thanks to the efforts of our employees. By embracing the message of change, they helped us to further reduce total operating and maintenance expenses below last year's figures. This accomplishment is all the more noteworthy in light of the increased expense caused by our early retirement initiatives.

During 1999, the local and national media made much of customer choice for utility customers. Electric choice initiatives in New York and Pennsylvania jumped into the spotlight as regulatory agencies launched public education programs and electric marketers began advertising campaigns for retail customers. The publicity suggests that there is a great deal of customer choice activity going on in the business, with customers switching suppliers and telemarketers pitching utility service and nontraditional products to an ever-growing pool of eligible utility customers. In fact, however, the reality is somewhat less exciting. While we have seen an increase in customer choice activity – currently over 70,000 of our more than 733,000 customers have switched to transportation service – we continue to manage the transition to competition as an evolutionary, con-

Right, The Utility works with local businesses to support economic development. Over the summer, gas service lines were relocated to facilitate expansion of the Buffalo Bills' Ralph Wilson Fieldhouse in Orchard Park, New York. Pictured here: Orchard Park Service Center personnel Patrick McNerney and Kevin McCarthy.

sidered process. Choice as an end unto itself is a dubious proposition, and we remain focused on building restructured services that preserve reliability and provide a framework for fair competition. These efforts have yielded a successful choice program that we expect will continue to produce benefits for the Utility, the Company and our customers as the industry's restructuring proceeds.*

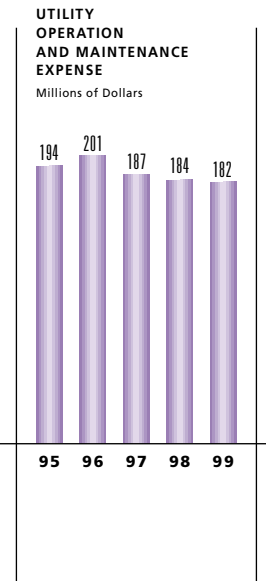
In an environment of rapid change, we have maintained the Utility's steadfast dedication to superior customer service. For instance, new programs were established in New York and Pennsylvania to provide gas appliance repairs or replacement for some of our neediest customers. We continued to work with local social service agencies to bring the benefits of competition to thousands of public assistance customers who might otherwise be overlooked as a potential market. We organized a Transportation

A new vacuum truck is now used throughout the Utility service territory. This equipment, often used in place of a backhoe, minimizes the size of construction sites thus reducing both restoration costs and related customer complaints. Pictured here: Jurel Hunt and Michael Siler of the Construction Department.



Services Department in order to better and more efficiently serve the needs of our transportation customers. We continued to enhance our field procedures to allow more customers to initiate or transfer service without having to provide access to Company personnel. Finally, our traditional service performance measures continued to improve or remain at historically high levels.

We have also scrutinized the Utility's practices and procedures in order to identify opportunities for technology improvement and efficiency gains. Currently, we are installing a new PeopleSoft® system that will greatly enhance our ability to retrieve and efficiently process financial and accounting information. Additionally, we are modifying our Customer Information System to allow



Training and preliminary implementation has begun for the PeopleSoft® Financials system. This new accounting and financial system is intended to improve timeliness of reporting as well as to simplify access to information. Pictured here: Marjorie Minotti instructs employee implementation team members, from left, Mark Kraemer, Robert Schneggenburger, Susan Bender, Joseph Short and Brian Hirsch.



for more flexibility in customer and marketer billing functions. In the field, technological advances have allowed our personnel to respond more effectively and efficiently to many situations, from environmental site monitoring to pipeline system repairs and maintenance. For example, by using a “vacuum” truck for line repairs, we significantly reduced the cost of gas line maintenance and site restoration costs. We are also using a “gas cam” which allows our crews to “see” through a tiny camera inserted into a pipe, thereby making corrosion and other

Utility employees closely monitor ground water levels following a two year long environmental clean-up recently completed at the Erie, Pennsylvania Service Center. Pictured here: Tanya Alexander and Joseph Hartleb.

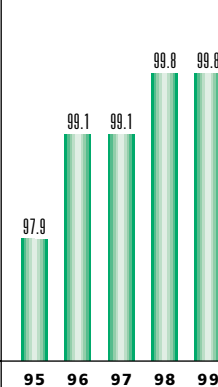


line problems easier and less costly to isolate and repair.

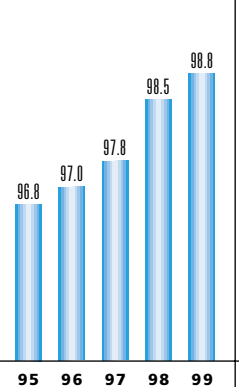
Finally, we are exploring a number of value added services and products designed to increase revenues from our existing customer base. In the Utility’s service territories, National Fuel is a name that customers have long trusted for reliable gas service and expert energy advice. Particularly during these times of rapid change, opportunities for the Utility to offer nontraditional products and services are at their greatest. As a result, we are looking at energy end-use technologies, including microturbines and distributed generation projects, retail billing services, pipeline insurance and appliance leasing, among other things. Indications are promising that customers would be strongly interested in these and other products and services offered by the Utility.*

In these changing times, we believe it is particularly important that we remain focused on the fundamentals. Thus, we will continue to emphasize our strengths: cost containment, superior customer service, and a managed transition to competition. At the same time, however, change presents new opportunities. We look forward to exploring those opportunities during the next year and as the business environment continues to evolve.

NEW SERVICE COMMITMENTS
Percent of Orders Completed Within 10 Days



NON-EMERGENCY APPOINTMENTS
Percent of Appointments Kept



Through deregulation, gas marketers such as National Fuel Resources can offer homeowners the opportunity to receive savings on their natural gas bills.



ROBERT J. KREPEL
President, National Fuel Resources, Inc.



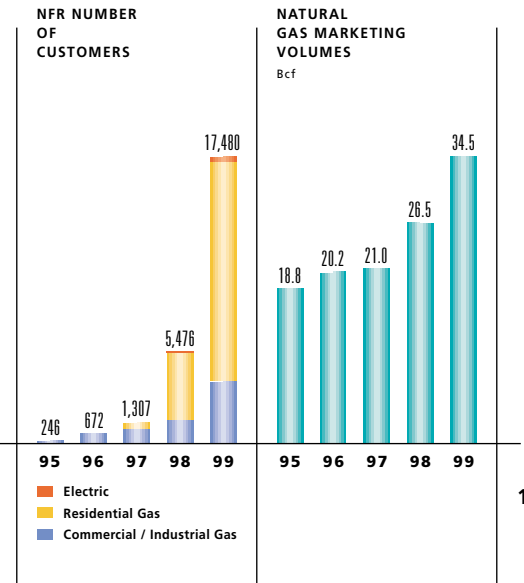
Regulatory changes in New York have been most favorable, and, as a result, our most dynamic growth has taken place there.

Energy Marketing

In what may be a unique record among gas company marketing affiliates, each year since its inception in 1991 National Fuel Resources, Inc. (NFR) has contributed positively to Company earnings. In 1999, net income of \$2.1 million, or \$.05 per share, provided a return on its equity of 16.8%. As you can see from the charts provided, over 75% of our customer growth is attributed to residential gas customers, but the dramatic increase in volumes was accomplished across-the-board with growth in all customer segments. NFR has a multi-state presence and continues to expand its markets in New Jersey and Pennsylvania. However, regulatory changes in New York have been most favorable, and, as a result, our most dynamic growth has taken place there.

NFR has strategically acquired upstream pipeline capacity and storage to assure reliable service to our customers at competitive

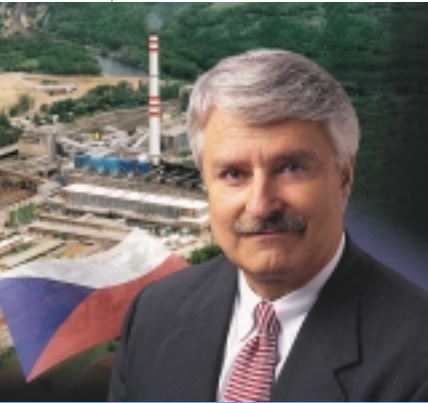
prices.* Providing energy solutions for customers cannot be limited to natural gas and related value added services. We are also pursuing opportunities related to gas-fired generation which could position us for future retail electric opportunities.* While retail electric prospects are modest at the moment, we are confident that a fully competitive market will unfold over time and we will be well positioned for this opportunity.*



At our electric generation and district heating plant in Komořany, Czech Republic, steam produced in nine high pressure boilers is used to fuel these eight turbine generators before being delivered to the primary pipeline as an energy source for industrial and municipal heating customers.

Below, PSZT employees dispatch electricity to the local distribution grid from this control center 24 hours a day and 365 days a year.

BRUCE H. HALE
*Vice President, Horizon
Energy Development, Inc.*



Future growth could come from a joint venture or similar alliance, preferably with a U.S.-based electric company.*

International

Net income of \$2.3 million, or \$.06 per share, is a gratifying result from this relatively new segment. These earnings were \$1.0 million or 78% higher than 1998's earnings of \$1.3 million. This year also marked the first full 12 months of sales and revenues from our investment in První severozápadní teplárenská, a.s. (PSZT).

Capital expenditures of \$27.6 million were used primarily for the construction of new boilers at our PSZT heating plant to comply with certain clean air standards mandated by the Czech Republic. Our net plant in the Czech Republic now stands at \$203.5 million with total assets of \$255.0 million.

The merger of Severočeské teplárny, a.s. (SCT) and PSZT is expected to occur in 2000, and should provide efficiency improvements and cost reductions.* Future growth could come from a joint venture or similar alliance, preferably with a U.S.-based electric

company.* We believe their knowledge of electricity and our natural gas expertise will provide enhanced development opportunities.*

We are comfortable with our base in Prague which allows us to look at numerous prospects within Eastern Europe. As you may know, projects here happen later rather than sooner; thus, patience and a long-term view are key considerations as we continue to evaluate potential energy projects.*



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, 1999

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
(Address of principal executive offices)

14203
(Zip Code)

(716) 857-6980
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 \$1,907,786,000 as of November 30, 1999.

Common Stock, \$1 Par Value, outstanding as of November 30, 1999: 38,966,378 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Annual Report to Shareholders for 1999 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 17, 2000 are incorporated by reference into Part III of this report.

Form 10-K

For the Fiscal Year Ended September 30, 1999

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This combined Annual Report to Shareholders/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 combined Annual Report to Shareholders/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 a “*” 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

The Company and its Subsidiaries

National Fuel Gas Company (the Company or Registrant), a registered holding company 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 on December 8, 1902. The Company is engaged in the business of owning and holding securities issued by its 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 or the Registrant and its subsidiaries collectively, as appropriate in the context of the disclosure.

The Company is a diversified energy company consisting of the six reportable business segments. This report includes two newly-reported segments – Energy Marketing and Timber – and no longer includes the previously reported “Other Nonregulated” segment. As a result of these refinements in the Company’s reportable segments, where appropriate in this report the information for 1998 and 1997 has been restated from the prior year’s presentation to conform to the 1999 presentation.

- 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 and provides natural gas transportation services through a local distribution system located in western New York and northwestern Pennsylvania (principal metropolitan areas: Buffalo, Niagara Falls and Jamestown, New York; 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) 29 underground natural gas storage fields owned and operated by Supply Corporation and four other underground natural gas storage fields operated jointly with various major interstate gas pipeline companies. SIP holds a one-third general partnership interest in Independence Pipeline Company (Independence), a Delaware general partnership. Independence, after receipt of regulatory approvals and upon securing sufficient customer interest, plans to construct and operate the Independence Pipeline, a 370-mile interstate pipeline system which would transport about 900,000 dekatherms per day (Dth/day) of natural gas from Defiance, Ohio to Leidy, Pennsylvania.*

- 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, and in California, Wyoming and in the Appalachian region of the United States.
- 4.** The International segment operations are carried out by Horizon Energy Development, Inc. (Horizon), a New York corporation. Horizon engages in foreign energy projects through the investments of its indirect subsidiaries as the sole or substantial owner of various business entities. Horizon is the sole shareholder of Horizon Energy Holdings, Inc., a New York corporation which in turn owns 100% of Horizon Energy Development B.V. (Horizon B.V.). Horizon B.V. is a Dutch company whose principal assets consist of a majority ownership in (i) Severočeské teplárny, a.s. (SCT), a company with district heating and power generation operations located in the northern part of the Czech Republic; (ii) První severozápadní teplárenská, a.s. (PSZT), a wholesale power and district heating company that is located in the Czech Republic in close proximity to SCT; and (iii) 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 electricity and the performance of energy management services for industrial, commercial, public authority and residential end-users throughout the northeast United States.
- 6.** The Timber segment operations are carried out by Highland Land & Minerals, Inc. (Highland), a Pennsylvania corporation, and by a division of Seneca known as its Northeast Division. Highland owns four sawmill operations in northwestern Pennsylvania and processes timber consisting primarily of high quality hardwoods. The Northeast Division of Seneca markets timber from its New York and Pennsylvania land holdings.

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 discussion of the Company's business segments as contained in the business segment discussion on pages 7 to 16 of this combined Annual Report to Shareholders/Form 10-K is incorporated herein by reference.

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) (formerly known as Niagara Energy Trading Inc.), 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 Independence Pipeline;
- Leidy Hub, Inc. (Leidy), a New York corporation formed to provide various natural gas hub services to customers in the eastern United States through a 50% ownership of Ellisburg-Leidy Northeast Hub Company (a Pennsylvania general partnership);
- Data-Track Account Services, Inc. (Data-Track), a New York corporation which provides collection services principally for the Company's subsidiaries; and

• NFR Power, Inc. (NFR Power), a New York corporation capitalized by the Company in 1999 which, while not actively generating electricity at this time, is designated as an “exempt wholesale generator” under the Holding Company Act.

No single customer, or group of customers under common control, accounted for more than 10% of the Company’s consolidated revenues in 1999.

Any reference to a year in this report is to the Company’s fiscal year ended September 30 of that year unless otherwise noted.

Rates and Regulation

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. The proposed legislation currently under consideration 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. Such legislation could actually increase regulation of the Company, especially at the state level. Previous SEC rule changes, however, 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 current or future legislative and/or regulatory initiatives 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 (NYPSC) 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 rates, services and other matters 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.

<p>The Utility Segment</p>	<p>The Utility segment contributed approximately 49.4% of the Company’s net income available for common stock in 1999.</p> <p>Additional discussion of the Utility segment appears in the business segment discussion contained in this combined Annual Report to Shareholders/Form 10-K, below in this Item 1 under the headings “Sources and Availability of Raw Materials” and “Competition,” in Item 7, MD&A and in Item 8 at Notes B - Regulatory Matters, H - Commitments and Contingencies and I - Business Segment Information.</p>
<p>The Pipeline and Storage Segment</p>	<p>The Pipeline and Storage segment contributed approximately 34.6% of the Company’s net income available for common stock in 1999.</p> <p>Supply Corporation currently has service agreements for substantially all of its firm transportation capacity, which totals approximately 1,943 million cubic feet (MMcf) per day. The Utility segment has contracted for approximately 1,126 MMcf per day or 58% of that capacity until 2003 and continuing year-to-year thereafter. An additional 25% of Supply Corporation’s firm transportation capacity is subject to firm contracts with nonaffiliated customers until 2003 or later.</p> <p>Supply Corporation has available for sale to customers approximately 62.8 billion cubic feet (Bcf) of firm storage capacity. The Utility segment has contracted for 26.0 Bcf or 41% of that capacity, in service agreements with remaining initial terms of approximately 4 to 7 years and continuing year-to-year thereafter: 23.3 Bcf - 4 years; 2.0 Bcf - 7 years and 0.7 Bcf - 5 years. Nonaffiliated customers have contracted for the remaining 36.8 Bcf or 59% of firm storage capacity; 12.1 Bcf or 19% of total storage capacity is contracted by nonaffiliated customers until 2003 or later. 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.*</p> <p>Independence has filed with the FERC signed precedent agreements providing for firm transportation service totaling about 629,000 Dth/day for ten years, out of total proposed transportation capacity of about 900,000 Dth/day. The customer for 500,000 Dth/day of that total is DirectLink, which is owned by the sponsors of the Independence Pipeline, including NIM.</p> <p>Additional discussion of the Pipeline and Storage segment appears in the business segment discussion contained in this combined Annual Report to Shareholders/Form 10-K, below under the headings “Sources and Availability of Raw Materials” and “Competition,” Item 7, MD&A and Item 8 at Notes B - Regulatory Matters, H - Commitments and Contingencies and I - Business Segment Information.</p>
<p>The Exploration and Production Segment</p>	<p>The Exploration and Production segment contributed approximately 6.2% of the Company’s net income available for common stock in 1999.</p> <p>Additional discussion of the Exploration and Production segment appears in the business segment discussion contained in this combined Annual Report to Shareholders/Form 10-K, below under the headings “Sources and Availability of Raw Materials” and “Competition,” Item 7, MD&A and Item 8 at Notes A - Summary of Significant Accounting Policies, F - Financial Instruments, I - Business Segment Information, J - Stock Acquisitions and M - Supplementary Information for Oil and Gas Producing Activities.</p>
<p>The International Segment</p>	<p>The International segment contributed approximately 2.0% of the Company’s net income available for common stock in 1999.</p>

	<p>Additional discussion of the International segment appears in the business segment discussion contained in this combined Annual Report to Shareholders/Form 10-K, below under the headings “Sources and Availability of Raw Materials” and “Competition,” Item 7, MD&A and Item 8 at Notes F - Financial Instruments, I - Business Segment Information and J - Stock Acquisitions.</p>
<p>The Energy Marketing Segment</p>	<p>The Energy Marketing segment contributed approximately 1.8% of the Company’s net income available for common stock in 1999.</p> <p>Additional discussion of the Energy Marketing segment appears in the business segment discussion contained in this combined Annual Report to Shareholders/Form 10-K, below under the headings “Sources and Availability of Raw Materials” and “Competition,” Item 7, MD&A and Item 8 at Notes F - Financial Instruments and I - Business Segment Information.</p>
<p>The Timber Segment</p>	<p>The Timber segment contributed approximately 4.1% of the Company’s net income available for common stock in 1999.</p> <p>Additional discussion of the Timber segment appears in the business segment discussion contained in this combined Annual Report to Shareholders/Form 10-K, below under the headings “Sources and Availability of Raw Materials” and “Competition,” Item 7, MD&A and Item 8 at Note I - Business Segment Information.</p>
<p>Sources and Availability of Raw Materials</p>	<p>Natural gas is the principal raw material for the Utility segment. In 1999, the Utility segment purchased 112.4 Bcf of gas. Gas purchases from various producers and marketers in the southwestern United States under long-term (two years or longer) contracts accounted for 66% of these purchases. Purchases of gas in Canada and the United States on the spot market (contracts of less than a year) accounted for 29% of the Utility segment’s 1999 gas purchases. Gas purchases from Southern Company Energy Marketing L.P. and Dynegy Marketing and Trade represented 17% and 13%, respectively, of total 1999 gas purchases by the Utility segment. No other producer or marketer provided the Utility segment with 10% or more of its gas requirements in 1999.</p> <p>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 midwestern United States.</p> <p>The Exploration and Production segment seeks to discover and produce raw materials (natural gas, oil and hydrocarbon liquids) as described in the business segment discussion contained in this combined Annual Report to Shareholders/Form 10-K, Item 7, MD&A and Item 8 at Notes I - Business Segment Information and M - Supplementary Information for Oil and Gas Producing Activities.</p> <p>Coal is the principal raw material for the International segment, constituting 45% of the cost of raw materials needed to operate the boilers which produce steam or hot water. Natural gas, fuel oil, limestone and water combined account for the remaining 55% of such materials. Coal is purchased and delivered directly from the Mostecka Uhelna Společnost, a.s. mine for Horizon’s largest coal-fired plant under a contract where price and quantity are the subject of negotiation each year. Natural gas is imported by the Czech Republic government from Russia and the North Sea and is transported through the Transgas pipeline system which is majority owned by the Czech Republic government and purchased by the International segment from two of the eight regional gas distribution companies. Fuel oil used to fire certain of the boilers is purchased from both domestic Czech Republic and foreign refineries.</p>

The Energy Marketing segment depends on an adequate supply of natural gas and electricity. In 1999, this segment purchased approximately 34.5 Bcf of natural gas and approximately 73,000 megawatt hours of electricity.

With respect to the Timber segment, Highland requires an adequate supply of timber to process. Highland, however, mainly processes timber which is located on land owned by Seneca, and therefore, the source and availability of this segment's primary raw material are generally known in advance.

Competition

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 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, natural gas is abundantly available in North America, which makes 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.

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. State restructuring initiatives are under way, with regulators in both New York and Pennsylvania adopting 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 and/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 midwestern regions of the United States. This location offers the opportunity for increased transportation and storage services in the future.*

SIP, through Independence, is competing for customers with other proposed pipeline projects which would bring natural gas from the Chicago area to the growing Northeast and Mid-Atlantic United States markets. In combination with expansion projects of Transcontinental Gas Pipe Line

Corporation and ANR Pipeline Company, Independence intends to provide the least-cost path for this service and 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.* Independence is attempting to be the first of the proposed projects approved by the FERC and the first built.* If completed, the Independence pipeline would likely create opportunities for increased transportation and storage services by Supply Corporation.*

Competition: The Exploration and Production Segment

The Exploration and Production segment competes with other gas and oil producers and marketers with respect to its 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 originates and acts as operator on most prospects, minimizes risk of exploratory efforts through partnership-type arrangements, applies the latest technology for both exploratory studies and drilling operations and focuses on market niches that suit its size, operating expertise and financial criteria.

Competition: The International Segment

Horizon competes with other entities seeking to develop foreign and domestic energy projects. Horizon, through SCT and PSZT, faces competition in the sales of thermal energy to large industrial customers. Currently, electric energy sales are made to the regional electric distribution companies. The Czech Ministry of Finance has announced plans to privatize these distribution companies. While it is expected that these plans will increase competition at the retail level of the electric energy market, it is unclear at this point what impact this privatization will have on the wholesale electric energy market.* Both SCT and PSZT sell electricity at the wholesale level.

Competition: The Energy Marketing Segment

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

Competition: The Timber Segment

Highland competes with other sawmill operations and Seneca competes with other suppliers of timber. This competition may be local, regional, national or international in scope. These competitors, however, are primarily limited to those entities which either process or supply high quality hardwoods species, such as cherry, oak and maple as veneer, or 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.

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. In the International segment, district heating operations in the Czech Republic are also subject to the seasonality of weather.

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 all 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 and electricity consumed by customers of the Energy Marketing 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

A discussion of capital expenditures by business segment is included in Item 7, MD&A under the heading "Investing Cash Flow" and subheading "Expenditures for Long-Lived Assets."

Environmental Matters

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

The Company had a total of 3,807 full-time employees at September 30, 1999, 2,401 employees in all of its U.S. operations and 1,406 employees in its International segment. This represents a decrease of 3.47% from the 3,944 total employed at September 30, 1998.

Agreements covering employees in collective bargaining units in New York were renegotiated in November 1997, effective December 1997, and are scheduled to expire in February 2001. Agreements covering most employees in collective bargaining units in Pennsylvania have been renegotiated, come in 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⁽¹⁾

Name and Age	Current Company Positions and Other Material Business Experience During Past 5 Years ⁽²⁾
Bernard J. Kennedy (68)	Chairman of the Board of Directors since March 1989, Chief Executive Officer since August 1988 and Director since March 1978. Mr. Kennedy previously served as President from January 1987 to July 1999.
Philip C. Ackerman (55)	President since July 1999 and Director since March 1994. Mr. Ackerman has served as Executive Vice President of Supply Corporation since October 1994 and President of Horizon since September 1995. He previously served as Senior Vice President from June 1989 to July 1999 and as President of Distribution Corporation from October 1995 to July 1999.
Richard Hare (61)	President of Supply Corporation since June 1989. Mr. Hare previously served as Senior Vice President of Penn-York Energy Corporation from June 1989 until its merger into Supply Corporation in July 1994.
David F. Smith (46)	President of Distribution Corporation since July 1999. Mr. Smith previously served as Senior Vice President of Distribution Corporation from January 1993 to July 1999.

Name and Age	Current Company Positions and Other Material Business Experience During Past 5 Years ⁽²⁾
James A. Beck (52)	President of Seneca since October 1996 and President of Highland since March 1998. Mr. Beck previously served as Vice President of Seneca from January 1994 to April 1995 and as Executive Vice President of Seneca from May 1995 to September 1996.
Joseph P. Pawlowski (58)	Treasurer since December 1980. Mr. Pawlowski has served as Senior Vice President of Distribution Corporation since February 1992, Treasurer of Distribution Corporation since January 1981, Treasurer of Supply Corporation since June 1985 and Secretary of Supply Corporation since October 1995.
Gerald T. Wehrlin (61)	Controller since December 1980. Mr. Wehrlin has served as Senior Vice President of Distribution Corporation since April 1991, Controller of Seneca since September 1981 and Vice President of Horizon since February 1997. He previously served as Secretary and Treasurer of Horizon from September 1995 to February 1997.
Walter E. DeForest (58)	Senior Vice President of Distribution Corporation since August 1993.
Bruce H. Hale (50)	Senior Vice President of Supply Corporation since February 1997 and Vice President of Horizon since September 1995. Mr. Hale previously served as Senior Vice President of Distribution Corporation from January 1993 to February 1997.
Dennis J. Seeley (56)	Senior Vice President of Distribution Corporation since February 1997. Mr. Seeley previously served as Senior Vice President of Supply Corporation from January 1993 to February 1997.
Robert J. Kreppel (42)	President of NFR since March 1995. Mr. Kreppel previously served as Vice President of NFR from February 1992 to March 1995.

(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 was elected as an officer. The executive officers serve at the pleasure of the Board of Directors.

(2) The information provided relates to positions within the Company and, where identified, the principal subsidiaries of the Company. Many of the executive officers have in the past served or currently serve as officers for other subsidiaries of the Company.

ITEM 2

Properties

General Information on Facilities

The investment of the Company in net property, plant and equipment was \$2.4 billion at September 30, 1999. Approximately 59% of this investment is in the Utility and Pipeline and Storage segments, which are primarily located in western New York and western Pennsylvania. The remaining investment in property, plant and equipment is mainly in the Exploration and Production segment (29%), which is primarily located in the Gulf Coast, southwestern, western and Appalachian regions of the United States, the International segment (9%) which is located in the Czech Republic, and the Timber segment (3%) 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, and to purchase district heating and power generation facilities in the Czech Republic. Net property, plant and equipment has increased \$808.3 million, or 52%, since 1994.

The Utility segment has the largest net investment in property, plant and equipment, compared with the Company's other business segments. The net investment in its gas distribution network (including 14,773 miles of distribution pipeline) and its services represent approximately 58% and 29%, respectively, of the Utility segment's net investment of \$919.6 million at September 30, 1999.

The Pipeline and Storage segment represents a net investment of \$466.5 million in property, plant and equipment at September 30, 1999. Transmission pipeline, with a net cost of \$145.3 million, represents 31% of this segment's total net investment and includes 2,583 miles of pipeline required to move large volumes of gas throughout its service area. Storage facilities consist of 33 storage fields, 4 of which are jointly operated with certain pipeline suppliers, and 482 miles of pipeline. Net investment in storage facilities includes \$85.1 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 74,646 installed compressor horsepower.

The Exploration and Production segment had a net investment in property, plant and equipment amounting to \$674.8 million at September 30, 1999.

The International segment had a net investment in property, plant and equipment amounting to \$203.5 million at September 30, 1999. PSZT's net investment in district heating and electric generation facilities was \$147.5 million; SCT's net investment in district heating and electric generation facilities was \$55.0 million; and TK's net investment in district heating facilities was approximately \$1.0 million.

The Timber segment had a net investment in property, plant and equipment of \$88.9 million at September 30, 1999. Located primarily in northwestern Pennsylvania, the net investment includes 4 sawmills and approximately 140,000 acres of timber.

The Utility and Pipeline and Storage segments' facilities provided the capacity to meet its 1999 peak day sendout, including transportation service, of 1,909 MMcf, which occurred on January 5, 1999. Withdrawals from storage of 687 MMcf provided approximately 36% of the requirements on that day.

Company maps are included on pages 2 and 3 of this combined Annual Report to Shareholders/Form 10-K and are incorporated herein by reference.

Exploration and Production Activities

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, 1999 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:

PRODUCTION

For the Year Ended September 30

	1999	1998	1997
Average Sales Price per Mcf of Gas ⁽¹⁾	\$2.20	\$2.45	\$2.60
Average Sales Price per Barrel of Oil ⁽¹⁾	\$12.85	\$12.15	\$20.63
Average Production (Lifting) Cost per Mcf			
Equivalent of Gas and Oil Produced	\$0.46	\$0.45	\$0.35

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

PRODUCTIVE WELLS

At September 30, 1999

		Gas	Oil
Productive Wells	- gross	1,934	895
	- net	1,801	845

DEVELOPED AND UNDEVELOPED ACREAGE

		1999
<i>At September 30</i>		
Developed Acreage	- gross	636,221
	- net	558,651
Undeveloped Acreage	- gross	1,043,757
	- net	753,106

DRILLING ACTIVITY

		Productive			Dry		
		1999	1998	1997	1999	1998	1997
<i>For the Year Ended September 30</i>							
Net Wells Completed	- Exploratory	12.95	10.72	4.21	5.64	4.97	3.49
	- Development	95.26	14.11	1.84	4.75	2.00	1.60

PRESENT ACTIVITIES

		1999
<i>At September 30</i>		
Wells in Process of Drilling	- gross	13.00
	- net	10.01

South Lost Hills Waterflood Program

In Seneca's South Lost Hills Field (acquired in 1998 as part of the HarCor Energy, Inc. and Bakersfield Energy Resources, Inc. acquisitions) 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 27 injection wells and 88 production wells in the program. The total injection and production from this waterflood project are 7,000 barrels of water per day and 400 barrels of oil per day, respectively.

ITEM 3 Legal Proceedings

For a discussion of various environmental matters, refer to Item 7, MD&A of this report 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

No matter was submitted to a vote of security holders during the fourth quarter of 1999.

Part II

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

Information regarding the market for the Registrant's common stock and related shareholder matters appears in Note D - Capitalization and Note L - Market for Common Stock and Related Shareholder Matters (unaudited) under Item 8 of this combined Annual Report to Shareholders/Form 10-K, and reference is made thereto.

On July 1, 1999, the Company issued 700 unregistered shares of Company common stock to the seven non-employee directors of the Company, 100 shares to each such director. These shares were issued as partial consideration for the directors' service as directors during the quarter ended September 30, 1999, pursuant to the Company's Retainer Policy for Non-Employee Directors. These transactions were exempt from registration by Section 4(2) of the Securities Act of 1933, as amended, as transactions not involving any public offering.

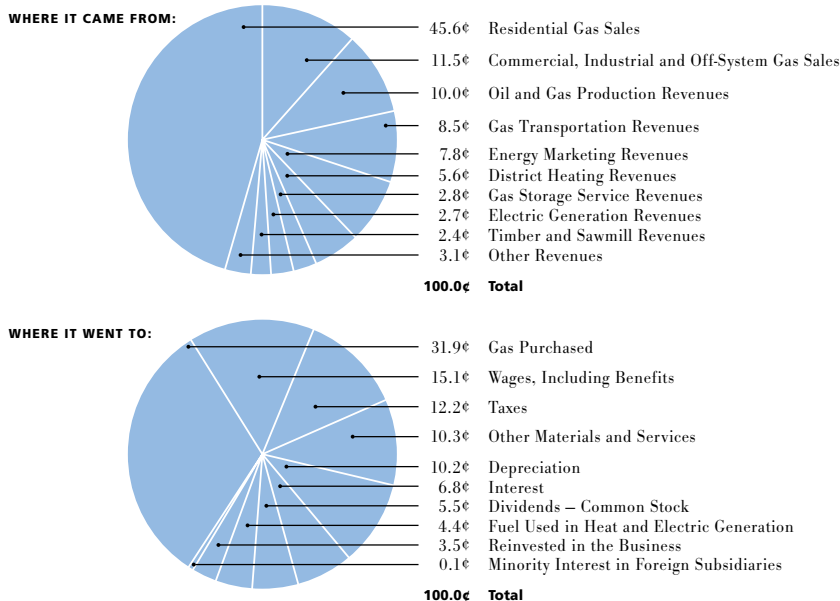
ITEM 6 Selected Financial Data

Year Ended September 30	1999	1998	1997	1996	1995
SUMMARY OF OPERATIONS (Thousands)					
Operating Revenues	\$1,263,274	\$1,248,000	\$1,265,812	\$1,208,017	\$ 975,496
Operating Expenses:					
Purchased Gas	405,925	441,746	528,610	477,357	351,094
Fuel Used in Heat and Electric Generation	55,788	37,837	1,489	—	—
Operation and Maintenance	323,888	319,769	286,537	309,206	292,505
Property, Franchise and Other Taxes	91,146	92,817	100,549	99,456	91,837
Depreciation, Depletion and Amortization	129,690	118,880	111,650	98,231	71,782
Impairment of Oil and Gas Producing Properties	—	128,996	—	—	—
Income Taxes	64,829	24,024	68,674	66,321	43,879
	1,071,266	1,164,069	1,097,509	1,050,571	851,097
Operating Income	192,008	83,931	168,303	157,446	124,399
Other Income	12,343	35,870	3,196	3,869	5,378
Income Before Interest Charges and Minority Interest in Foreign Subsidiaries	204,351	119,801	171,499	161,315	129,777
Interest Charges	87,698	85,284	56,811	56,644	53,883
Minority Interest in Foreign Subsidiaries	(1,616)	(2,213)	—	—	—
Income Before Cumulative Effect	115,037	32,304	114,688	104,671	75,894
Cumulative Effect of Change in Accounting	—	(9,116)	—	—	—
Net Income Available for Common Stock	\$ 115,037	\$ 23,188	\$ 114,688	\$ 104,671	\$ 75,894
PER COMMON SHARE DATA					
Basic Earnings per Common Share	\$2.98	\$0.61 ⁽¹⁾	\$3.01	\$2.78	\$2.03
Diluted Earnings per Common Share	\$2.95	\$0.60 ⁽¹⁾	\$2.98	\$2.77	\$2.03
Dividends Declared	\$1.83	\$1.77	\$1.71	\$1.65	\$1.60
Dividends Paid	\$1.82	\$1.76	\$1.70	\$1.64	\$1.59
Dividend Rate at Year-End	\$1.86	\$1.80	\$1.74	\$1.68	\$1.62
At September 30:					
NUMBER OF COMMON SHAREHOLDERS	22,336	23,743	20,267	21,640	21,429
NET PROPERTY, PLANT AND EQUIPMENT (Thousands)					
Utility	\$ 919,642	\$ 906,754	\$ 889,216	\$ 855,161	\$ 822,764
Pipeline and Storage	466,524	460,952	450,865	452,305	463,647
Exploration and Production	674,813	638,886	443,164	375,958	339,950
International	203,452	202,590	942	1,274	70
Energy Marketing	489	353	123	41	54
Timber	88,904	38,593	34,872	24,680	22,146
All Other	63	—	173	172	420
Corporate	7	9	11	15	131
Total Net Plant	\$2,353,894	\$2,248,137	\$1,819,366	\$1,709,606	\$1,649,182
TOTAL ASSETS (Thousands)	\$2,842,586	\$2,684,459	\$2,267,331	\$2,149,772	\$2,036,823
CAPITALIZATION (Thousands)					
Common Stock Equity	\$939,293	\$890,085	\$913,704	\$855,998	\$800,588
Long-Term Debt, Net of Current Portion	822,743	693,021	581,640	574,000	474,000
Total Capitalization	\$1,762,036	\$1,583,106	\$1,495,344	\$1,429,998	\$1,274,588

(1) 1998 includes oil and gas asset impairment of (\$2.06) basic, (\$2.04) diluted and cumulative effect of a change in depletion methods of (\$0.24) basic and diluted. Refer to further discussion of these items in Notes to Financial Statements, Note A - Summary of Significant Accounting Policies.

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

The Revenue Dollar – 1999



RESULTS OF OPERATIONS

1999 Compared with 1998

The Company's earnings were \$115.0 million, or \$2.98 per common share (\$2.95 per common share on a diluted basis), in 1999. This compares with 1998 earnings of \$23.2 million, or \$0.61 per common share (\$0.60 per common share on a diluted basis). Earnings for 1998 included a \$79.1 million (after tax) non-cash impairment of the Exploration and Production segment's oil and gas assets and the non-cash cumulative effect of a change in accounting. The 1998 accounting change, which was a change in depletion methods for the Exploration and Production segment's oil and gas assets, had a negative \$9.1 million (after tax), or \$0.24 per common share, non-cash cumulative effect through fiscal 1997, which was recorded in the first quarter of fiscal 1998. Excluding these two non-cash special items, earnings for 1998 would have been \$111.4 million, or \$2.91 per common share (\$2.88 per common share on a diluted basis).

The increase in 1999 earnings of \$3.6 million (exclusive of the two non-cash special items in 1998) is the result of higher earnings in the Utility, Timber, Energy Marketing and International segments and in Corporate operations. These higher earnings were offset in part by reduced earnings in the Exploration and Production segment. The Pipeline and Storage segment's earnings remained level with the prior year. Additional discussion of earnings in each of the business segments can be found in the business segment information that follows.

1998 Compared with 1997

The Company's earnings were \$23.2 million, or \$0.61 per common share (\$0.60 per common share on a diluted basis), in 1998. These earnings include the two non-cash special items discussed above. Without these two non-cash items, earnings for 1998 would have been \$111.4 million, or \$2.91 per common share (\$2.88 per common share on a diluted basis). This compares with earnings of \$114.7 million, or \$3.01 per common share (\$2.98 per common share on a diluted basis), in 1997.

The earnings decrease in 1998 was attributable to lower earnings of the Company's Utility, Exploration and Production and Energy Marketing segments, offset in part by higher earnings in the Pipeline and Storage segment and in the International and Timber segments (both of which incurred a loss in 1997). Additional discussion of earnings in each of the business segments can be found in the business segment information that follows.

Discussion of Asset Impairment and Cumulative Effect of a Change in Depletion Method

Seneca follows the full-cost method of accounting for its oil and gas operations. Under this method, all costs directly associated with property acquisitions, exploration and development are capitalized, up to certain specified limits. Due to significant declines in oil prices in 1998, Seneca's capitalized costs under the full-cost method of accounting exceeded these limits at March 31, 1998. Seneca was required to recognize an impairment of its oil and gas producing properties in the quarter ended March 31, 1998. This charge amounted to \$129.0 million (pretax) and reduced net income for 1998 by \$79.1 million.

Effective October 1, 1997, Seneca changed its method of depletion for oil and gas properties from the gross revenue method to the units of production method. The units of production method was applied retroactively to prior years to determine the cumulative effect through October 1, 1997. This cumulative effect reduced earnings for 1998 by \$9.1 million, net of income tax. Depletion of oil and gas properties for 1999 and 1998 has been computed under the units of production method.

EARNINGS (LOSS) BY SEGMENT

Year Ended September 30 (Thousands)	1999	1998	1997
Utility	\$56,875	\$51,788	\$57,220
Pipeline and Storage	39,765	39,852	36,760
Exploration and Production ⁽¹⁾⁽²⁾	7,127	(64,110)	20,359
International	2,276	1,279	(3,348)
Energy Marketing	2,054	787	1,567
Timber	4,769	1,904	(609)
Total Reportable Segments	112,866	31,500	111,949
All Other	(162)	143	171
Corporate	2,333	661	2,568
Total Consolidated ⁽¹⁾⁽²⁾	\$115,037	\$32,304	\$114,688

(1) Before Cumulative Effect of a Change in Accounting in 1998.

(2) Exclusive of the non-cash asset impairment, 1998 earnings for the Exploration and Production segment and Total Consolidated would have been \$15,004 and \$111,418, respectively.

Utility

Revenues



UTILITY OPERATING REVENUES

Year Ended September 30 (Thousands)	1999	1998	1997
Retail Revenues:			
Residential	\$581,022	\$612,647	\$709,968
Commercial	101,482	123,807	167,338
Industrial	15,903	18,068	22,412
	698,407	754,522	899,718
Off-System Sales	29,214	44,479	43,857
Transportation	77,600	62,844	49,285
Other	2,134	9,335	(1,494)
	\$807,355	\$871,180	\$991,366

UTILITY THROUGHPUT — (MMcf)

<i>Year Ended September 30</i>	1999	1998	1997
Retail Sales:			
Residential	71,177	71,704	85,676
Commercial	13,885	16,405	22,640
Industrial	4,144	4,298	5,134
	89,206	92,407	113,450
Off-System Sales	12,469	16,192	14,051
Transportation	64,284	60,386	57,875
	165,959	168,985	185,376
Intrasegment Throughput	(198)	(306)	(565)
	165,761	168,679	184,811

1999 Compared with 1998

Operating revenues for the Utility segment decreased \$63.8 million in 1999 compared with 1998. This resulted from a reduction in retail and off-system gas sales revenue of \$56.1 million and \$15.3 million, respectively, and a reduction in other operating revenue of \$7.2 million. These decreases were partly offset by an increase in transportation revenue of \$14.8 million.

The recovery of lower gas costs (gas costs are recovered dollar for dollar in revenues) and the general base rate decrease in the New York jurisdiction effective October 1, 1998 caused the decrease in retail gas revenue. The recovery of lower gas costs resulted from both lower retail volumes sold of 3.2 billion cubic feet (Bcf) and a lower average cost of purchased gas (see discussion of purchased gas below under the heading “Purchased Gas”). Despite weather that was colder than the prior year, retail volumes sold decreased, mainly due to the migration of residential and small commercial retail customers to transportation service. This is the result of customers turning to marketers for their gas supplies while using Distribution Corporation for gas transportation service. (Restructuring in the Utility segment’s service territory is further discussed in the “Rate Matters” section that follows).

Transportation revenue increased and volumes are up 3.9 Bcf as a result of the migration noted above and because of colder weather. Off-system revenue is down due to lower volumes sold of 3.7 Bcf. Off-system sales are a function of demand in the northeast markets. Record storage levels at the beginning of the 1998-99 heating season and a warmer than normal winter in 1998-99 reduced demand for off-system sales. The margins resulting from off-system sales are minimal.

The decrease in other operating revenue of \$7.2 million is due primarily to a \$7.2 million gas restructuring reserve reducing revenue in the current year, \$6.0 million of revenue recorded in 1998 as a result of Internal Revenue Service (IRS) audits and \$0.5 million of a revenue reduction in the current year due to a final IRS audit settlement. These items are offset in part by a \$7.1 million lower refund provision recorded in 1999 as compared with the 1998 refund provision. The gas restructuring reserve is to be applied against incremental costs resulting from the New York Public Service Commission’s (NYPSC) gas restructuring efforts (the NYPSC’s gas restructuring efforts are further discussed in the “Rate Matters” section that follows). The revenue related to the IRS audits represents the rate recovery of interest expense as allowed by the New York rate settlement of 1996. The refund provision represents the 50% sharing with customers of earnings over a predetermined amount in accordance with the New York rate settlements of 1996 and 1998. All of these items are included in the “Other” category of the Utility Operating Revenue table above.

1998 Compared with 1997

Operating revenues for the Utility segment decreased \$120.2 million in 1998 compared with 1997. This resulted from a reduction in retail sales revenue of \$145.2 million offset in part by higher off-system sales revenue, transportation revenue and other revenue of \$0.6 million, \$13.6 million and \$10.8 million, respectively.

The decrease in retail gas revenue was caused by the recovery of lower gas costs offset in part by a general base rate increase in the New York jurisdiction effective October 1, 1997. The recovery of lower gas costs resulted from a decrease in retail gas sales of 21.0 Bcf and a decrease in the average cost of purchased gas (see discussion of purchased gas below under the heading “Purchased Gas”). While the decrease in gas sales also reflects, in part, the migration of residential and small commercial retail customers to transportation service, the major reason for the decrease stems from warmer weather which was on average 13.8% warmer in 1998 than in 1997 (see Degree Days table below).

The increase in other operating revenue of \$10.8 million is due primarily to \$6.0 million of revenue recorded in 1998 as a result of IRS audits, as discussed above, and \$7.9 million of refund pool revenue, as discussed below, offset in part by a \$4.7 million higher refund provision recorded in 1998 as compared with 1997. The refund provision represents the 50% sharing with customers of earnings over a predetermined amount in accordance with the New York rate settlement of 1996.

As part of the 1996 rate settlement with the NYPSC, Distribution Corporation was allowed to utilize certain refunds from upstream pipeline companies and certain credits (referred to as the “refund pool”) to offset certain specific expense items. In September 1998, Distribution Corporation recognized \$7.9 million of the refund pool as other operating revenue and recorded an equal amount of Operation and Maintenance (O&M) expense in accordance with the settlement agreement.

Earnings

1999 Compared with 1998

In the Utility segment, 1999 earnings were \$56.9 million, up \$5.1 million from the prior year. This was largely because the settlement of the primary issues of IRS audits of years 1977-1994 had a negative impact on earnings in 1998. In addition, adjustments made relating to the final settlement of these audits had a positive impact to earnings in the current year. Absent the IRS audit items, earnings of the Utility segment were up \$0.6 million from the prior year.

Lower O&M and interest expenses, a lower refund provision in the current year (as noted in the revenue discussion above), positive adjustments for lost and unaccounted-for gas related to 1998 and 1999 and slightly colder weather (which mainly benefits the Pennsylvania jurisdiction), were the positive contributors to earnings this year. These items offset the costs associated with the current year’s early retirement offers (which totaled \$5.6 million, pretax, for this segment), as well as the effects of a rate settlement that included a \$7.2 million rate reduction in New York that became effective October 1, 1998 and a special \$7.2 million (pretax) reserve to be applied against incremental costs resulting from the NYPSC gas restructuring efforts, as discussed above.

The impact of weather on Distribution Corporation’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 Distribution Corporation’s New York customers. In 1999, the WNC in New York preserved earnings of approximately \$0.6 million (after tax) as weather, overall, was warmer than normal for the period of October 1998

through May 1999. Since the Pennsylvania rate jurisdiction does not have a WNC, uncontrollable weather variations directly impact earnings. In the Pennsylvania service territory, weather was 4.0% colder than 1998 and 9.9% warmer than normal. The Pennsylvania jurisdiction's colder weather in 1999 compared with 1998 increased earnings by approximately \$0.5 million (after tax).

1998 Compared with 1997

Utility segment 1998 earnings were \$51.8 million, down \$5.4 million from 1997. This decrease was largely the result of the Utility segment incurring interest expense in 1998, net of related rate recovery, in connection with the settlement of the primary issues relating to the previously referred to settlement of the IRS audits. Absent this interest expense, the Utility segment's earnings were down \$1.6 million as compared to 1997. Warmer weather in 1998 compared with 1997 was the primary cause of the decrease.

Partly offsetting the earnings decrease caused by warmer weather, the Utility segment experienced a decrease in O&M expense as a result of management's continued emphasis on controlling costs. Also contributing to this decrease, 1997 O&M expense included \$0.9 million of pretax expenses associated with an early retirement offer to certain Pennsylvania operating union employees in 1997.

In 1998, the WNC in New York preserved earnings of approximately \$7.9 million (after tax) as weather, overall, was warmer than normal for the period of October 1997 through May 1998. In the Pennsylvania service territory, weather was 15.7% warmer than 1997 and 13.4% warmer than normal. The Pennsylvania jurisdiction's warmer weather in 1998 compared with 1997 lowered earnings by approximately \$4.0 million (after tax).

DEGREE DAYS

Year Ended September 30		Normal	Actual	Percent (Warmer) Colder Than	
				Normal	Prior Year
1999:	Buffalo	6,848	6,179	(9.8%)	4.5%
	Erie	6,223	5,607	(9.9%)	4.0%
1998:	Buffalo	6,689	5,914	(11.6%)	(12.9%)
	Erie	6,223	5,389	(13.4%)	(15.7%)
1997:	Buffalo	6,690	6,793	1.5%	(5.7%)
	Erie	6,223	6,395	2.8%	(5.5%)

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 \$3.82 per thousand cubic feet (Mcf) in 1999, a decrease of 7.5% from the average cost of \$4.13 per Mcf in 1998. The average cost of purchased gas in 1998 was 3% lower than the \$4.26 per Mcf in 1997.

Pipeline and Storage

Revenues



PIPELINE AND STORAGE OPERATING REVENUES

Year Ended September 30 (Thousands)	1999	1998	1997
Firm Transportation	\$ 91,659	\$ 93,362	\$ 92,027
Interruptible Transportation	476	985	831
	92,135	94,347	92,858
Firm Storage Service	63,655	62,850	64,147
Interruptible Storage Service	173	655	74
	63,828	63,505	64,221
Other	12,820	13,131	15,615
	\$168,783	\$170,983	\$172,694

PIPELINE AND STORAGE THROUGHPUT — (MMcf)

Year Ended September 30	1999	1998	1997
Firm Transportation	300,242	298,738	291,164
Interruptible Transportation	8,061	14,310	9,138
	308,303	313,048	300,302

1999 Compared with 1998

Operating revenues decreased \$2.2 million in 1999 compared with 1998. The decrease resulted primarily from lower firm transportation revenue of \$1.7 million, lower interruptible transportation and storage service revenue of \$1.0 million, lower net revenues from unbundled pipeline sales and open access transportation of \$0.8 million and an accrual for a gas imbalance payable of \$1.0 million. These items were offset in part by higher firm storage service revenue of \$0.8 million and higher cashout revenue of \$1.3 million.

Approximately \$1.0 million of the decrease in the firm transportation revenue related to “pass through” type items (i.e., surcharges and refunds) that correspondingly reduced O&M expense, thus having no bottom line earnings impact. Interruptible transportation and storage service revenue decreased (and interruptible volumes transported decreased 6.2 Bcf) as a result of full storages at the beginning of the 1998-99 heating season and a warmer than normal winter in 1998-99; thus Supply Corporation lacked available storage space to service interruptible customers. Lower interruptible storage service generally results in lower interruptible transportation. The higher cashout revenue (a cash resolution of a gas imbalance whereby a customer pays Supply Corporation for gas it receives in excess of amounts delivered into Supply Corporation’s system by the customer’s shipper) is offset by an equal amount of purchased gas expense, thus there is no bottom line earnings impact.

Transportation volumes in this segment decreased 4.7 Bcf. Generally, volume fluctuations do not have a significant impact on revenues as a result of Supply Corporation’s straight fixed-variable (SFV) rate design. However, as mentioned above, lower interruptible transportation volumes did negatively impact revenue for 1999.

1998 Compared with 1997

Operating revenues decreased \$1.7 million in 1998 compared with 1997. The decrease resulted primarily from lower net revenues from unbundled pipeline sales and open access transportation of \$1.8 million, lower firm storage service revenues of \$1.3 million and lower cashout revenue of \$1.1 million. These decreases were partially offset by an increase in firm transportation revenue of \$1.3 million (resulting from demand charges related to the incremental expansion of this segment’s Niagara import facilities) and higher interruptible transportation and storage service revenues of \$0.7 million.

Transportation volumes in this segment increased 12.8 Bcf. As noted above, generally, volume

fluctuations do not have a significant impact on revenues as a result of Supply Corporation's SFV rate design. However, the increase in capacity stemming from the above noted incremental expansion contributed to higher demand charge revenue. Higher interruptible transportation volumes also increased revenues.

Earnings

1999 Compared with 1998

Earnings in the Pipeline and Storage segment remained at \$39.8 million for 1999 and 1998. Lower revenues, as discussed above, and nonrecurring income in 1998 from a buyout of a firm transportation agreement by a customer in the amount of \$2.5 million (pretax), were offset by lower O&M and interest expenses. Items causing lower O&M expense in 1999 when compared to 1998 include the establishment of reserves, in 1998, for preliminary survey and investigation costs associated with a proposed incremental expansion project and a natural gas gathering project (mainly due to lack of interest in furthering these projects). In addition, Supply Corporation recognized a base gas loss at its Zoar Storage Field in 1998. In total, these three items amounted to \$3.7 million of pretax expense in 1998. In 1999, Supply Corporation reversed \$0.8 million (pretax) of the gathering project reserve as it recovered that amount from its former project partner. Also in 1999, Supply recovered, through insurance, \$0.7 million (pretax) related to the Zoar base gas loss. Several significant items also increased O&M expense in 1999 when compared to 1998, including early retirement offers in 1999 (which totaled \$1.4 million, pretax, for this segment) and the 1998 reversal of a portion of a reserve set up in a prior period for a storage project. Supply Corporation was able to recover approximately \$1.0 million (pretax) by selling preliminary engineering, survey, environmental and archeological information from this storage project to the Independence Pipeline Company (the Independence Pipeline project is discussed further under "Investing Cash Flow," subheading "Pipeline and Storage").

1998 Compared with 1997

In the Pipeline and Storage segment, earnings for 1998 of \$39.8 million increased \$3.1 million when compared with 1997. This was mainly due to Supply Corporation's portion of interest income from the previously mentioned settlement of IRS audits. Additional income tax expense related to certain unsettled issues was also recorded. Absent these IRS audit items, earnings would have been down \$0.3 million when compared with 1997. This decrease reflects the lower revenues, as discussed above, and an increase in O&M expense. These items were offset in part by lower interest expense and a buyout of a firm transportation agreement by a customer in the amount of \$2.5 million (pretax). The higher O&M expenses resulted primarily from the above noted establishment of reserves associated with a proposed incremental expansion project and a natural gas gathering project and the base gas loss at Zoar Storage Field. Partially offsetting these increases in O&M expense was the reversal of a portion of a reserve set up in a prior period for a storage project and the fact that 1997 O&M expense included \$1.0 million of pretax expenses associated with an early retirement offer.

Exploration and Production

Revenues



EXPLORATION AND PRODUCTION OPERATING REVENUES

Year Ended September 30 (Thousands)	1999	1998	1997
Gas (after Hedging)	\$ 83,229	\$ 82,910	\$ 84,024
Oil (after Hedging)	52,050	34,069	34,147
Gas Processing Plant	11,751	4,937	—
Other	(36)	2,356	1,089
	\$146,994	\$124,272	\$119,260

1999 Compared with 1998

Operating revenues increased \$22.7 million in 1999 compared with 1998. Oil production revenues, net of hedging activities, increased \$18.0 million as production increased 54% (mainly the result of West Coast production from the properties acquired in 1998). Gas production revenue, net of hedging activities, increased \$0.3 million due to higher production (also mainly the result of West Coast production from the properties acquired in 1998). Refer to the tables below for production and price information. Revenue from Seneca's gas processing plant, acquired as part of the HarCor Energy, Inc. (HarCor) and Bakersfield Energy Resources (BER) acquisitions in May and June 1998, was up \$6.8 million. These items were partly offset by a negative mark-to-market revenue adjustment related to written options of \$1.3 million. Refer to further discussion of written options in the "Market Risk Sensitive Instruments" section that follows and in Note F - Financial Instruments in Item 8 of this report.

1998 Compared with 1997

Operating revenues increased \$5.0 million in 1998 compared with 1997. The main reason for the increase was the \$4.9 million in revenues related to the gas processing plant acquired in 1998, as noted above. While this gas processing plant contributed a large amount of revenue, this revenue was basically offset by an equal amount of expense.

Gas production revenues, net of hedging activities, decreased \$1.1 million as a result of decreased production, offset in part by higher gas prices (after hedging). Refer to the tables below for production and price information. The gas production declines were mainly due to the shut-in of production during the Gulf hurricane season and tropical storms, as well as the expected decline in production of West Cameron 552 and delays in drilling due to lack of rig availability in the first half of the year. Oil production revenues, net of hedging activities, were basically even with 1997 as increased production was offset by lower oil prices (after hedging). The increase in oil production was mainly the result of West Coast production from the properties acquired in the Whittier Trust Company, HarCor and BER acquisitions.

PRODUCTION VOLUMES

Year Ended September 30	1999	1998	1997
Gas Production (million cubic feet)			
Gulf Coast	28,758	29,461	32,377
West Coast	3,977	2,146	1,135
Appalachia	4,431	4,867	5,074
	37,166	36,474	38,586
Oil Production (thousands of barrels)			
Gulf Coast	1,373	1,228	1,404
West Coast	2,633	1,376	490
Appalachia	10	10	8
	4,016	2,614	1,902

AVERAGE PRICES

Year Ended September 30	1999	1998	1997
Average Gas Price/Mcf			
Gulf Coast	\$2.15	\$2.40	\$2.60
West Coast	\$2.28	\$2.14	\$1.79
Appalachia	\$2.44	\$2.88	\$2.79
Weighted Average	\$2.20	\$2.45	\$2.60
Weighted Average After Hedging	\$2.24	\$2.27	\$2.18
Average Oil Price/bbl			
Gulf Coast	\$15.18	\$14.69	\$21.37
West Coast ⁽¹⁾	\$11.62	\$ 9.85	\$18.49
Appalachia	\$14.73	\$16.80	\$21.28
Weighted Average	\$12.85	\$12.15	\$20.63
Weighted Average After Hedging	\$12.96	\$13.03	\$17.95

(1) 1999 and 1998 includes low gravity oil which generally sells for a lower price.

Seneca utilizes price swap agreements and options to manage a portion of the market risk associated with fluctuations in the price of natural gas and crude oil. Refer to further discussion of these hedging activities below under “Market Risk Sensitive Instruments” and in Note F - Financial Instruments in Item 8 of this report.

Earnings**1999 Compared with 1998**

In the Exploration and Production segment, 1999 earnings of \$7.1 million are down \$7.9 million (exclusive of the two non-cash special items in 1998) when compared with 1998. This is largely because the settlement of the primary issues of IRS audits of years 1977-1994 had a positive impact on earnings in the prior year. Absent the IRS audit items, earnings of the Exploration and Production segment were down \$1.4 million from the prior year. Depressed oil and gas prices for much of 1999 were the main reason for these lower earnings. Higher oil and gas production revenue, as noted in the revenue section above, was offset by increases in lease operating, depletion and interest expense related mainly to Seneca’s acquisition activity in 1998. The increase in the gas processing plant revenue of \$6.8 million was largely offset by an increase in related expenses of \$6.2 million.

1998 Compared with 1997

Earnings in the Exploration and Production segment were \$15.0 million in 1998 (exclusive of the two non-cash special items), down \$5.4 million from 1997. This segment’s 1998 earnings include interest income related to the previously mentioned settlement of IRS audits. Without the positive contribution from this interest income, earnings would be down \$12.1 million when compared with 1997. This decrease was mainly because of low oil prices, decreased gas production (for reasons discussed in the revenue section above) and higher lease operating and interest costs related to Seneca’s acquisition activities in 1998. These circumstances more than offset the positive contribution to earnings that resulted from higher oil production and higher gas prices (after hedging).

International

Revenues



INTERNATIONAL OPERATING REVENUES

Year Ended September 30 (Thousands)	1999	1998	1997
Heating	\$ 71,974	\$49,560	\$1,887
Electricity	34,158	22,774	—
Other	913	3,925	23
	\$107,045	\$76,259	\$1,910

INTERNATIONAL HEATING AND ELECTRIC VOLUMES

Year Ended September 30	1999	1998	1997
Heating Sales (Gigajoules) ⁽¹⁾	10,047,042	7,116,776	262,615
Electricity Sales (megawatt hours)	1,138,980	763,848	—

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

1999 Compared with 1998

Operating revenues increased \$30.8 million in 1999 compared with 1998. The increase in revenues as well as the increase in heat and electric volumes, as shown in the tables above, reflects the fact that 1999 was the first year in which a full twelve months of sales and revenues are included for PSZT. Sales and revenues for 1998 include only eight months of activity as PSZT was acquired in February 1998.

1998 Compared with 1997

Operating revenues increased \$74.3 million in 1998 compared with 1997. The increase primarily reflects 100% of the revenues of SCT and PSZT for 1998. Horizon acquired a 34% equity interest in SCT in April 1997, subsequently increasing that interest to 36.8% by September 30, 1997 (and thus accounted for its investment in SCT under the equity method in 1997). During 1998, Horizon increased its ownership in SCT to 82.7% as of September 30, 1998. In February 1998, Horizon acquired a 75.3% equity interest in PSZT and subsequently increased its ownership interest to 86.2% as of September 30, 1998. The consolidation method was used to account for the investments in SCT and PSZT during 1998.

Earnings

1999 Compared with 1998

The International segment's 1999 earnings were \$2.3 million, or \$1.0 million higher than 1998 earnings. The current year's earnings reflect a full twelve months of results from PSZT, while the prior year only included eight months of earnings. The contribution from these additional months in 1999 was offset in part by higher interest expense during 1999. In addition, 1998 earnings included a \$5.1 million pretax net gain associated with U.S. dollar denominated debt, which did not recur in the current year. This debt was converted to a Czech koruna denominated loan in December 1998.

1998 Compared with 1997

The International segment's earnings of \$1.3 million in 1998 were up \$4.6 million when compared to the loss recognized in 1997. This segment realized increases from Horizon's share of earnings from its two main investments in district heating and power generation operations located in the Czech Republic.

Because of the change in the nature of operations of the International segment over the past three years, earnings comparisons between 1999, 1998 and 1997 may not be meaningful. Future revenues from district heating operations are expected to fluctuate with changes in weather.*

Energy Marketing

Revenues



ENERGY MARKETING OPERATING REVENUES

<i>Year Ended September 30 (Thousands)</i>	1999	1998	1997
Natural Gas (after Hedging)	\$97,514	\$86,877	\$70,054
Electricity	1,551	253	—
Other	23	57	44
	\$99,088	\$87,187	\$70,098

ENERGY MARKETING VOLUMES

<i>Year Ended September 30</i>	1999	1998	1997
Natural Gas – (MMcf)	34,454	26,453	21,024

1999 Compared with 1998

Operating revenues increased \$11.9 million in 1999 compared with 1998. This increase reflects higher marketing volumes as NFR customers increased from 5,476 at September 30, 1998 to 17,480 at September 30, 1999. Over 75% of the increase in customers were residential.

1998 Compared with 1997

Operating revenues increased \$17.1 million in 1998 compared with 1997. This increase reflects higher marketing volumes as NFR customers increased from 1,307 at September 30, 1997 to 5,476 at September 30, 1998.

NFR utilizes exchange-traded futures and exchange-traded options to manage a portion of the market risk associated with fluctuations in the price of natural gas. Refer to further discussion of these hedging activities below under “Market Risk Sensitive Instruments” and in Note F - Financial Instruments in Item 8 of this report.

Earnings

1999 Compared with 1998

The Energy Marketing segment’s 1999 earnings were \$2.1 million, an increase of \$1.3 million over 1998 earnings. Volumes of natural gas marketed have increased 30% to 34.5 Bcf in 1999 from 26.5 Bcf in 1998 and margins were up from the prior year. These positive contributions to earnings were partly offset by higher expenses for labor, office expense and advertising.

1998 Compared with 1997

The Energy Marketing segment’s earnings for 1998 of \$0.8 million were \$0.8 million below 1997 earnings. Although volumes of natural gas marketed were up 5.4 Bcf, lower earnings reflect lower margins and higher O&M expense in 1998. The increase in O&M expense mainly resulted from expansion of NFR’s customer base into new market areas.

Timber

Revenues



TIMBER OPERATING REVENUES

Year Ended September 30 (Thousands)	1999	1998	1997
Operating Revenues	\$31,117	\$17,805	\$11,536

1999 Compared with 1998

Operating revenues for the Timber segment increased \$13.3 million. This increase was primarily the result of higher timber sales by Seneca of \$3.6 million and increased log sales and kiln dry lumber sales of \$4.9 million and \$4.2 million, respectively, by Highland. Revenue growth reflects the increased investment by this segment in timber and sawmills.

1998 Compared with 1997

Operating revenues for the Timber segment increased \$6.3 million as a result of higher timber sales by Seneca and increased lumber sales resulting from Highland's purchase in 1998 of two new lumber mills. Highland also had a full year of production from the mill it purchased in January 1997.

Earnings

1999 Compared with 1998

Timber segment earnings of \$4.8 million in 1999 were up \$2.9 million when compared with 1998. As noted above, timber revenues increased by 75%. These higher revenues were partly offset by higher O&M, depletion and interest expenses. Earnings growth reflects the increased investment by this segment in timber and sawmills.

1998 Compared with 1997

Timber segment earnings of \$1.9 million in 1998 were up \$2.5 million when compared to the loss recognized in 1997. Higher revenues from the operations of two new sawmills purchased in 1998 helped drive the earnings increase.

Other Income and Interest Charges

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

Other Income

Other income decreased \$23.5 million in 1999 and increased \$32.7 million in 1998. The 1999 decrease is primarily due to a decrease in interest income related to the settlement of IRS audits. In 1999 and 1998, \$3.1 million and \$18.5 million, respectively, of interest income was recognized related to these audits. Lower other income in 1999 also reflects two items recorded in 1998: a net gain of \$5.1 million associated with U.S. dollar denominated debt carried on the balance sheet of PSZT and a buyout of a firm transportation agreement by a Pipeline and Storage segment customer in the amount of \$2.5 million. Partly offsetting these items is a \$2.4 million gain recorded in 1999 resulting 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.

The 1998 increase in other income is primarily due to the above noted \$18.5 million of interest income related to the settlement of IRS audits, the \$5.1 million net gain associated with U.S. dollar denominated debt, the \$2.5 million buyout of a firm transportation agreement by a Pipeline and Storage segment customer, as well as \$1.3 million of interest income on temporary cash investments of SCT and PSZT.

Interest Charges

Interest on long-term debt increased \$12.2 million in 1999 and \$11.0 million in 1998. 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 several years primarily as a result of acquisition activity in the Exploration and Production and International segments.

Other interest charges decreased \$9.8 million in 1999 and increased \$17.5 million in 1998. The decrease in 1999 compared to 1998, as well as the increase in 1998 compared with 1997, resulted primarily from the \$11.7 million of interest expense recorded in 1998 related to the settlement of IRS audits. In addition, in 1999 and 1998, interest on short-term debt increased mainly as a result of higher average amounts of 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

<i>Year Ended September 30 (Millions)</i>	1999	1998	1997
Provided by Operating Activities	\$271.9	\$253.0	\$294.7
Capital Expenditures	(260.5)	(393.2)	(214.0)
Investment in Subsidiaries, Net of Cash Acquired	(5.8)	(112.0)	(21.1)
Investment in Partnerships	(3.6)	(5.5)	—
Other Investing Activities	6.7	7.6	1.4
Short-Term Debt, Net Change	67.2	229.4	(107.3)
Long-Term Debt, Net Change	(15.6)	94.9	98.2
Issuance of Common Stock	10.7	7.9	7.1
Dividends Paid on Common Stock	(69.9)	(67.0)	(64.3)
Dividends Paid to Minority Interest	(0.2)	(0.3)	—
Effect of Exchange Rates on Cash	(2.1)	1.6	—
Net Increase (Decrease) in Cash and Temporary Cash Investments	\$ (1.2)	\$ 16.4	\$ (5.3)

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, the cumulative effect of a change in accounting for depletion (1998) and the impairment of oil and gas producing properties (1998).

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 \$271.9 million in 1999, an increase of \$18.9 million compared with the \$253.0 million provided by operating activities in 1998. The increase is attributed primarily to the Utility segment's contribution offset partly by a decrease in cash provided by operations in the Exploration and Production segment. The increase in the Utility segment is mainly the result of lower O&M expenditures combined with lower cash disbursements for taxes and interest. While cash receipts from gas sales and transportation service were down, this decrease was

substantially offset by lower gas purchase expenditures. The decrease to cash provided by operations in the Exploration and Production segment is primarily because of an increase in interest payments stemming from higher debt related to the acquisitions made in 1998.

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 \$269.9 million in 1999. The table below presents these expenditures by business segment:

<i>Year Ended September 30, 1999 (Millions)</i>	Capital Expenditures	Investments in Corporations or Partnerships	Total Expenditures For Long-Lived Assets
Utility	\$ 47.0	\$ —	\$ 47.0
Pipeline and Storage	31.2	3.6	34.8
Exploration and Production	97.6	—	97.6
International	27.6	5.8	33.4
Energy Marketing	0.3	—	0.3
Timber	56.7	—	56.7
All Other	0.1	—	0.1
	\$260.5	\$9.4	\$269.9

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 majority of the Pipeline and Storage capital expenditures were made for additions, improvements and replacements to this segment's transmission and storage systems.

SIP made a \$3.6 million investment in 1999 in Independence and had an aggregate investment balance of \$10.4 million at September 30, 1999. Independence is a Delaware general partnership in which SIP owns a one-third general partnership interest. SIP's cash investments were financed with short-term borrowings. Independence intends to build a 370 mile natural gas pipeline (Independence Pipeline) from Defiance, Ohio to Leidy, Pennsylvania at an estimated cost of \$680 million.* If the Independence Pipeline is not constructed, SIP's share of the development costs (including SIP's investment in Independence Pipeline Company) is estimated not to exceed \$13.0 million.*

Exploration and Production

Exploration and Production segment capital expenditures included approximately \$57.4 million on the offshore program in the Gulf of Mexico, including offshore drilling expenditures, offshore construction and lease acquisition costs. The remaining \$40.2 million of capital expenditures included onshore drilling and construction costs for wells located in Louisiana, Texas and California as well as onshore geological and geophysical costs, including the purchase of certain 3-D seismic data. Of this amount, approximately \$20.4 million was spent on development drilling, workover, recompletion and facility construction costs on the leases acquired last year in the Midway Sunset, Lost Hills area of California.

International

The majority of the International segment capital expenditures were made by PSZT for the construction of new fluidized-bed boilers at its district heating and power generation plant to comply with stricter clean air standards. Short-term borrowings and cash from operations were used to finance these capital expenditures.

In fiscal 1999, Horizon, through a wholly-owned subsidiary, increased its ownership interest in SCT to 82.87% for a minimal cost. SCT in turn increased its ownership interest in Jablonecká tepleárenská a realitní, a.s. (JTR), a district heating plant in the northern Bohemia region of the Czech Republic, from 34% to 65.78%. The cost of acquiring these additional shares was approximately \$5.8 million (\$5.7 million, net of cash acquired) and was financed with short-term borrowings and cash from operations.

Energy Marketing

The capital expenditures consisted primarily of the purchase of furniture, equipment and computer hardware and software for NFR's gas marketing operations.

Timber

The majority of the Timber segment's capital expenditures consisted of the purchase of 36,300 acres of land and timber from PennzEnergy Company for approximately \$47 million. The acquisition was financed with short-term borrowings. The remaining \$9.7 million of capital expenditures in this segment were for other land, timber and equipment purchases.

Other Investing Activities

Other cash provided by or used in investing activities primarily reflects cash received on the sale of various subsidiaries investments in property, plant and equipment, and cash used for investments in a mutual fund.

Estimated Capital Expenditures

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

<i>Year Ended September 30 (Millions)</i>	2000	2001	2002
Utility	\$ 50.5	\$ 49.5	\$ 48.5
Pipeline and Storage	38.9	20.5	20.5
Exploration and Production	112.2	139.7	139.9
International	8.6	8.6	8.6
Timber	0.8	0.8	0.8
	\$211.0	\$219.1	\$218.3

Estimated capital expenditures for the Utility segment in 2000 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 2000 will be concentrated in the reconditioning of storage wells and the replacement of storage and transmission lines. The estimated capital expenditures also include approximately \$9.4 million for the purchase of an additional interest in both the Niagara Spur Loop Line (a 49.2 mile, 30-inch pipeline extending from Lewiston, New York to East Aurora, New York) and the Ellisburg Leidy Line (pipelines and facilities extending from Ellisburg, Pennsylvania to Leidy, Pennsylvania).*

Estimated capital expenditures in 2000 for the Exploration and Production segment includes approximately \$78.3 million for the offshore program in the Gulf of Mexico. Of this amount, approximately \$53.3 million is intended to be spent on exploratory and development drilling. The estimated expenditures also includes approximately \$33.9 million for the onshore program. Of this amount, approximately \$29.7 million is intended to be spent on exploratory and development drilling.*

Estimated capital expenditures for the International segment will be concentrated in the areas of improvements and replacements within the district heating and power generation plants in the Czech Republic.*

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 order to meet the Company's capital requirements, cash from external sources must periodically be obtained through short-term bank loans and commercial paper, as well as through issuances of long-term debt and equity securities. The Company expects these traditional sources of cash to continue to supplement its internally generated cash during the next several years.*

In February 1999, the Company issued \$100.0 million of 6.0% medium-term notes due in March 2009. After deducting underwriting discounts and commissions, the net proceeds to the Company amounted to \$98.7 million. The proceeds of this debt issuance, together with other funds, were used to redeem \$100.0 million of 5.58% medium-term notes which matured in March 1999.

In July 1999, the Company issued \$100.0 million of 6.82% medium-term notes due to mature in August 2004. After deducting underwriting discounts and commissions, the net proceeds to the Company amounted to \$99.5 million. The proceeds of this debt issuance, together with other funds, were used to redeem \$50.0 million of 7.25% medium-term notes which matured in July 1999 and to complete the redemption of HarCor's 14.875% senior secured notes, discussed below.

In March and July of 1999, the Company redeemed HarCor's 14.875% senior secured notes. The Company redeemed the notes at a redemption price of 110% of face value, which amounted to \$59.1 million. The senior secured notes were recorded at fair market value on the opening balance sheet in 1998 to reflect an effective interest rate of 5.875% and the projected redemption of this debt in 1999.

The Company's embedded cost of long-term debt was 7.0% and 6.9% at September 30, 1999 and 1998, respectively.

Consolidated short-term debt increased \$67.2 million during 1999. The Company continues to consider short-term bank loans and commercial paper important sources 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.

In March 1998, the Company obtained authorization from the SEC, under the Holding Company Act, to issue long-term debt securities and equity securities in amounts not exceeding \$2.0 billion during the order's authorization period, which extends to December 31, 2002. In August 1999, the Company obtained authorization from the SEC under the Securities Act of 1933 to issue up to \$625 million of debt and equity securities.

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, 1999, the Company would have been permitted to issue up to a maximum of \$485.0 million in additional long-term unsecured indebtedness at projected market interest rates. In addition, at September 30, 1999, the Company had regulatory authorizations and unused short-term credit lines that would have permitted it to borrow an additional \$356.5 million of short-term debt.

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 its business. In addition to the regulatory matters discussed in Note B - Regulatory Matters, in Item 8 of this report, 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, neither such litigation nor these other regulatory matters are expected to materially change the Company's present liquidity position nor have a material adverse effect on the financial condition of the Company at this time.*

MARKET RISK SENSITIVE INSTRUMENTS

Energy Commodity Price Risk

Certain of the Company's subsidiaries (primarily Seneca and NFR) utilize various derivative financial instruments (derivatives), including price swap agreements, options, exchange-traded futures and exchange-traded options, 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 providing more stability to operating results. The derivatives entered into by these subsidiaries are not held for trading purposes. These subsidiaries have operating procedures in place that are administered by experienced management to monitor compliance with their risk management policies.

The following tables disclose natural gas and crude oil price swap information by expected maturity dates for agreements in which Seneca 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 tables do not reflect the earnings impact of the physical transactions that are expected to offset the financial gains and losses arising from the use of the price swap agreements. The weighted average variable prices represent the prices as of September 30, 1999. At September 30, 1999, Seneca had not entered into any natural gas or crude oil price swap agreements extending beyond 2002.

NATURAL GAS PRICE SWAP AGREEMENTS

	Expected Maturity Dates			Total
	2000	2001	2002	
Notional Quantities (Equivalent Bcf)	28.0	11.1	1.1	40.2
Weighted Average Fixed Rate (per Mcf)	\$2.70	\$2.66	\$2.61	\$2.69
Weighted Average Variable Rate (per Mcf)	\$3.01	\$3.00	\$2.35	\$2.99

CRUDE OIL PRICE SWAP AGREEMENTS

	Expected Maturity Dates		Total
	2000	2001	
Notional Quantities (Equivalent bbls)	2,112,000	184,000	2,296,000
Weighted Average Fixed Rate (per bbl)	\$19.09	\$18.00	\$19.00
Weighted Average Variable Rate (per bbl)	\$23.79	\$23.79	\$23.79

At September 30, 1999, Seneca would have had to pay the respective counterparties to its natural gas price swap agreements an aggregate of approximately \$2.4 million to terminate the natural gas price swap agreements outstanding at that date. Seneca would have had to pay an aggregate of approximately \$7.4 million to the counterparties to its crude oil price swap agreements to terminate the crude oil price swap agreements outstanding at September 30, 1999.

The following tables disclose the notional quantities and weighted average strike prices for options utilized by Seneca to manage natural gas and crude oil price risk. The tables do not reflect the earnings impact of the physical transactions that are expected to offset any financial gains or losses that might arise if an option were to be exercised.

WRITTEN CALL OPTIONS

	Expected Maturity Date - 2 0 0 0
Crude Oil	
Notional Quantities (Equivalent bbls)	184,000
Weighted Average Strike Price (per bbl)	\$18.00
Natural Gas	
Notional Quantities (Equivalent Bcf)	2.6
Weighted Average Strike Price (per Mcf)	\$ 2.86

WRITTEN CALL OPTIONS⁽¹⁾

	Expected Maturity Dates		
	2 0 0 0	2 0 0 1	Total
Crude Oil			
Notional Quantities (Equivalent bbls)	548,000	184,000	732,000
Weighted Average Strike Price (per bbl)	\$18.00	\$18.00	\$18.00
Natural Gas			
Notional Quantities (Equivalent Bcf)	10.4	3.5	13.9
Weighted Average Strike Price (per Mcf)	\$ 2.58	\$ 2.74	\$ 2.62

(1) The counterparty has a choice between a natural gas call option and a crude oil call option, depending on whichever option has greater value to the counterparty.

WRITTEN PUT OPTIONS

	Expected Maturity Dates		
	2 0 0 0	2 0 0 1	Total
Crude Oil			
Notional Quantities (Equivalent bbls)	732,000	184,000	916,000
Weighted Average Strike Price (per bbl)	\$12.50	\$12.50	\$12.50

PURCHASED CALL OPTION

	Expected Maturity Date - 2 0 0 0
Crude Oil	
Notional Quantities (Equivalent bbls)	1,464,000
Weighted Average Strike Price (per bbl)	\$20.00

At September 30, 1999, Seneca would have had to pay the counterparty to its call options \$3.6 million on a net basis to terminate its call options. Seneca would have paid the counterparty \$8.2 million related to the exercise of the written call and put options but would have received \$4.6 million related to Seneca's exercise of its purchased call option.

The Company is exposed to credit risk on the price swap agreements that Seneca has entered into as well as on the call options that Seneca has purchased. 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. The Company does not anticipate any material impact to its financial position, results of operations, or cash flows as a result of nonperformance by counterparties.*

The following table discloses the net notional quantities, weighted average contract prices and weighted average settlement prices by expected maturity date for exchange-traded futures contracts utilized by NFR to manage natural gas price risk. The table does not reflect the earnings impact of the physical transactions that are expected to offset the financial gains and losses arising from the use of the futures contracts. At September 30, 1999, NFR held no futures contracts with maturity dates extending beyond 2001.

EXCHANGE-TRADED FUTURES CONTRACTS	Expected Maturity Dates		
	2 0 0 0	2 0 0 1	Total
Contract Volumes Purchased (Equivalent Bcf)	2.0	0.1	2.1
Weighted Average Contract Price (per Mcf)	\$2.75	\$2.82	\$2.75
Weighted Average Settlement Price (per Mcf)	\$2.89	\$2.98	\$2.89

The following table discloses the notional quantities and weighted average strike prices by expected maturity dates for exchange-traded options utilized by NFR to manage natural gas price risk. The table does not reflect the earnings impact of the physical transactions that would offset any financial gains or losses that might arise if an option were to be exercised. At September 30, 1999, NFR held no options with maturity dates extending beyond 2000.

EXCHANGE-TRADED OPTIONS PURCHASED	Expected Maturity Date - 2 0 0 0
Notional Quantities (Equivalent Bcf)	9.0
Weighted Average Strike Price (per Mcf)	\$2.72

EXCHANGE-TRADED OPTIONS SOLD	Expected Maturity Date - 2 0 0 0
Notional Quantities (Equivalent Bcf)	17.1
Weighted Average Strike Price (per Mcf)	\$3.01

At September 30, 1999, NFR would have received approximately \$2.3 million to settle the exchange-traded futures outstanding at that date. NFR would have paid approximately \$1.2 million to settle its exchange-traded options outstanding at September 30, 1999.

Exchange Rate Risk

Horizon'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. During 1999, the Czech koruna decreased in value in relation to the U.S. dollar resulting in a \$11.7 million negative adjustment to the Cumulative Foreign Currency Translation Adjustment (a component of Accumulated Other Comprehensive Income). Further valuation changes to the Czech koruna would result in corresponding positive or negative adjustments to the Cumulative Foreign Currency Translation Adjustment. Management cannot predict whether the Czech koruna 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, 1999, these instruments included short-term bank loans and commercial paper totaling \$392.3 million (domestically). The interest rate on these short-term bank loans and commercial paper approximated 5.5%. These instruments also included \$1.2 million of short-term bank loans held by SCT in the Czech Republic at September 30, 1999. The interest rate on the Czech Republic loans approximated 6.4%.

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 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, 1999:

(Millions of Dollars)	Principal Amounts by Expected Maturity Dates						Total
	2 0 0 0	2 0 0 1	2 0 0 2	2 0 0 3	2 0 0 4	Thereafter	
National Fuel Gas Company							
Long-Term Fixed Rate Debt	\$ 50	\$ —	\$ —	\$ —	\$225	\$549	\$ 824
Weighted Average Interest Rate Paid	6.6%	—%	—%	—%	7.3%	6.6%	6.8%
Fair Value = \$798.7 million							
PSZT							
Long-Term Variable Rate Debt	\$ 7.2	\$9.5	\$9.5	\$9.5	\$ 9.5	\$ 2.5	\$47.7
Weighted Average Interest Rate Paid	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
Fair Value = \$47.7 million							
Other Notes							
Long-Term Debt ⁽¹⁾	\$12.4	\$3.1	\$1.2	\$0.9	\$ 0.9	\$ 2.2	\$20.7
Weighted Average Interest Rate Paid	11.3%	6.7%	6.7%	7.3%	7.3%	6.8%	9.5%
Fair Value = \$20.7 million							

(1) \$5.8 million is variable rate debt; \$14.9 million is fixed rate debt.

PSZT utilizes an interest rate swap to eliminate interest rate fluctuations on its CZK 1,595,924,000 term loan (\$47.7 million at September 30, 1999), 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 2001, PSZT pays a fixed rate of 8.31% and receives a floating rate of six month PRIBOR. PSZT would have paid approximately \$1.0 million to settle the interest rate swap at September 30, 1999.

RATE MATTERS

Utility Operation

New York Jurisdiction

On October 21, 1998, the NYPSC approved a rate plan for Distribution Corporation for the period beginning October 1, 1998 and ending September 30, 2000. The plan was the result of a settlement agreement entered into by Distribution Corporation, Staff for the NYPSC (Staff), Multiple Intervenors (an advocate for large industrial customers) and the State Consumer Protection Board. Under the plan, Distribution Corporation's rates were reduced by \$7.2 million, or 1.1%. In addition, customers are receiving up to \$6.0 million in bill credits, disbursed volumetrically over the two year term, reflecting a predetermined share of excess earnings under a 1996 settlement. An allowed return on equity of 12%, above which additional earnings will be shared equally with the customers, was maintained from

a 1996 settlement. Finally, as provided by the rate plan, \$7.2 million of 1999 revenues were set aside in a special reserve to be applied against Distribution Corporation's incremental costs resulting from the NYPSC's gas restructuring effort further described below.

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." That vision includes the following goals:

- (1) Effective competition in the gas supply market for retail customers;
- (2) Downward pressure on customer gas prices;
- (3) Increased customer choice of gas suppliers and service options;
- (4) A provider of last resort (not necessarily the utility);
- (5) Continuation of reliable service and maintenance of operations procedures that treat all participants fairly;
- (6) Sufficient and accurate information for customers to use in making informed decisions;
- (7) The availability of information that permits adequate oversight of the market to ensure fair competition; and
- (8) Coordination of Federal and State policies affecting gas supply and distribution in New York State.

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 hopes to accomplish that objective over a three-to-seven year transition period, 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.

Distribution Corporation was recently advised, on an informal basis, that its "individualized plan" for restructuring to "effectuate [the NYPSC's] vision" may be included in discussions anticipated in connection with the current rate settlement, which expires on its own terms on September 30, 2000.

On June 7, 1999, the NYPSC issued a notice requesting comments on Staff's proposal for a "single retailer" billing environment. The proposal recommends that electric and gas utilities exit the billing function at an undetermined future date. The retail billing function would then be performed solely by unregulated marketers. Included in the billing proposal is a recommendation that utilities design a "back-out" credit equal to the long run costs avoided by each utility when billing is provided by another party. Distribution Corporation filed comments opposing much of the proposal but supporting a suggested interim regime where multiple billing arrangements, including utility billing, would be permitted. This proceeding remains pending. In anticipation of a NYPSC order partially adopting Staff's recommendation, Distribution Corporation is exploring the development of a retail billing service for sale to marketers serving aggregated customers. There is a market for retail billing services in Distribution Corporation's service territory, and Distribution Corporation believes that a service can be designed that will meet the approval of the regulators.^{*}

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.

Effective October 1, 1997, Distribution Corporation commenced a PaPUC approved customer choice pilot program called Energy Select. Energy Select, which lasted until April 1, 1999, allowed approximately 19,000 small commercial and residential customers of Distribution Corporation in the greater Sharon, Pennsylvania area to purchase gas supplies from qualified, participating non-utility suppliers (or marketers) of gas. Distribution Corporation was not a supplier of gas in this pilot. Under Energy Select, Distribution Corporation delivered the gas to the customer's home or business and remained responsible for reading customer meters, the safety and maintenance of its pipeline system and responding to gas emergencies. NFR was a participating supplier in Energy Select.

Effective February 11, 1999, Distribution Corporation's System Wide Energy Select tariff was approved by the PaPUC. This program is intended to expand the Energy Select pilot program described above to apply across Distribution Corporation's entire Pennsylvania service territory. The plan borrows many features of the Energy Select pilot, but several important changes were adopted. Most significantly, the new program includes Distribution Corporation as a choice for retail consumers, in furtherance of Distribution Corporation's objective to remain a merchant. Also departing from the pilot scheme, Distribution Corporation resumes its role as provider of last resort and maintains customer contact by providing a billing service on its own behalf and, as an option, for participating marketers.

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 mirrors the Energy Select program currently in effect, which substantially complies with the Act's requirements. Currently the parties to the proceeding are engaged in routine discovery and settlement discussions have begun. Distribution Corporation is unable to predict the outcome of the proceeding at this time.

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 Federal Energy Regulatory Commission (FERC). Its last case was settled with the FERC in February 1996. As part of that settlement, Supply Corporation agreed not to seek recovery of revenues related to certain terminated service from storage customers until April 1, 2000, as long as the terminations were not greater than approximately 30% of the terminable service. Supply Corporation has been successful in marketing and obtaining executed contracts for such terminated storage service (at discounted rates) and expects to continue obtaining executed contracts for additional terminated storage service as it arises.*

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. Distribution Corporation and Supply Corporation have estimated their clean-up costs related to former manufactured gas plant and former gasoline plant sites and third party waste disposal sites will be in the range of \$9.4 million to \$10.4 million.* The minimum liability of \$9.4 million has been recorded on the Consolidated Balance Sheet at September 30, 1999. 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 June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). In June 1999, the FASB issued SFAS 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of SFAS 133." For a discussion of SFAS 133 and SFAS 137 and their impact on the Company, see disclosure in Note A - Summary of Significant Accounting Policies in Item 8 of this report.

Year 2000

Numerous media reports have heightened concern that information technology computer systems, software programs and semiconductors may not be capable of recognizing dates after the Year 2000 because such systems use only two digits to refer to a particular year. Such systems may read dates in the Year 2000 and thereafter as if those dates represent the year 1900 or thereafter and, in certain instances, such systems may fail to function properly.

State of Readiness

The Company believes that all necessary work has been completed in order to make its internal computer system Year 2000 ready.* Following the completion of an early-impact analysis study, a formal project manager at the Company was designated to spearhead the Year 2000 remediation effort. The methodology adopted by the Company to address the Year 2000 issue is a combination of methods recommended by respected industry consultants and efforts tailored to meet the Company's specific needs. The Company's Year 2000 plan addresses five primary areas.

A. Mainframe Corporate Business Applications Developed and Maintained by the Company: A detailed plan and impact analysis was conducted in 1996-1997 to determine the extent of Year 2000 implications on the Company's mainframe-based computer systems. The remediation and testing in this area have been completed.*

B. Personal Computer Business Applications Software Developed and Supported by the Company: Distribution Corporation and Supply Corporation have retained a consulting firm to perform a detailed impact analysis of the personal computer business application systems supported by the Company's Information Services Department. Seneca has similarly retained a consulting firm to review its Year 2000 issues. These firms have either corrected Year 2000 problems identified by their analysis or advised the respective subsidiaries of the potentially problematic computer applications. Certain applications identified by the consulting firms as potentially problematic have been retired and replaced with Year 2000 compliant applications. The required changes and testing for these applications are complete.*

C. Vendor-Supplied Software, Hardware, and Services for Corporate Business Applications Supported by the Company: This category includes all mainframe infrastructure products as well as all PC client/server software and hardware. The Company has sent letters to its vendors asking if their products and services will continue to perform as expected after January 1, 2000. These vendors are responsible for approximately 200 products and services associated with corporate computer applications. The Company has received responses from all vendors which the Company believes supply critical hardware, software, date-sensitive embedded chips and related computer services. The Company has completed testing and implementation of the vendor-supplied Year 2000 ready products and services.*

D. Vendor-Supplied Products and Services Used on a Corporate Wide Basis: This category includes the critical products and services that are used by multiple departments within the Company including all products containing embedded chips which might be date sensitive. The Company has sent letters to the primary vendors who provide these products and services to the Company, requesting Year 2000 compliance plans. The Company is monitoring their responses and has incorporated them into the Company's overall Year 2000 project and contingency plans. The Company has completed testing and implementation of the products and services of these vendors (reference is made to the "Risks" section below).*

E. User-Department Maintained Business Applications: The Company uses certain business software applications that were either built in-house or vendor-supplied and subsequently maintained by individual departments of the Company. The scope of such applications includes, but is not limited to, spreadsheets, databases, vendor provided products and services and embedded process controls. A corporate wide Year 2000 task force is in place and has established a process to identify and resolve Year 2000 problems in this area. This task force meets on a monthly basis to coordinate ongoing activities and report on the project status. Providers of critical products and services have been identified and the Company has sent letters requesting their Year 2000 compliance plans. Responses are being monitored and incorporated into the Year 2000 planning of the various departments. Based on responses received to date along with internal testing, the Company believes that all applications and services under this category are Year 2000 ready.*

Cost

The cost of upgrading both vendor supplied and internally developed systems and services is expensed as incurred and has amounted to approximately \$2.3 million in total. Minimal additional expenses related to Year 2000 administration are expected to be incurred.*

Risks

The Company's main concern is to ensure the safe, reliable and uninterrupted production and delivery of natural gas and Company-provided services to its customers. Based on the efforts discussed above, the Company expects to be able to operate its own facilities without interruption and continue normal operation in Year 2000 and beyond.* However, the Company has no control over the systems and services used by third parties with whom it interfaces. While the Company has placed its major

third parties on notice that the Company expects their products and services to perform as expected after January 1, 2000, the Company cannot predict with accuracy the actual adverse consequences to the Company that could result if such third parties are not Year 2000 compliant.* The widespread failure of electric, telecommunication, and upstream gas supply could potentially affect gas service to utility customers, and the Company is pursuing contingency plans to avoid such disruptions.*

The majority of the devices which control the Company's physical delivery system are not believed to be susceptible to Year 2000 problems because they do not contain micro-processors. The Company has conducted an extensive review of its existing micro-processors (embedded technology) and has replaced non-Year 2000 compliant hardware.

Distribution Corporation is subject to regulatory review by both the NYPSC and the PaPUC. Both of these regulatory bodies have issued orders concerning the Year 2000 issue, and both have established dates in 1999 by which jurisdictional utilities must have taken the necessary steps to ensure that its critical systems are Year 2000 ready. Distribution Corporation has, to date, met the requirements of those orders and will continue to comply with such orders for the pertinent time periods specified in such orders.*

Contingency Planning

The Company formed its Corporate Year 2000 task force in mid-1997. The primary function of this group was, and continues to be, to: (1) raise awareness of the Year 2000 issue within the Company, (2) facilitate identification and remediation of Year 2000 potential problems within the Company, and (3) facilitate and develop corporate contingency plans. The group is comprised of middle to senior level managers and Company executives. The Company has developed Year 2000 strategic contingency plans which have been prioritized in relation to the overall corporation in the order of human safety, reliability/delivery of Company services and administrative services. The Company has added the operational specifics to these plans and is continuing to hone them through operational drills. During September through November 1999, Distribution Corporation and Supply Corporation conducted Year 2000 Readiness Drills at critical Company owned operating facilities (e.g. compressor stations, pipeline interconnect locations, and gas dispatching control centers) to simulate operation under the low probability occurrence of loss of local electricity or communications (primarily telephone). These drills tested backup generation equipment, alternative communication functionality (radios), and our employees' preparedness to manually operate the physical gas delivery system should these low probability events occur. These drills also tested and sharpened the Company's readiness to dispatch and make safe any customer emergencies, which might occur during a loss of electrical supply or communications functionality. The Company will have a very significant incremental workforce in the field during the critical Year 2000 rollover period New Year's Eve. The pertinent portions of these plans have been filed with the NYPSC whose review is ongoing. Distribution Corporation and Supply Corporation are currently working with other utilities in their service areas and regional Emergency Management Services to establish communication channels and procedures in the low probability event of a serious Year 2000 disruption. The Company has always had disaster/contingency plans to deal with operational gas supply or delivery problems, loss of the corporate data center, and loss of the corporate customer telephone centers. These plans, in conjunction with the Year 2000 drills, enable the Company to verify its readiness and ability to operate in the event of failures resulting from Year 2000 problems arising outside of the Company (i.e., loss of electricity, telephone service, etc.). All critical Year 2000 contingency plans have been completed.*

All of the above Year 2000 information is a YEAR 2000 READINESS DISCLOSURE made pursuant to the Year 2000 Information and Readiness Disclosure Act of 1998.

<p>Effects of Inflation</p>	<p>Although the rate of inflation has been relatively low over the past few years, and thus has benefited both the Company and its customers, 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.</p>
<p>Safe Harbor for Forward-Looking Statements</p>	<p>The Company is including the following cautionary statement in this combined Annual Report to Shareholders/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, 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 herein, including those which are designated with a “*”, are forward-looking statements 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 statement:</p> <ol style="list-style-type: none"> 1. Changes in economic conditions, demographic patterns and weather conditions; 2. Changes in the availability and/or price of natural gas and oil; 3. Inability to obtain new customers or retain existing ones; 4. Significant changes in competitive factors affecting the Company; 5. Governmental/regulatory actions and initiatives, including those affecting financings, allowed rates of return, industry and rate structure, franchise renewal, and environmental/safety requirements; 6. Unanticipated impacts of restructuring initiatives in the natural gas and electric industries; 7. Significant changes from expectations in actual capital expenditures and operating expenses and unanticipated project delays; 8. The nature and projected profitability of pending and potential projects and other investments; 9. Occurrences affecting the Company’s ability to obtain funds from operations, debt or equity to finance needed capital expenditures and other investments; 10. Uncertainty of oil and gas reserve estimates; 11. Ability to successfully identify and finance oil and gas property acquisitions and ability to operate existing and any subsequently acquired properties; 12. Ability to successfully identify, drill for and produce economically viable natural gas and oil reserves; 13. Changes in the availability and/or price of derivative financial instruments; 14. Inability of the various counterparties to meet their obligations with respect to the Company’s financial instruments;

15. Regarding foreign operations - changes in foreign trade and monetary policies, laws and regulations related to foreign operations, political and governmental changes, inflation and exchange rates, taxes and operating conditions;
16. Significant changes in tax rates or policies or in rates of inflation or interest;
17. Significant changes in the Company's relationship with its employees and the potential adverse effects if labor disputes or grievances were to occur;
18. Changes in accounting principles and/or the application of such principles to the Company; and/or
19. Unanticipated problems related to the Company's internal Year 2000 initiative as well as potential adverse consequences related to third party Year 2000 compliance.

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

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

ITEM 8 Financial Statements and Supplementary Data

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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 generally accepted accounting principles 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 generally accepted auditing standards.

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

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, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1999, in conformity with accounting principles generally accepted in the United States. In addition, in our opinion, the financial statement schedules listed in the accompanying index present 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 schedules are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As discussed in Note A to the consolidated financial statements, the Company changed its method of depletion for oil and gas properties in 1998.

PricewaterhouseCoopers LLP

Buffalo, New York

October 25, 1999

CONSOLIDATED STATEMENTS OF INCOME AND EARNINGS REINVESTED IN THE BUSINESS

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

	1 9 9 9	1 9 9 8	1 9 9 7	
INCOME	Operating Revenues	\$1,263,274	\$1,248,000	\$1,265,812
	Operating Expenses			
	Purchased Gas	405,925	441,746	528,610
	Fuel Used in Heat and Electric Generation	55,788	37,837	1,489
	Operation	300,007	293,976	260,839
	Maintenance	23,881	25,793	25,698
	Property, Franchise and Other Taxes	91,146	92,817	100,549
	Depreciation, Depletion and Amortization	129,690	118,880	111,650
	Impairment of Oil and Gas Producing Properties	—	128,996	—
	Income Taxes	64,829	24,024	68,674
		1,071,266	1,164,069	1,097,509
	Operating Income	192,008	83,931	168,303
	Other Income	12,343	35,870	3,196
	Income Before Interest Charges and Minority Interest in Foreign Subsidiaries	204,351	119,801	171,499
	Interest Charges			
	Interest on Long-Term Debt	65,402	53,154	42,131
	Other Interest	22,296	32,130	14,680
		87,698	85,284	56,811
	Minority Interest in Foreign Subsidiaries	(1,616)	(2,213)	—
	Income Before Cumulative Effect	115,037	32,304	114,688
	Cumulative Effect of Change in Accounting for Depletion	—	(9,116)	—
	Net Income Available for Common Stock	115,037	23,188	114,688
EARNINGS REINVESTED IN THE BUSINESS	Balance at Beginning of Year	428,112	472,595	422,874
		543,149	495,783	537,562
	Dividends on Common Stock	70,632	67,671	64,967
	Balance at End of Year	\$472,517	\$428,112	\$472,595
	Basic Earnings Per Common Share:			
	Income Before Cumulative Effect	\$2.98	\$0.85	\$3.01
	Cumulative Effect of Change in Accounting For Depletion	—	(0.24)	—
	Net Income Available for Common Stock	\$2.98	\$0.61	\$3.01
	Diluted Earnings Per Common Share:			
	Income Before Cumulative Effect	\$2.95	\$0.84	\$2.98
	Cumulative Effect of Change in Accounting For Depletion	—	(0.24)	—
	Net Income Available for Common Stock	\$2.95	\$0.60	\$2.98
	Weighted Average Common Shares Outstanding:			
	Used in Basic Calculation	38,663,981	38,316,397	38,083,514
	Used in Diluted Calculation	39,041,728	38,703,526	38,440,018

See Notes to Consolidated Financial Statements

CONSOLIDATED BALANCE SHEETS

At September 30 (Thousands of Dollars)

1 9 9 9

1 9 9 8

ASSETS

Property, Plant and Equipment	\$3,383,537	\$3,186,853
Less - Accumulated Depreciation, Depletion and Amortization	1,029,643	938,716
	2,353,894	2,248,137
Current Assets		
Cash and Temporary Cash Investments	29,222	30,437
Receivables - Net	105,296	82,336
Unbilled Utility Revenue	18,674	15,403
Gas Stored Underground	41,099	31,661
Materials and Supplies - at average cost	23,350	24,609
Unrecovered Purchased Gas Costs	4,576	6,316
Prepayments	35,072	19,755
	257,289	210,517
Other Assets		
Recoverable Future Taxes	87,724	88,303
Unamortized Debt Expense	21,717	22,295
Other Regulatory Assets	25,214	41,735
Deferred Charges	14,266	8,619
Other	82,482	64,853
	231,403	225,805
	\$2,842,586	\$2,684,459

See Notes to Consolidated Financial Statements

At September 30 (Thousands of Dollars)

1999

1998

**CAPITALIZATION
AND LIABILITIES**

Capitalization:

Common Stock Equity

Common Stock, \$1 Par Value

Authorized – 200,000,000 Shares; Issued and

Outstanding – 38,837,499 Shares and

38,468,795 Shares, Respectively

\$ 38,837 \$ 38,469

Paid In Capital

431,952 416,239

Earnings Reinvested in the Business

472,517 428,112

Accumulated Other Comprehensive Income

(4,013) 7,265

Total Common Stock Equity

939,293 890,085

Long-Term Debt, Net of Current Portion

822,743 693,021

Total Capitalization

1,762,036 1,583,106

Minority Interest in Foreign Subsidiaries

27,589 25,479

Current and Accrued Liabilities

Notes Payable to Banks and Commercial Paper

393,495 326,300

Current Portion of Long-Term Debt

69,608 216,929

Accounts Payable

82,747 59,933

Amounts Payable to Customers

5,934 5,781

Other Accruals and Current Liabilities

87,310 80,480

639,094 689,423

Deferred Credits

Accumulated Deferred Income Taxes

275,008 258,222

Taxes Refundable to Customers

14,814 18,404

Unamortized Investment Tax Credit

11,007 11,372

Other Deferred Credits

113,038 98,453

413,867 386,451

Commitments and Contingencies

– –

\$2,842,586 \$2,684,459

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended September 30 (Thousands of Dollars)

	1 9 9 9	1 9 9 8	1 9 9 7	
OPERATING ACTIVITIES	Net Income Available for Common Stock	\$115,037	\$23,188	\$114,688
	Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities			
	Cumulative Effect of a Change in Accounting for Depletion	–	9,116	–
	Impairment of Oil and Gas Producing Properties	–	128,996	–
	Depreciation, Depletion and Amortization	129,690	118,880	111,650
	Deferred Income Taxes	14,030	(26,237)	3,800
	Minority Interest in Foreign Subsidiaries	1,616	2,213	–
	Other	7,018	(6,378)	8,030
	Change in:			
	Receivables and Unbilled Utility Revenue	(18,161)	45,200	(10,332)
	Gas Stored Underground and Materials and Supplies	(7,806)	(1,271)	7,300
	Unrecovered Purchased Gas Costs	1,740	(6,316)	–
	Prepayments	(15,322)	829	10,065
	Accounts Payable	22,871	(24,975)	9,495
	Amounts Payable to Customers	153	(4,735)	5,898
	Other Accruals and Current Liabilities	10,931	(15,481)	4,113
	Other Assets	(906)	36	(2,856)
	Other Liabilities	10,999	9,913	32,811
	Net Cash Provided by Operating Activities	271,890	252,978	294,662
INVESTING ACTIVITIES	Capital Expenditures	(260,506)	(393,233)	(214,001)
	Investment in Subsidiaries, Net of Cash Acquired	(5,774)	(111,966)	(21,075)
	Investment in Partnerships	(3,633)	(5,453)	–
	Other	6,687	7,583	1,429
	Net Cash Used in Investing Activities	(263,226)	(503,069)	(233,647)
FINANCING ACTIVITIES	Change in Notes Payable to Banks and Commercial Paper	67,195	229,387	(107,300)
	Net Proceeds from Issuance of Long-Term Debt	198,217	198,750	99,500
	Reduction of Long-Term Debt	(213,849)	(103,867)	(1,310)
	Proceeds from Issuance of Common Stock	10,735	7,853	7,074
	Dividends Paid on Common Stock	(69,878)	(66,959)	(64,260)
	Dividends Paid to Minority Interest	(246)	(253)	–
	Net Cash Provided by (Used in) Financing Activities	(7,826)	264,911	(66,296)
	Effect of Exchange Rates on Cash	(2,053)	1,578	–
	Net Increase (Decrease) in Cash and Temporary Cash Investments	(1,215)	16,398	(5,281)
	Cash and Temporary Cash Investments at Beginning of Year	30,437	14,039	19,320
	Cash and Temporary Cash Investments at End of Year	\$29,222	\$30,437	\$14,039

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year Ended September 30 (Thousands of Dollars)

	1 9 9 9	1 9 9 8	1 9 9 7
Net Income Available for Common Stock	\$115,037	\$23,188	\$114,688
Other Comprehensive Income (Loss), Before Tax:			
Foreign Currency Translation Adjustment	(11,737)	9,350	(2,085)
Unrealized Gain on Securities Available for Sale	706	—	—
Other Comprehensive Income (Loss), Before Tax	(11,031)	9,350	(2,085)
Income Tax Expense Related to Unrealized Gain on Securities Available for Sale	247	—	—
Other Comprehensive Income (Loss), Net of Tax	(11,278)	9,350	(2,085)
Comprehensive Income	\$103,759	\$32,538	\$112,603

See Notes to Consolidated Financial Statements

NOTE A

Summary of Significant Accounting Policies**Principles of Consolidation**

The consolidated financial statements include the accounts of the Company and its majority owned subsidiaries. The equity method is used to account for the Company's investment in any minority owned entities. All significant intercompany balances and transactions have been eliminated where appropriate.

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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.

Reclassification

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

Regulation

Two of the Company's principal subsidiaries, Distribution Corporation and Supply Corporation, are subject to regulation by certain state and federal authorities. Distribution Corporation and Supply Corporation have accounting policies which conform to generally accepted accounting principles, 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

Distribution Corporation's rate schedules 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.

Distribution Corporation's rate settlements with the State of New York Public Service Commission (NYPSC) include provisions for a sharing of earnings over a specified rate of return on equity. Estimated refund liabilities are recorded over the term of the settlements which reflect 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, 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.

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.

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. Due to significant declines in oil prices in 1998, Seneca's capitalized costs under the full-cost method of accounting exceeded these limits at March 31, 1998. Seneca was required to recognize an impairment of its oil and gas producing properties in the quarter ended March 31, 1998. This charge amounted to \$129.0 million (pretax) and reduced net income for 1998 by \$79.1 million.

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 (see discussion of change in method of depletion for oil and gas properties below). 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 4.3% in 1999, 4.4% in 1998 and 4.6% in 1997.

Cumulative Effect of Change in Accounting

Effective October 1, 1997, Seneca changed its method of depletion for oil and gas properties from the gross revenue method to the units of production method. The units of production method was applied retroactively to prior years to determine the cumulative effect through October 1, 1997. This cumulative effect reduced earnings for 1998 by \$9.1 million, net of income tax. Depletion of oil and gas properties for 1999 and 1998 was computed under the units of production method.

Pro forma amounts for 1998 and 1997 shown below, assume the retroactive application of the new depletion method.

<i>Year Ended September 30</i>	1998	1997
Net Income <i>(Thousands):</i>		
As reported	\$23,188	\$114,688
Pro forma	\$32,304	\$113,022
Earnings Per Common Share:		
Basic - As reported	\$0.61	\$3.01
Basic - Pro forma	\$0.85	\$2.97
Diluted - As reported	\$0.60	\$2.98
Diluted - Pro forma	\$0.84	\$2.94

Gas Stored Underground - Current

Gas stored underground - current 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 1999, including transportation costs, the current cost of replacing the inventory of gas stored underground-current exceeded the amount stated on a LIFO basis by approximately \$51.4 million at September 30, 1999.

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. The translation from the local currency to U.S. dollars is performed for balance sheet accounts by using current exchange ratios in effect at the balance sheet date and, for revenue and expense accounts, by using an average exchange rate during the period. The resultant cumulative foreign currency translation adjustment is recorded as a component of Accumulated Other Comprehensive Income in the Common Stock Equity section of the Consolidated Balance Sheet.

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 U.S.

Financial Instruments

Unrealized gains or losses from "available-for-sale securities" (i.e., the Company's investments in marketable equity securities) are recorded as a component of Accumulated Other Comprehensive Income in the Common Stock Equity section of the Consolidated Balance Sheet. Reference is made to Note F - Financial Instruments for further discussion.

Seneca utilizes price swap agreements and options (primarily written options) to manage a portion of the market risk associated with fluctuations in the price of natural gas and crude oil. NFR utilizes exchange-traded futures and exchange-traded options to manage a portion of the market risk that it faces due to fluctuations in the price of natural gas. Gains or losses from Seneca's price swap agreements are accrued in operating revenues on the Consolidated Statement of Income at the contract settlement dates. Seneca's options are marked-to-market on a quarterly basis with gains or losses recorded in Operating Revenues on the Consolidated Statement of Income. Gains or losses from NFR's exchange-traded futures and exchange-traded options are recorded in Other Deferred Credits on the Consolidated Balance Sheet until the hedged commodity transaction occurs, at which point they are reflected in operating revenues on the Consolidated Statement of Income. Reference is made to Note F - Financial Instruments for further discussion.

In the International segment, PSZT utilizes an interest rate swap to eliminate interest rate fluctuations on its variable rate debt. Gains or losses are accrued in interest charges on the Consolidated Statement of Income at the contract settlement dates.

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 generally three months or less to be cash equivalents. Interest paid in 1999, 1998 and 1997 was \$75.8 million, \$46.2 million and \$52.4 million, respectively. Income taxes paid in 1999, 1998 and 1997 were \$35.0 million, \$64.5 million and \$69.2 million, respectively.

Details of the stock acquisitions made by the Company during 1999 and 1998 are as follows:

Year Ended September 30 (Millions)	1999	1998			Total
	JTR ⁽¹⁾	SCT	PSZT	HarCor ⁽²⁾	
Assets acquired	\$13.5	\$66.1	\$141.8	\$105.6	\$313.5
Liabilities assumed	(7.3)	(22.3)	(77.3)	(73.0)	(172.6)
Existing investment at acquisition	(0.4)	(18.9)	—	—	(18.9)
Cash acquired at acquisition	(0.1)	(6.3)	(0.9)	(2.8)	(10.0)
Cash paid, net of cash acquired	\$ 5.7	\$18.6	\$ 63.6	\$ 29.8	\$112.0

(1) Jablonecká teplárenská a realitní, a.s. (JTR) is a majority owned subsidiary of SCT.

(2) HarCor Energy, Inc. (HarCor).

Further discussion of these acquisitions can be found at Note J - Stock Acquisitions.

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

Accounting for Derivative Instruments and Hedging Activities

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. This statement requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The intended use of the derivatives and their designation as either a fair value hedge, a cash flow hedge, or a foreign currency hedge will determine when the gains or losses on the derivatives are to be reported in earnings and when they are to be reported as a component of other comprehensive income.

Management has evaluated the derivatives used by Seneca, NFR and Horizon and believes that the adoption of SFAS 133 will not have a material impact on the financial condition or results of operations of the Company. Management is continuing to evaluate other financial instruments and contracts which may have embedded derivatives that could be impacted by the adoption of SFAS 133. SFAS 133 required the Company to adopt the standard in the first quarter of fiscal 2000. However, in June 1999, the FASB issued SFAS 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133." SFAS 137 delays, by one year, the effective date of SFAS 133. Accordingly, the Company will adopt SFAS 133 by the first quarter of fiscal 2001.

Regulatory Assets and Liabilities

Distribution Corporation and Supply Corporation have recorded the following regulatory assets and liabilities:

<i>At September 30 (Thousands)</i>	1999	1998
Regulatory Assets:		
Recoverable Future Taxes (Note C)	\$87,724	\$88,303
Unamortized Debt Expense (Note A)	15,223	16,886
Pension and Post-Retirement Benefit Costs (Note G)	21,217	22,483
Environmental Clean-up (Note H)	—	12,394
Other	3,997	6,858
Total Regulatory Assets	128,161	146,924
Regulatory Liabilities:		
Amounts Payable to Customers (Note A)	5,934	5,781
New York Rate Settlements	18,913	19,341
Taxes Refundable to Customers (Note C)	14,814	18,404
Pension and Post-Retirement Benefit Costs ⁽¹⁾ (Note G)	26,087	20,222
Other ⁽¹⁾	3,226	1,741
Total Regulatory Liabilities	68,974	65,489
Net Regulatory Position	\$59,187	\$81,435

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

If for any reason Distribution Corporation and/or Supply Corporation ceases to meet the criteria for application of regulatory accounting treatment for all or part of their 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 services provided in New York, Distribution Corporation has entered into rate settlements with the NYPSC. The rate settlements provide for a sharing mechanism, whereby earnings above a 12% return on equity are to be shared equally between shareholders and ratepayers. As a result of this sharing mechanism, Distribution Corporation had liabilities of \$8.6 million and \$10.7 million at September 30, 1999 and 1998, respectively. Of these amounts, \$3.0 million was reclassified to Amounts Payable to Customers at September 30, 1999 and 1998 to reflect the amounts estimated to be passed back to customers in the following year. Other aspects of the settlements include a special reserve of \$7.4 million (including interest of \$0.2 million) recorded during 1999 to be applied against Distribution Corporation's incremental costs resulting from the NYPSC's gas restructuring effort and a "refund pool" of \$3.5 million and \$5.0 million at September 30, 1999 and 1998, 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 \$2.5 million and \$6.6 million at September 30, 1999 and 1998, respectively.

Income Taxes

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

<i>Year Ended September 30 (Thousands)</i>	1999	1998	1997
Operating Expenses:			
Current Income Taxes -			
Federal	\$43,467	\$40,740	\$57,807
State	6,215	6,635	7,067
Deferred Income Taxes -			
Federal	11,149	(21,687)	2,895
State	1,244	(5,997)	905
Foreign Income Taxes	2,754	4,333	—
	64,829	24,024	68,674
Other Income:			
Deferred Investment Tax Credit	(729)	(665)	(665)
Minority Interest in Foreign Subsidiaries	(642)	(1,218)	—
Cumulative Effect of Change in Accounting for Depletion	—	(5,737)	—
Total Income Taxes	\$63,458	\$16,404	\$68,009

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

<i>Year Ended September 30 (Thousands)</i>	1999	1998	1997
U.S.	\$169,037	\$31,127	\$184,257
Foreign	9,457	8,465	(1,560)
	\$178,494	\$39,592	\$182,697

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:

<i>Year Ended September 30 (Thousands)</i>	1999	1998	1997
Net Income Available for Common Stock	\$115,037	\$23,188	\$114,688
Income Tax Expense	63,458	16,404	68,009
Income Before Income Taxes	178,495	39,592	182,697
Income Tax Expense, Computed at Federal			
Statutory Rate of 35%	62,473	13,857	63,944
Increase (Reduction) in Taxes Resulting from:			
State Income Taxes	4,848	986	5,182
Depreciation	1,872	2,186	2,560
Property Retirements	(833)	(1,609)	(1,320)
Keyman Life Insurance	(502)	(774)	(695)
Prior Years Tax Adjustment	(1,362)	2,846	—
Miscellaneous	(3,038)	(1,088)	(1,662)
Total Income Taxes	\$ 63,458	\$16,404	\$ 68,009

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

Year Ended September 30 (Thousands)	1999	1998
Deferred Tax Liabilities:		
Abandonments	\$ 21,192	\$ 15,545
Accelerated Tax Depreciation	132,732	132,138
Exploration and Intangible Well Drilling Costs	165,798	147,795
Other	62,565	42,109
Total Deferred Tax Liabilities	382,287	337,587
Deferred Tax Assets:		
Capitalized Overheads	(25,587)	(22,484)
Other	(81,692)	(56,881)
Total Deferred Tax Assets	(107,279)	(79,365)
Total Net Deferred Income Taxes	\$275,008	\$258,222

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 \$14.8 million and \$18.4 million at September 30, 1999 and 1998, 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 \$87.7 million and \$88.3 million at September 30, 1999 and 1998, respectively.

The primary issues related to Internal Revenue Service audits of the Company for the years 1977-1994 were settled during March 1998 and the remaining issues were settled in December 1998. Net income for the years ended September 30, 1999 and 1998 was increased by approximately \$3.9 million and \$5.0 million, respectively, as a result of interest, net of tax and other adjustments, related to these settlements.

SUMMARY OF CHANGES IN COMMON STOCK EQUITY

(Thousands, Except Per Share Amounts)	Common Stock		Paid In Capital	Earnings Reinvested in the Business	Accumulated Other Comprehensive Income
	Shares	Amount			
Balance at September 30, 1996	37,852	\$37,852	\$395,272	\$ 422,874	\$ —
Net Income Available for Common Stock				114,688	
Dividends Declared on Common Stock (\$1.71 Per Share)				(64,967)	
Other Comprehensive Income, Net of Tax					(2,085)
Common Stock Issued Under Stock and Benefit Plans	314	314	9,756		
Balance at September 30, 1997	38,166	38,166	405,028	472,595	(2,085)
Net Income Available for Common Stock				23,188	
Dividends Declared on Common Stock (\$1.77 Per Share)				(67,671)	
Other Comprehensive Income, Net of Tax					9,350
Common Stock Issued Under Stock and Benefit Plans	303	303	11,211		
Balance at September 30, 1998	38,469	38,469	416,239	428,112	7,265
Net Income Available for Common Stock				115,037	
Dividends Declared on Common Stock (\$1.83 Per Share)				(70,632)	
Other Comprehensive Income, Net of Tax					(11,278)
Common Stock Issued Under Stock and Benefit Plans	368	368	15,713		
Balance at September 30, 1999	38,837	\$38,837	\$431,952	\$472,517 ⁽¹⁾	\$(4,013)

(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, 1999, \$398.1 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 Dividend Reinvestment and Stock Purchase Plan allows shareholders to reinvest cash dividends and/or make cash investments in the Company's common stock. The Customer Stock Purchase Plan 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. Effective November 1, 1999, these two plans were combined into a new plan, known as the National Fuel Direct Stock Purchase and Dividend Reinvestment Plan. 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.

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 \$130 per share, being \$65 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 \$.01 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, 1999, 1998 and 1997, no compensation expense was recognized for options granted under these plans. Compensation expense related to stock appreciation rights and restricted stock under these stock plans was \$1.0 million, \$4.1 million and \$8.1 million for the years ended September 30, 1999, 1998 and 1997, respectively. 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	1999	1998	1997
Net Income (Thousands):			
As reported	\$115,037	\$23,188	\$114,688
Pro forma	\$111,385	\$18,859	\$110,506
Earnings Per Common Share:			
Basic - As reported	\$2.98	\$0.61	\$3.01
Basic - Pro forma	\$2.88	\$0.49	\$2.90
Diluted - As reported	\$2.95	\$0.60	\$2.98
Diluted - Pro forma	\$2.85	\$0.49	\$2.87

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

	Number of Shares Subject to Option	Weighted Average Exercise Price
Outstanding at September 30, 1996	1,773,251	\$29.62
Granted in 1997	678,750	\$39.61
Exercised in 1997 ⁽¹⁾	(274,655)	\$25.80
Forfeited in 1997	(3,000)	\$36.81
Outstanding at September 30, 1997	2,174,346	\$33.21
Granted in 1998	770,000	\$44.44
Exercised in 1998 ⁽¹⁾	(205,200)	\$27.41
Forfeited in 1998	(7,250)	\$41.68
Outstanding at September 30, 1998	2,731,896	\$36.79
Granted in 1999	753,400	\$46.70
Exercised in 1999 ⁽¹⁾	(111,504)	\$28.41
Forfeited in 1999	(9,700)	\$37.41
Outstanding at September 30, 1999	3,364,092	\$39.29
Option shares exercisable at September 30, 1999	2,537,360	\$37.01
Option shares available for future grant at September 30, 1999 ⁽²⁾	76,338	

(1) In connection with exercising these options, 16,531, 44,580 and 117,326 shares were surrendered and canceled during 1999, 1998 and 1997, respectively.

(2) Including shares available for restricted stock grants.

The weighted average fair value per share of options granted in 1999, 1998 and 1997 was \$7.43, \$7.91 and \$7.66, 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	1999	1998	1997
Quarterly Dividend Yield	0.97%	0.98%	1.06%
Annual Standard Deviation (Volatility)	18.86%	16.48%	16.76%
Risk Free Rate	4.74%	5.77%	6.58%
Expected Term - in Years	5.0	5.5	5.0

The following table summarizes information about options outstanding at September 30, 1999:

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Number Outstanding at 9/30/99	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at 9/30/99	Weighted Average Exercise Price
\$23.81 – \$35.72	846,817	4.5 years	\$28.77	846,817	\$28.77
\$35.73 – \$49.57	2,517,275	8.2 years	\$42.83	1,690,543	\$41.14

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	1999	1998	1997
Shares of Restricted Stock Awarded	6,580	7,609	6,300
Weighted Average Market Price of Stock on Award Date	\$46.06	\$44.88	\$40.88

As of September 30, 1999, 96,319 shares of non-vested restricted stock were outstanding. Vesting restrictions will lapse as follows: 2000 - 28,216 shares; 2001 - 35,103 shares; 2002 - 8,000 shares; 2003 - 8,000 shares; 2004 - 7,000 shares; 2005 - 6,000 shares; and 2006 - 4,000 shares.

Redeemable Preferred Stock

As of September 30, 1999, 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)	1999	1998
National Fuel Gas Company:		
Debentures:		
7-3/4% due February 2004	\$125,000	\$125,000
Medium-Term Notes:		
5.58% to 8.48% due March 1999 to August 2027 ⁽¹⁾	699,000	649,000
	824,000	774,000
HarCor:		
14.875% Senior Secured Notes	—	62,571
PSZT:		
8.04% U.S. Dollar Denominated		
Debt due March 2000 - December 2004 ⁽²⁾	—	50,596
7.505% Term Loan due March 2000 - December 2004 ⁽²⁾	47,671	—
	47,671	50,596
Other Notes	20,680	22,783
Total Long-Term Debt	892,351	909,950
Less Current Portion	69,608	216,929
	\$822,743	\$693,021

(1) Includes \$50 million of 8.48% medium-term notes due July 2024 which are callable at a redemption price of 106.36% through July 2000. The redemption price will decline in subsequent years. It 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.

(2) In December 1998, PSZT converted its U.S. Dollar denominated debt to a Czech koruna denominated term loan. The interest rate on the new term loan is six month Prague Interbank Offered Rate (PRIBOR) plus 0.475%. Refer to Note F - Financial Instruments for discussion of PSZT's interest rate swap.

The aggregate principal amounts of long-term debt maturing for the next five years and thereafter are as follows: \$69.6 million in 2000, \$12.6 million in 2001, \$10.7 million in 2002, \$10.4 million in 2003, \$235.4 million in 2004 and \$553.7 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, 1999, the Company had outstanding short-term notes payable to banks and commercial paper of \$246.0 million (domestic = \$244.8 million; foreign = \$1.2 million) and \$147.5 million, respectively. At September 30, 1998, the Company had outstanding notes payable to banks and commercial paper of \$196.3 million and \$130.0 million, respectively.

The weighted average interest rate on domestic notes payable to banks was 5.55% and 5.67% at September 30, 1999 and 1998, respectively. The interest rate on the foreign notes payable to banks was 6.35% at September 30, 1999. There were not any foreign notes payable to banks at September 30, 1998. The weighted average interest rate on commercial paper was 5.49% and 5.60% at September 30, 1999 and 1998, 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:

<i>At September 30 (Thousands)</i>	1999 Carrying Amount	1999 Fair Value	1998 Carrying Amount	1998 Fair Value
Long-Term Debt	\$892,351	\$867,056	\$909,950	\$966,437

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, as discussed below, are stated at fair value based on quoted market prices.

Investments

Other assets includes cash surrender values of insurance contracts and a mutual fund (accounted for as an "available-for-sale security"). The insurance contracts and mutual fund were established as an informal funding mechanism for various benefit obligations the Company has to certain employees. The cash surrender values of the insurance contracts amounted to \$44.2 million and \$40.1 million at September 30, 1999 and 1998, respectively. The mutual fund amounted to \$5.0 million and \$2.2 million at September 30, 1999 and 1998, respectively.

Other assets also includes shares of stock in an insurance company which the Company received as part of the insurance company's initial public offering in 1999. This "demutualization" of the insurance company resulted in a gain to the Company of \$2.4 million. At September 30, 1999, the value of the stock was \$2.3 million. The stock is accounted for as an "available-for-sale security."

Derivative Financial Instruments

Seneca has entered into certain price swap agreements and options to manage a portion of the market risk associated with fluctuations in the price of natural gas and crude oil in an effort to provide more stability to its operating results. These agreements and options are not held for trading purposes. The price swap agreements call for Seneca to receive monthly payments from (or make payment to) other parties based upon the difference between a fixed 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 or a quoted natural gas price in "Inside FERC." These variable prices are highly correlated with the market prices received by Seneca for its natural gas and crude oil production. The fair value of outstanding natural gas and crude oil price swap agreements and options discussed below reflect the estimated amounts Seneca would pay or receive to terminate its derivative financial instruments at September 30, 1999.

At September 30, 1999, Seneca had natural gas price swap agreements covering a notional amount of 40.2 Bcf extending through 2002 at a weighted average fixed rate of \$2.69 per Mcf. Seneca also had crude oil price swap agreements covering a notional amount of 2,296,000 bbls extending through 2001 at a weighted average fixed rate of \$19.00 per bbl. The fair value of Seneca's outstanding natural gas and crude oil price swap agreements at September 30, 1999 was a net loss of approximately \$9.8 million. This loss was offset by corresponding unrecognized gains from Seneca's anticipated natural gas and crude oil production over the terms of the price swap agreements.

Seneca recognized net gains (losses) of \$2.6 million, \$(4.1) million and \$(21.5) million related to settlements of its price swap agreements during 1999, 1998 and 1997, respectively. As the price swap agreements have been designated as hedges, these gains (losses) were offset by corresponding gains (losses) from Seneca's natural gas and crude oil production.

At September 30, 1999, Seneca had the following options outstanding:

Type of Option	Notional Amount	Weighted Average Strike Price
Written Call Option	184,000 bbls	\$18.00/bbl
Written Call Option	2.6Bcf	\$2.86/Mcf
Written Call Options ⁽¹⁾	13.9 Bcf or 732,000 bbls	\$2.62/Mcf or \$18.00/bbl
Written Put Option	916,000 bbls	\$12.50/bbl
Purchased Call Option	1,464,000 bbls	\$20.00/bbl

(1) The counterparty has a choice between a natural gas call option and a crude oil call option, depending on whichever option has greater value to the counterparty.

As disclosed in Note A - Summary of Significant Accounting Policies, Seneca's call and put options are being marked-to-market. The mark-to-market adjustment for 1999 was a loss of \$1.3 million, the recording of which leaves the fair value of the call and put options at September 30, 1999 at a net loss of \$3.6 million. During 1999, Seneca paid the counterparty \$28,000 and \$1.2 million related to the exercise of a portion of the written put options and the written call options, respectively. Seneca received \$0.6 million from the counterparty related to Seneca's exercise of a portion of the \$20.00 per bbl call options that it had purchased.

The Company is exposed to credit risk on the price swap agreements that Seneca has entered into as well as on the call options that Seneca has purchased. 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.

NFR utilizes exchange-traded futures and exchange-traded options to manage a portion of the market risk associated with fluctuations in the price of natural gas. Such futures and options are not held for trading purposes. At September 30, 1999, NFR had natural gas futures contracts covering 2.1 Bcf of gas on a net basis extending through 2001 at a weighted average contract price of \$2.75 per Mcf. NFR had sold natural gas options covering 17.1 Bcf of gas at a weighted average strike price of \$3.01 per Mcf. NFR also had purchased natural gas options covering 9.0 Bcf of gas at a weighted average strike price of \$2.72 per Mcf. The exchange-traded futures and exchange-traded options are used to hedge NFR's purchase and sale commitments and storage gas inventory. The fair value of NFR's outstanding exchange-traded futures and exchange-traded options at September 30, 1999 was a net gain of approximately \$1.1 million. This fair value reflects the estimated net amount that NFR would receive to terminate its exchange-traded futures and exchange-traded options at September 30, 1999. Since these exchange-traded futures contracts and exchange-traded options qualify and have been designated as hedges, any gains or losses resulting from market price changes would be substantially offset by the related commodity transaction.

NFR recognized net gains (losses) of \$(5.4) million, \$1.3 million and \$1.7 million related to futures contracts and options during 1999, 1998 and 1997, respectively. Since these futures contracts and options qualify and have been designated as hedges, these net gains (losses) were substantially offset by the related commodity transactions.

PSZT utilizes an interest rate swap to eliminate interest rate fluctuations on its CZK 1,595,924,000 term loan (\$47.7 million at September 30, 1999), which carries a variable interest rate of six month PRIBOR plus 0.475%. Under the terms of the interest rate swap, which extends until 2001, PSZT pays a fixed rate of 8.31% and receives a floating rate of six month PRIBOR. PSZT recognized a loss of \$0.1 million related to this interest rate swap during 1999. The fair value of PSZT's interest rate swap at September 30, 1999 was a loss of approximately \$1.0 million.

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 and/or units in commingled funds or money market funds.

Distribution Corporation and Supply Corporation are fully recovering their net periodic pension and post-retirement benefit costs in accordance with the applicable regulatory commission authorization. For financial reporting purposes, Distribution Corporation and Supply Corporation record 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 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,

Distribution Corporation 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:

<i>Year Ended September 30 (Thousands)</i>	1999	1998	1997
Change in Benefit Obligation			
Benefit Obligation at Beginning of Period	\$532,250	\$462,377	\$432,753
Service Cost	12,676	10,655	9,988
Interest Cost	36,299	35,485	33,532
Amendments	1,691	-	1,479
Actuarial (Gain) Loss	(13,598)	52,446	10,336
Benefits Paid	(30,522)	(28,713)	(25,711)
Benefit Obligation at End of Period	\$538,796	\$532,250	\$462,377
Change in Plan Assets			
Fair Value of Assets at Beginning of Period	\$509,393	\$473,205	\$431,828
Actual Return on Plan Assets	47,888	59,415	65,790
Employer Contribution	11,199	5,486	1,298
Benefits Paid	(30,522)	(28,713)	(25,711)
Fair Value of Assets at End of Period	\$537,958	\$509,393	\$473,205
Reconciliation of Funded Status			
Funded Status	\$ (838)	\$ (22,857)	\$ 10,828
Unrecognized Net Actuarial Gain	(45,853)	(12,659)	(38,687)
Unrecognized Transition Asset	(14,864)	(18,580)	(22,296)
Unrecognized Prior Service Cost	12,048	11,369	12,435
Accrued Benefit Cost	\$ (49,507)	\$ (42,727)	\$ (37,720)

	1999	1998	1997
Weighted Average Assumptions as of September 30			
Discount Rate	7.25%	7.00%	7.75%
Expected Return on Plan Assets	8.50%	8.50%	8.50%
Rate of Compensation Increase	5.00%	5.00%	5.00%

<i>Year Ended September 30 (Thousands)</i>			
Components of Net Periodic Benefit Cost			
Service Cost	\$12,676	\$10,655	\$9,988
Interest Cost	36,299	35,485	33,532
Expected Return on Plan Assets	(38,158)	(35,724)	(34,011)
Amortization of Prior Service Cost	1,012	1,065	991
Amortization of Transition Asset	(3,716)	(3,716)	(3,754)
Recognition of Actuarial Loss	2,833	981	-
Early Retirement Window	7,032	-	1,904
Net Amortization and Deferral for Regulatory Purposes	2,721	4,829	(374)
Net Periodic Benefit Cost	\$20,699	\$13,575	\$8,276

The effect of the discount rate change in 1999 was to decrease the Benefit Obligation by \$15.9 million as of the end of the period. The effect of the discount rate change in 1998 was to increase the Benefit Obligation as of the end of the period by \$45.0 million.

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:

<i>Year Ended September 30 (Thousands)</i>	1999	1998	1997
Change in Benefit Obligation			
Benefit Obligation at Beginning of Period	\$ 256,983	\$218,370	\$ 212,047
Service Cost	4,493	4,022	4,056
Interest Cost	17,635	17,122	16,594
Plan Participants' Contributions	673	867	417
Actuarial (Gain) Loss	(13,542)	27,014	(6,653)
Benefits Paid	(10,627)	(10,412)	(8,091)
Benefit Obligation at End of Period	\$ 255,615	\$256,983	\$ 218,370
Change in Plan Assets			
Fair Value of Assets at Beginning of Period	\$ 122,870	\$ 98,639	\$ 73,059
Actual Return on Plan Assets	17,345	14,602	13,618
Employer Contribution	19,623	19,174	19,636
Plan Participants' Contributions	673	867	417
Benefits Paid	(10,627)	(10,412)	(8,091)
Fair Value of Assets at End of Period	\$ 149,884	\$122,870	\$ 98,639
Reconciliation of Funded Status			
Funded Status	\$(105,731)	\$(134,113)	\$(119,731)
Unrecognized Net Actuarial Loss	(2,396)	19,660	505
Unrecognized Transition Obligation	99,780	106,907	114,034
Accrued Benefit Cost	\$ (8,347)	\$ (7,546)	\$ (5,192)

	1999	1998	1997
Weighted Average Assumptions as of September 30			
Discount Rate	7.25%	7.00%	7.75%
Expected Return on Plan Assets	8.50%	8.50%	8.50%
Rate of Compensation Increase	5.00%	5.00%	5.00%

<i>Year Ended September 30 (Thousands)</i>			
Components of Net Periodic Benefit Cost			
Service Cost	\$ 4,493	\$ 4,022	\$ 4,056
Interest Cost	17,635	17,122	16,594
Expected Return on Plan Assets	(10,134)	(8,099)	(6,014)
Amortization of Transition Obligation	7,127	7,127	7,768
Amortization of Loss	1,304	683	-
Net Amortization and Deferral for Regulatory Purposes	1,774	915	(1,257)
Net Periodic Benefit Cost	\$22,199	\$21,770	\$21,147

The effect of the discount rate change in 1999 was to decrease the Benefit Obligation by \$9.1 million. The effect of the discount rate change in 1998 was to increase the Benefit Obligation by \$25.3 million.

The annual rate of increase in the per capita cost of covered medical care benefits was assumed to be 10% for 1997, 9% for 1998 and 8% for 1999 and gradually decline to 5.5% by the year 2003 and remain level thereafter. The annual rate of increase for medical care benefits provided by healthcare maintenance organizations was assumed to be 7.5% in 1998, 7.0% in 1999 and gradually decline to

5.5% by the year 2002 and remain level thereafter. The annual rate of increase in the per capita cost of covered prescription drug benefits was assumed to be 8.5% for 1997, 9.0% for 1998 and 8.0% for 1999 and gradually decline to 5.5% by the year 2003 and remain level thereafter. The annual rate of increase in the per capita Medicare Part B Reimbursement was assumed to be 3.1% for 1997, 9.0% for 1998 and 8.0% for 1999 and gradually decline to 5.5% by the year 2003 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, 1999 would be increased by \$38.9 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 1999 by \$4.0 million. If the health care cost trend rates were decreased by 1% in each year, the Benefit Obligation as of October 1, 1999 would be decreased by \$34.0 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 1999 by \$3.4 million.

NOTE**H****Commitments and Contingencies****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. Distribution Corporation and Supply Corporation have estimated their clean-up costs related to the sites described below in (i) and (ii) will be in the range of \$9.4 million to \$10.4 million. The minimum liability of \$9.4 million has been recorded on the Consolidated Balance Sheet at September 30, 1999. Other than discussed 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 has been recovering site investigation and remediation costs in rates. Accordingly, the Consolidated Balance Sheet at September 30, 1998 included related regulatory assets of \$12.4 million. Over the past several years, the Company has been negotiating settlements with its insurance carriers related to environmental investigation and remediation costs. The Company received net proceeds of approximately \$9.8 million in 1999 and approximately \$3.5 million in 1998 related to these settlements. In addition, the Company reached a settlement with one of its insurance carriers for reimbursement of covered costs to remediate certain sites. A portion of the net proceeds received and future proceeds accrued have been applied to reduce the Company's environmental related regulatory assets to zero at September 30, 1999.

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.

(i) Former Manufactured Gas Plant and Former Gasoline Plant Sites

Distribution Corporation has incurred or is incurring clean-up costs at five former manufactured gas plant sites in New York and Pennsylvania. Remediation is complete at one site and substantially complete at a second site. With respect to the second site, Distribution Corporation has been designated by the New York Department of Environmental Conservation (DEC) as a potentially responsible party (PRP) and is also engaged in litigation with the DEC and the party who bought that site from

Distribution Corporation's predecessor. At a third site, the remedial plan has been approved by the DEC and remediation is expected to begin in 2000. A fourth site is in an ongoing investigation stage with remediation being designed. The fifth is a site allegedly containing, among other things, manufactured gas plant waste and is in the investigation stage. Supply Corporation is in the final stages of remediation of a former gasoline plant site.

(ii) Third Party Waste Disposal Sites

Distribution Corporation and Supply Corporation are each currently identified by the DEC or the Federal Environmental Protection Agency as one of a number of companies considered to be PRPs with respect to certain 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 Distribution Corporation or Supply Corporation 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 Distribution Corporation or Supply Corporation. Distribution Corporation is a PRP at two waste disposal sites. The remediation has been completed at one site and the remedial design selected at the second site. Supply Corporation is a PRP at one waste disposal site, which is at the investigation stage.

Without being named a PRP, Distribution Corporation has also signed a consent decree (court approval pending) by which it would share the costs of remediating another waste disposal site in New York. Also without being named a PRP, Supply Corporation expects that it will participate in the cost of a site that is currently being remediated by a third party.

(iii) Other Sites

Distribution Corporation received, in 1998 and again in October 1999, notice that the DEC believes Distribution Corporation is responsible for contamination discovered at an additional former manufactured gas plant site in New York (without naming Distribution Corporation as a PRP). Distribution Corporation responded that other companies operated that site before Distribution Corporation's predecessor did, that liability could be imposed upon Distribution Corporation only if hazardous substances were disposed of at the site during a period when the site was operated by Distribution Corporation's predecessor, and that Distribution Corporation was unaware of any such disposal. Distribution Corporation 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.

Distribution Corporation understands that PRPs at another third party waste disposal site have obtained records from the operator (a waste oil collector) indicating that the site received used oil from Distribution Corporation (among others). A contribution claim could, therefore, be asserted against Distribution Corporation, which has not incurred any clean-up costs at this site nor been able to reasonably estimate the probability or extent of potential liability.

Supply Corporation believes that there is the possibility that it may incur costs related to certain of its measuring and regulator stations in New York. No costs have been incurred or accrued to date. Supply Corporation has estimated its exposure at approximately \$0.2 million.

(iv) Clean Air Standards

The Company, in its international operations in the Czech Republic has substantially completed the construction of new fluidized-bed boilers at the district heating and power generation plant of PSZT in order to comply with certain clean air standards mandated by the Czech Republic government. Capital expenditures related to this reconstruction incurred by PSZT in 1999 were approximately \$23.0 million.

Other

The Company has entered into contractual commitments in the ordinary course of business including commitments by Distribution Corporation to purchase capacity on nonaffiliated pipelines to meet customer gas supply needs. The majority of these contracts (representing 88% of current 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 through inclusion in Distribution Corporation's rate schedules. Management believes, to the extent any stranded pipeline costs are generated by the unbundling of services in Distribution Corporation'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 expected to have a material adverse effect on the financial condition of the Company at this time.

NOTE

I Business Segment Information

The Company has adopted SFAS 131, "Disclosures About Segments of an Enterprise and Related Information" (SFAS 131), which changes the way the Company reports information about its business segments. SFAS 131 requires disclosure of certain financial information based upon how management evaluates the performance of its business segments. The information for 1998 and 1997 has been restated from the prior year's presentation to conform to the 1999 presentation.

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 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 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 will 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 of Texas and Louisiana, in California, in Wyoming and in the Appalachian region of the United States. 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 of the Czech Republic.

The Energy Marketing segment is comprised of NFR's operations. NFR is engaged in the retail marketing of natural gas, the marketing of electricity, 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) and/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.

<i>Year Ended September 30, 1999 (Thousands)</i>	Utility	Pipeline and Storage	Exploration and Production	International	Energy Marketing	Timber	Total Reportable Segments	All Other	Corporate and Intersegment Eliminations	Total Consolidated
Revenue from										
External Customers	\$ 801,053	\$ 82,994	\$ 140,212	\$ 107,045	\$ 99,088	\$ 31,117	\$ 1,261,509	\$ 1,765	\$ —	\$ 1,263,274
Intersegment Revenues	6,302	85,789	6,782	—	—	—	98,873	—	(98,873)	—
Interest Expense	29,659	13,147	34,409	11,451	234	2,208	91,108	100	(3,510)	87,698
Depreciation, Depletion and Amortization	34,215	22,690	55,750	10,473	165	6,388	129,681	7	2	129,690
Income Tax Expense	34,741	22,439	2,992	15	1,138	2,788	64,113	55	661	64,829
Segment Profit (Loss):										
Net Income	56,875	39,765	7,127	2,276	2,054	4,769	112,866	(162)	2,333	115,037
Expenditures for Additions to Long-Lived Assets	46,974	34,873	97,586	33,412	302	56,700	269,847	66	—	269,913
<i>At September 30, 1999 (Thousands)</i>										
Segment Assets	\$ 1,178,185	\$ 542,962	\$ 727,557	\$ 255,042	\$ 18,676	\$ 98,830	\$ 2,821,252	\$ 7,351	\$ 13,983	\$ 2,842,586

<i>Year Ended September 30, 1998 (Thousands)</i>	Utility	Pipeline and Storage	Exploration and Production	International	Energy Marketing	Timber	Total Reportable Segments	All Other	Corporate and Intersegment Eliminations	Total Consolidated
Revenue from										
External Customers	\$ 867,802	\$ 84,218	\$ 113,194	\$ 76,259	\$ 87,187	\$ 17,805	\$ 1,246,465	\$ 1,535	\$ —	\$ 1,248,000
Intersegment Revenues	3,378	86,765	11,078	—	—	—	101,221	—	(101,221)	—
Interest Expense	44,639	15,232	21,454	7,188	31	1,580	90,124	33	(4,873)	85,284
Depreciation, Depletion and Amortization	33,459	21,816	50,937	7,309	91	5,169	118,781	97	2	118,880
Income Tax Expense (Benefit)	30,076	29,644	(39,478)	2,158	471	1,445	24,316	119	(411)	24,024
Significant Noncash Item: Impairment of Oil and Gas Producing Properties	—	—	128,996	—	—	—	128,996	—	—	128,996
Segment Profit (Loss):										
Income Before Cumulative Effect of Change in Accounting	51,788	39,852	(64,110)	1,279	787	1,904	31,500	143	661	32,304
Expenditures for Additions to Long-Lived Assets	50,680	29,145	323,627	96,987	320	9,893	510,652	—	—	510,652
<i>At September 30, 1998 (Thousands)</i>										
Segment Assets	\$ 1,171,645	\$ 526,738	\$ 673,706	\$ 242,339	\$ 16,944	\$ 45,507	\$ 2,676,879	\$ 5,216	\$ 2,364	\$ 2,684,459

Year Ended September 30, 1997 (Thousands)	Utility	Pipeline and Storage	Exploration and Production	International	Energy Marketing	Timber	Total Reportable Segments	All Other	Corporate and Intersegment Eliminations	Total Consolidated
Revenue from										
External Customers	\$ 991,281	\$ 82,883	\$ 107,733	\$ 1,910	\$ 70,098	\$ 11,536	\$ 1,265,441	\$ 371	\$ —	\$ 1,265,812
Intersegment Revenues	85	89,811	11,527	—	—	—	101,423	—	(101,423)	—
Interest Expense	32,608	16,068	11,103	1,230	33	1,410	62,452	18	(5,659)	56,811
Depreciation, Depletion and Amortization	32,972	21,459	51,117	107	14	5,960	111,629	18	3	111,650
Income Tax Expense (Benefit)	35,510	21,026	11,592	(954)	931	(193)	67,912	55	707	68,674
Segment Profit (Loss): Net Income	57,220	36,760	20,359	(3,348)	1,567	(609)	111,949	171	2,568	114,688
Expenditures for Additions to Long-Lived Assets	66,908	22,562	120,282	22,293	96	16,151 ⁽¹⁾	248,292	19	—	248,311
At September 30, 1997 (Thousands)										
Segment Assets	\$ 1,175,885	\$ 522,191	\$ 469,795	\$ 24,031	\$ 17,083	\$ 42,260	\$ 2,251,245	\$ 5,207	\$ 10,879	\$ 2,267,331

(1) Amount includes non-cash acquisition of \$12.3 million in exchange for long-term debt obligations.

GEOGRAPHIC INFORMATION:

Year Ended September 30 (Thousands)	1999	1998	1997
Revenues from External Customers:			
United States	\$ 1,156,229	\$ 1,171,741	\$ 1,263,902
Czech Republic	107,045	76,259	1,910
	\$ 1,263,274	\$ 1,248,000	\$ 1,265,812
At September 30 (Thousands)			
Long-Lived Assets:			
United States	\$ 2,369,840	\$ 2,258,817	\$ 2,036,525
Czech Republic	215,457	215,125	22,139
	\$ 2,585,297	\$ 2,473,942	\$ 2,058,664

NOTE

J

Stock Acquisitions

Exploration and Production

In May 1998, Seneca acquired the outstanding shares of HarCor for approximately \$32.6 million. The acquisition of HarCor was accounted for in accordance with the purchase method. HarCor's results of operations were incorporated into the Company's consolidated financial statements for the period subsequent to the completion of the tender offer in May 1998. Effective August 31, 1999, HarCor was merged into Seneca.

International

During 1998, Horizon, through a wholly-owned subsidiary, increased its ownership interest in SCT from 36.8% at September 30, 1997 to 82.7% at September 30, 1998. The cost of acquiring these additional shares was approximately \$24.9 million. Also in 1998, Horizon invested in PSZT, and owned an 86.2% interest at September 30, 1998. The cost of acquiring the shares of PSZT was approximately \$64.5 million.

During 1999, Horizon, through a wholly-owned subsidiary, increased its ownership interest in SCT to 82.87% for a minimal cost. SCT in turn increased its ownership in JTR, a district heating plant in the northern Bohemia region of the Czech Republic, from 34% to 65.78%. The cost of acquiring these additional shares was approximately \$5.8 million.

The acquisitions made in the International segment have been accounted for in accordance with the purchase method. The goodwill resulting from these acquisitions is being amortized over a twenty-year period. The goodwill is recorded in Other Assets in the Company's Consolidated Balance Sheet. This goodwill amounted to \$9.5 million and \$10.1 million at September 30, 1999 and 1998, respectively.

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)	Income (Loss) Before Cumulative Effect	Income (Loss) Per Common Share Before Cumulative Effect		Net Income (Loss) Available for Common Stock	Earnings (Loss) Per Common Share	
				Basic	Diluted		Basic	Diluted
1999 (Thousands, except per common share amounts)								
12/31/98	\$340,422	\$ 56,835	\$ 37,619	\$ 0.98	\$0.97	\$ 37,619 ⁽¹⁾	\$ 0.98	\$0.97
3/31/99	\$483,404	\$ 83,475	\$ 61,145	\$ 1.58	\$1.57	\$ 61,145	\$ 1.58	\$1.57
6/30/99	\$248,658	\$ 31,319	\$ 11,840	\$ 0.31	\$0.30	\$ 11,840 ⁽²⁾	\$ 0.31	\$0.30
9/30/99	\$190,790	\$ 20,379	\$ 4,433	\$ 0.11	\$0.11	\$ 4,433 ⁽³⁾	\$ 0.11	\$0.11
1998 (Thousands, except per common share amounts)								
12/31/97	\$ 371,021	\$ 52,280	\$ 37,534	\$ 0.98	\$0.97	\$ 28,418 ⁽⁴⁾	\$ 0.74	\$0.73
3/31/98	\$462,648	\$(16,228)	\$(21,262)	\$(0.56)	N/A	\$(21,262) ⁽⁵⁾	\$(0.56)	N/A
6/30/98	\$242,447	\$ 33,726	\$ 19,107	\$ 0.50	\$0.49	\$ 19,107	\$ 0.50	\$0.49
9/30/98	\$ 171,884	\$ 14,153	\$ (3,075)	\$(0.08)	N/A	\$ (3,075) ⁽⁶⁾	\$(0.08)	N/A

N/A - Not applicable due to antidilution.

(1) Includes income of \$3.9 million related to IRS audit settlement and expense of \$3.5 million related to an early retirement offer.

(2) Includes expense of \$3.8 million related to stock appreciation rights (SAR), expense of \$1.1 million related to an early retirement offer and income of \$1.0 million for lost and unaccounted for (LAUF) gas adjustment related to 1998.

(3) Includes income of \$1.6 million for LAUF gas adjustment related to 1999 and income of \$1.6 million related to a gain on stock received from the demutualization of an insurance company.

(4) Includes \$9.1 million negative non-cash cumulative effect of a change in accounting for depletion.

(5) Includes expense of \$79.1 million for impairment of oil and gas producing properties and income of \$5.0 million related to IRS audit settlement.

(6) Includes expense of \$1.8 million for Distribution Corporation refund provision and income of \$1.0 million for a net gain associated with U.S. dollar denominated debt.

NOTE L

Market for Common Stock and Related Shareholder Matters (unaudited)

At September 30, 1999, there were 22,336 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, 1999 and 1998, are shown below:

Quarter Ended	Price Range		Dividends Declared
	High	Low	
1999			
12/31/98	\$49 ⁵ / ₈	\$44 ⁷ / ₈	\$.450
3/31/99	\$46 ¹ / ₂	\$39 ¹ / ₄	\$.450
6/30/99	\$50	\$37 ¹ / ₂	\$.465
9/30/99	\$49 ³ / ₄	\$44 ⁵ / ₈	\$.465
1998			
12/31/97	\$48 ¹⁵ / ₁₆	\$42 ¹¹ / ₁₆	\$.435
3/31/98	\$48 ¹³ / ₁₆	\$45 ³ / ₈	\$.435
6/30/98	\$49 ¹ / ₈	\$39 ⁵ / ₈	\$.450
9/30/98	\$47	\$39 ¹³ / ₁₆	\$.450

NOTE M Supplementary Information for Oil and Gas Producing Activities

The following supplementary information is presented in accordance with SFAS 69, "Disclosures about Oil and Gas Producing Activities," and related SEC accounting rules.

CAPITALIZED COSTS RELATING TO OIL AND GAS PRODUCING ACTIVITIES

At September 30 (Thousands)	1999	1998
Proved Properties	\$880,470	\$739,684
Unproved Properties	92,097	141,873
	972,567	881,557
Less - Accumulated Depreciation, Depletion and Amortization	315,675	261,236
	\$656,892	\$620,321

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, 1999:

(Thousands)	Total as of September 30, 1999	Year Costs Incurred			Prior
		1999	1998	1997	
Acquisition Costs	\$82,994	\$12,077	\$51,226	\$8,525	\$11,166
Exploration Costs	9,103	9,103	—	—	—
	\$92,097	\$21,180	\$51,226	\$8,525	\$11,166

COSTS INCURRED IN OIL AND GAS PROPERTY ACQUISITION, EXPLORATION AND DEVELOPMENT ACTIVITIES

Year Ended September 30 (Thousands)	1999	1998	1997
Property Acquisition Costs: ⁽¹⁾			
Proved	\$ 2,798	\$ 189,201	\$ 4,154
Unproved	11,530	88,369	23,120
Exploration Costs	52,141	74,421	76,703
Development Costs	30,985	23,887	15,583
	\$97,454	\$375,878	\$119,560

(1) Total proved and unproved property acquisition costs for 1998 of \$277.6 million include amounts related to the HarCor, Bakersfield Energy and Whittier Trust properties acquired in 1998 of \$87.0 million, \$25.3 million and \$141.1 million, respectively.

RESULTS OF OPERATIONS FOR PRODUCING ACTIVITIES

Year Ended September 30 (Thousands)	1999	1998	1997
Operating Revenues:			
Natural Gas (includes revenues from sales to affiliates of \$6,365, \$11,065 and \$10,682, respectively)	\$81,734	\$89,284	\$100,411
Oil, Condensate and Other Liquids	51,592	31,770	39,237
Total Operating Revenues ⁽¹⁾	133,326	121,054	139,648
Production/Lifting Costs	28,119	23,622	17,335
Depreciation, Depletion and Amortization (\$0.89 and \$0.96 per Mcfe of production, and \$0.36 per dollar of operating revenues, respectively) ⁽²⁾	54,439	50,221	50,687
Impairment of Oil and Gas Producing Properties ⁽³⁾	—	128,996	—
Income Tax Expense (Benefit)	16,255	(28,949)	24,699
Results of Operations for Producing Activities (excluding corporate overheads and interest charges)	\$34,513	\$(52,836)	\$ 46,927

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

(2) In 1998, Seneca changed its method of depletion for oil and gas producing properties from the gross revenue method to the units of production method. See further discussion in Note A - Summary of Significant Accounting Policies.

(3) 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. 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.

Year Ended September 30	Gas MMcf			Oil Mbbbl		
	1999	1998	1997	1999	1998	1997
Proved Developed and Undeveloped Reserves:						
Beginning of Year	325,065	232,449	207,082	66,591	17,981	25,749
Extensions and Discoveries	46,423	40,293	47,951	3,716	640	359
Revisions of Previous Estimates	(13,091)	(18,623)	20,820	9,808	(4,191)	(6,224)
Production	(37,166)	(36,474)	(38,586)	(4,016)	(2,614)	(1,902)
Sales of Minerals in Place	(439)	—	(5,464)	(280)	—	(1)
Purchases of Minerals in Place and Other	—	107,420	646	—	54,775	—
End of Year	320,792	325,065	232,449	75,819	66,591	17,981
Proved Developed Reserves:						
Beginning of Year	230,508	194,454	163,537	48,081	11,354	14,043
End of Year	222,929	230,508	194,454	57,333	48,081	11,354

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)	1999	1998	1997
Future Cash Inflows	\$2,402,308	\$1,547,216	\$1,072,375
Less:			
Future Production Costs	560,459	413,753	166,989
Future Development Costs	185,617	160,884	85,216
Future Income Tax Expense at Applicable Statutory Rate	477,205	245,120	257,172
Future Net Cash Flows	1,179,027	727,459	562,998
Less:			
10% Annual Discount for Estimated Timing of Cash Flows	471,768	260,688	179,798
Standardized Measure of Discounted Future Net Cash Flows	\$707,259	\$466,771	\$383,200

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

Year Ended September 30 (Thousands)	1999	1998	1997
Standardized Measure of Discounted Future			
Net Cash Flows at Beginning of Year	\$466,771	\$383,200	\$329,244
Sales, Net of Production Costs	(53,615)	(97,432)	(122,313)
Net Changes in Prices, Net of Production Costs	317,356	(180,853)	78,499
Purchases of Minerals in Place	—	364,102	1,138
Sales of Minerals in Place	(2,706)	—	(9,632)
Extensions and Discoveries	122,894	36,844	88,228
Changes in Estimated Future Development Costs	(97,082)	(104,181)	(20,785)
Previously Estimated Development Costs Incurred	72,349	28,514	43,731
Net Change in Income Taxes at Applicable Statutory Rate	(232,085)	57,190	(24,797)
Revisions of Previous Quantity Estimates	40,964	(75,136)	(27,317)
Accretion of Discount and Other	72,413	54,523	47,204
Standardized Measure of Discounted Future Net Cash Flows at End of Year	\$707,259	\$466,771	\$383,200

Schedule II

VALUATION AND QUALIFYING ACCOUNTS

(Thousands) Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Additions Charged to Other Accounts ⁽¹⁾	Deductions ⁽²⁾	Balance at End of Period
Year Ended September 30, 1999					
Reserve for Doubtful Accounts	\$6,232	\$15,337	\$ 1	\$13,728	\$7,842
Year Ended September 30, 1998					
Reserve for Doubtful Accounts	\$8,291	\$15,861	\$746	\$18,666	\$6,232
Year Ended September 30, 1997					
Reserve for Doubtful Accounts	\$7,672	\$16,586	\$ —	\$15,967	\$8,291

(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**

None

Part III

ITEM 10**Directors and Executive Officers of the Registrant**

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 17, 2000 Annual Meeting of Shareholders will be filed with the SEC not later than 120 days after September 30, 1999. The information provided in such definitive Proxy Statement, excepting the "Report of the Compensation Committee," and the "Corporate Performance Graph," 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**

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 17, 2000 Annual Meeting of Shareholders will be filed with the SEC not later than 120 days after September 30, 1999. The information provided in such definitive Proxy Statement, 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**

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 17, 2000 Annual Meeting of Shareholders will be filed with the SEC not later than 120 days after September 30, 1999. The information provided in such definitive Proxy Statement, excepting the "Report of the Compensation Committee," and the "Corporate Performance Graph," is incorporated herein by reference.

ITEM 13**Certain Relationships and Related Transactions**

At September 30, 1999, the Company knows of no relationships or transactions required to be disclosed pursuant to Item 404 of Regulation S-K.

Part IV

ITEM 14

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

(a) Financial Statement Schedules

All financial statement schedules filed as part of this report are included in Item 8 of this Form 10-K and reference is made thereto.

(b) Reports on Form 8-K

None

(c) Exhibits

Exhibit Number Description of Exhibits

<p>3(i) Articles of Incorporation:</p> <ul style="list-style-type: none"> • Restated Certificate of Incorporation of National Fuel Gas Company dated September 21, 1998 (Exhibit 3.1, Form 10-K for fiscal year ended September 30, 1998 in File No. 1-3880) <p>3(ii) By-Laws:</p> <p>3.1 National Fuel Gas Company By-Laws as amended on September 16, 1999</p> <p>(4) Instruments Defining the Rights of Security Holders, Including Indentures:</p> <ul style="list-style-type: none"> • Indenture dated as of October 15, 1974, between the Company and The Bank of New York (formerly Irving Trust Company) (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. 33-49401) • 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 14, 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 February 14, 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 18, 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. 33-49401) • 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 for fiscal year ended September 30, 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 for fiscal year ended September 30, 1996 in File No. 1-3880) <p>4.1 Indenture dated as of October 1, 1999, between the Company and The Bank of New York</p> <p>4.2 Officer's Certificate Establishing Medium-Term Notes dated October 14, 1999</p>	<ul style="list-style-type: none"> • Amended and Restated Rights Agreement, dated as of April 30, 1999, between National Fuel Gas Company and HSBC Bank USA (Exhibit 10.2, Form 10-Q for the quarterly period ended March 31, 1999 in File No. 1-3880) <p>(10) Material Contracts:</p> <p>(ii) (B) Contracts upon which Registrant's business is substantially dependent:</p> <ul style="list-style-type: none"> • Service Agreement No. 830016 with Texas Eastern Transmission Corporation, under Rate Schedule FT-1, dated November 2, 1995 (Exhibit 10.1, Form 10-K for fiscal year ended September 30, 1996 in File No. 1-3880) • Service Agreement No. 830017 with Texas Eastern Transmission Corporation, under Rate Schedule FT-1, dated November 2, 1995 (Exhibit 10.2, Form 10-K for fiscal year ended September 30, 1996 in File No. 1-3880) • Service Agreement with Texas Eastern Transmission Corporation, under Rate Schedule CDS, dated November 2, 1995 (Exhibit 10.3, Form 10-K for fiscal year ended September 30, 1996 in File No. 1-3880) • Service Agreement between National Fuel Gas Distribution Corporation and National Fuel Gas Supply Corporation, under Rate Schedule FSS, dated April 3, 1996 [Portions of this agreement are subject to confidential treatment under Rule 24b-2] (Exhibit 10.4, Form 10-K for fiscal year ended September 30, 1996 in File No. 1-3880) • Service Agreement with Engage Energy US, L.P. (formerly St. Clair Pipelines Ltd.), dated January 29, 1996 [Portions of this agreement are subject to confidential treatment under Rule 24b-2] (Exhibit 10.5, Form 10-K for fiscal year ended September 30, 1996 in File No. 1-3880) • Service Agreement with Empire State Pipeline under Rate Schedule FT, dated December 15, 1994 [Portions of this agreement are subject to confidential treatment under Rule 24b-2] (Exhibit 10.1, Form 10-K for fiscal year ended September 30, 1995, in File No. 1-3880) • Service Agreement between National Fuel Gas Distribution Corporation and National Fuel Gas Supply Corporation under Rate Schedule ESS dated August 1, 1993 (Exhibit 10.2, Form 10-K for fiscal year ended September 30, 1995, in File No. 1-3880) • Service Agreement between National Fuel Gas Distribution Corporation and National Fuel Gas Supply Corporation under Rate Schedule ESS dated September 19, 1995 (Exhibit 10.3, Form 10-K for fiscal year ended September 30, 1995, in File No. 1-3880) • Service Agreement between National Fuel Gas Distribution Corporation and National Fuel Gas Supply Corporation under Rate Schedule EFT dated August 1, 1993 (Exhibit 10.4, Form 10-K for fiscal year ended September 30, 1995, in File No. 1-3880)
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- Amendment dated as of May 1, 1995 to Service Agreement between National Fuel Gas Distribution Corporation and National Fuel Gas Supply Corporation under Rate Schedule EFT dated August 1, 1993 (Exhibit 10.5, Form 10-K for fiscal year ended September 30, 1995, in File No. 1-3880)
- Service Agreement with Transcontinental Gas Pipe Line Corporation under Rate Schedule FT dated August 1, 1993 (Exhibit 10.6, Form 10-K for fiscal year ended September 30, 1995, in File No. 1-3880)
- Service Agreement with Transcontinental Gas Pipe Line Corporation under Rate Schedule FT dated October 1, 1993 (Exhibit 10.7, Form 10-K for fiscal year ended September 30, 1995, in File No. 1-3880)
- Service Agreement with Columbia Gas Transmission Corporation under Rate Schedule FTS, dated November 1, 1993 and executed February 13, 1994 (Exhibit 10.1, Form 10-K for fiscal year ended September 30, 1994 in File No. 1-3880)
- Service Agreement with Columbia Gas Transmission Corporation under Rate Schedule FSS, dated November 1, 1993 and executed February 13, 1994 (Exhibit 10.2, Form 10-K for fiscal year ended September 30, 1994 in File No. 1-3880)
- Service Agreement with Columbia Gas Transmission Corporation under Rate Schedule SST, dated November 1, 1993 and executed February 13, 1994 (Exhibit 10.3, Form 10-K for fiscal year ended September 30, 1994 in File No. 1-3880)
- Gas Transportation Agreement with Tennessee Gas Pipeline Company under Rate Schedule FT-A (Zone 4), dated September 1, 1993 (Exhibit 10.1, Form 10-K for fiscal year ended September 30, 1993 in File No. 1-3880)
- Gas Transportation Agreement with Tennessee Gas Pipeline Company under Rate Schedule FT-A (Zone 5), dated September 1, 1993 (Exhibit 10.2, Form 10-K for fiscal year ended September 30, 1993 in File No. 1-3880)
- Service Agreement with CNG Transmission Corporation under Rate Schedule FT, dated October 1, 1993 (Exhibit 10.5, Form 10-K for fiscal year ended September 30, 1993 in File No. 1-3880)
- Service Agreement with CNG Transmission Corporation under Rate Schedule GSS, dated October 1, 1993 (Exhibit 10.6, Form 10-K for fiscal year ended September 30, 1993 in File No. 1-3880)
- (iii) Compensatory plans for officers:
 - Employment Agreement, dated September 17, 1981, with Bernard J. Kennedy (Exhibit 10.4, Form 10-K for fiscal year ended September 30, 1994 in File No. 1-3880)
- 10.1 Tenth Amendment to Employment Agreement with Bernard J. Kennedy, effective September 1, 1999
 - Agreement, dated August 1, 1989, with Richard Hare (Exhibit 10-Q, Form 10-K for fiscal year ended September 30, 1989 in File No. 1-3880)
 - Agreement dated August 1, 1986, with Joseph P. Pawlowski (Exhibit 10.1, Form 10-K for fiscal year ended September 30, 1997 in File No. 1-3880)
 - Agreement dated August 1, 1986, with Gerald T. Wehrlin (Exhibit 10.2, Form 10-K for fiscal year ended September 30, 1997, in File No. 1-3880)
 - Form of Employment Continuation and Noncompetition Agreements, dated as of December 11, 1998, with Philip C. Ackerman, Walter E. DeForest, Joseph P. Pawlowski, Dennis J. Seeley, David F. Smith 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 Agreement, dated as of December 11, 1998, with Bruce H. Hale and Richard Hare (Exhibit 10.2, Form 10-Q for the quarterly period ended June 30, 1999 in File No. 1-3880)
 - Form of Employment Continuation and Noncompetition Agreement, dated as of December 11, 1998, with James 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 18, 1993 (Exhibit 10.2, 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 18, 1993 (Exhibit 10.3, 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 10.7, Form 10-K for fiscal year ended September 30, 1996 in File No. 1-3880)
 - National Fuel Gas Company 1993 Award and Option Plan, dated February 18, 1993 (Exhibit 10.1, 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 27, 1995 (Exhibit 10.8, Form 10-K for fiscal year ended September 30, 1995 in File No. 1-3880)
 - Amendment to National Fuel Gas Company 1993 Award and Option Plan, dated December 11, 1996 (Exhibit 10.8, Form 10-K for fiscal year ended September 30, 1996 in File No. 1-3880)
 - Amendment to National Fuel Gas Company 1993 Award and Option Plan, dated December 18, 1996 (Exhibit 10, Form 10-Q for the quarterly period ended December 31, 1996 in File No. 1-3880)
 - National Fuel Gas Company 1997 Award and Option Plan (Exhibit 10.9, Form 10-K for fiscal year ended September 30, 1996 in File No. 1-3880)
- 10.2 Amended and Restated National Fuel Gas Company 1997 Award and Option Plan, dated December 9, 1999 (being submitted to Shareholder vote at the Annual Meeting in February 2000)
 - National Fuel Gas Company Deferred Compensation Plan, as amended and restated through May 1, 1994 (Exhibit 10.7, Form 10-K for fiscal year ended September 30, 1994 in File No. 1-3880)
 - Amendment to the National Fuel Gas Company Deferred Compensation Plan, dated September 19, 1996 (Exhibit 10.10, Form 10-K for fiscal year ended September 30, 1996 in File No. 1-3880)
 - Amendment to the National Fuel Gas Company Deferred Compensation Plan, dated September 27, 1995 (Exhibit 10.9, Form 10-K for fiscal year ended September 30, 1995 in File No. 1-3880)
 - National Fuel Gas Company Deferred Compensation Plan, as amended and restated through March 20, 1997 (Exhibit 10.3, Form 10-K for fiscal year ended September 30, 1997 in File No. 1-3880)
 - Amendment to National Fuel Gas Company Deferred Compensation Plan dated June 16, 1997 (Exhibit 10.4, Form 10-K for fiscal year ended September 30, 1997 in File No. 1-3880)
 - Amendment No. 2 to the National Fuel Gas Company Deferred Compensation Plan, dated March 13, 1998 (Exhibit 10.1, Form 10-K for fiscal year ended September 30, 1998 in File No. 1-3880)

- Amendment to the National Fuel Gas Company Deferred Compensation Plan, dated February 18, 1999 (Exhibit 10.1, Form 10-Q for the quarterly period ended March 31, 1999 in File No. 1-3880)
 - National Fuel Gas Company Tophat Plan, effective March 20, 1997 (Exhibit 10, Form 10-Q for the quarterly period ended June 30, 1997 in File No. 1-3880)
 - Amendment No. 1 to the National Fuel Gas Company Tophat Plan, dated April 6, 1998 (Exhibit 10.2, Form 10-K for fiscal year ended September 30, 1998 in File No. 1-3880)
 - Amendment No. 2 to the National Fuel Gas Company Tophat Plan, dated December 10, 1998 (Exhibit 10.1, Form 10-Q for the quarterly period ended December 31, 1998 in File No. 1-3880)
 - Death Benefits Agreement, dated August 28, 1991, with Bernard J. Kennedy (Exhibit 10-TT, Form 10-K for fiscal year ended September 30, 1991 in File No. 1-3880)
 - Amendment to Death Benefit Agreement of August 28, 1991, with Bernard J. Kennedy, dated March 15, 1994 (Exhibit 10.11, Form 10-K for fiscal year ended September 30, 1995 in File No. 1-3880)
 - Amended and Restated Split Dollar Insurance and Death Benefit Agreement dated September 17, 1997 with Philip C. Ackerman (Exhibit 10.5, Form 10-K for fiscal year ended September 30, 1997 in File No. 1-3880)
- 10.3 Amendment Number 1 to Amended and Restated Split Dollar Insurance and Death Benefit Agreement by and Between National Fuel Gas Company and Philip C. Ackerman, dated March 23, 1999
- 10.4 Second Amended and Restated Split Dollar Insurance Agreement dated August 9, 1999 with Richard Hare
- Amended and Restated Split Dollar Insurance and Death Benefit Agreement dated September 15, 1997 with Joseph P. Pawlowski (Exhibit 10.7, Form 10-K for fiscal year ended September 30, 1997 in File No. 1-3880)
- 10.5 Amendment Number 1 to Amended and Restated Split Dollar Insurance and Death Benefit Agreement by and Between National Fuel Gas Company and Joseph P. Pawlowski, dated March 23, 1999
- 10.6 Second Amended and Restated Split Dollar Insurance Agreement dated June 15, 1999 with Gerald T. Wehrlin
- 10.7 Amended and Restated Split Dollar Insurance and Death Benefit Agreement dated September 15, 1997 with Walter E. DeForest
- 10.8 Amendment Number 1 to Amended and Restated Split Dollar Insurance and Death Benefit Agreement by and Between National Fuel Gas Company and Walter E. DeForest, dated March 29, 1999
- 10.9 Amended and Restated Split Dollar Insurance and Death Benefit Agreement dated September 15, 1997 with Dennis J. Seeley
- 10.10 Amendment Number 1 to Amended and Restated Split Dollar Insurance and Death Benefit Agreement by and Between National Fuel Gas Company and Dennis J. Seeley, dated March 29, 1999
- 10.11 Split Dollar Insurance and Death Benefit Agreement dated September 15, 1997 with Bruce H. Hale
- 10.12 Amendment Number 1 to Split Dollar Insurance and Death Benefit Agreement by and Between National Fuel Gas Company and Bruce H. Hale, dated March 29, 1999
- 10.13 Split Dollar Insurance and Death Benefit Agreement dated September 15, 1997 with David F. Smith
- 10.14 Amendment Number 1 to Split Dollar Insurance and Death Benefit Agreement by and Between National Fuel Gas Company and David F. Smith, dated March 29, 1999
- National Fuel Gas Company and Participating Subsidiaries Executive Retirement Plan as amended and restated through November 1, 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 Trust Agreement (II) dated May 10, 1996 (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 dated September 18, 1997 (Exhibit 10.9, Form 10-K for fiscal year ended September 30, 1997 in File No. 1-3880)
 - Amendments to the National Fuel Gas Company and Participating Subsidiaries Executive Retirement Plan dated December 10, 1998 (Exhibit 10.2, Form 10-Q for the quarterly period ended December 31, 1998 in File No. 1-3880)
- 10.15 Amendments to National Fuel Gas Company and Participating Subsidiaries Executive Retirement Plan effective September 16, 1999
- Administrative Rules with Respect to at Risk Awards under the 1993 Award and Option Plan (Exhibit 10.14, Form 10-K for fiscal year ended September 30, 1996 in File No. 1-3880)
 - Administrative Rules of the Compensation Committee of the Board of Directors of National Fuel Gas Company, as amended and 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 Meeting of February 20, 1997 regarding the Retirement Benefits for Bernard J. Kennedy (Exhibit 10.10, Form 10-K for fiscal year ended September 30, 1997 in File No. 1-3880)
 - Excerpts of Minutes from the National Fuel Gas Company Board of Directors Meeting of March 20, 1997 regarding the Retainer Policy for Non-Employee Directors (Exhibit 10.11, Form 10-K for fiscal year ended September 30, 1997 in File No. 1-3880)
- (12) Computation of Ratio of Earnings to Fixed Charges
- (13) Business segment discussion as contained in the 1999 Annual Report and incorporated by reference into this Form 10-K
- (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.
- 23.2 Consent of Independent Accountants
- (27) Financial Data Schedules:
- 27.1 Financial Data Schedule for the Twelve Months Ended September 30, 1999
- 27.2 Restated Financial Data Schedule for the Twelve Months Ended September 30, 1998
- (99) Additional Exhibits:
- 99.1 Report of Ralph E. Davis Associates, Inc.
- 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.
- Incorporated herein by reference as indicated.

SIGNATURES

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
and Chief Executive Officer*

Date: December 9, 1999

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

B. J. Kennedy

*Chairman of the Board,
Chief Executive Officer and Director*

Date: December 9, 1999

/s/ P. C. Ackerman

P. C. Ackerman

*President,
Principal Financial Officer and Director*

Date: December 9, 1999

/s/ R. T. Brady

R. T. Brady

Director

Date: December 9, 1999

/s/ J. V. Glynn

J. V. Glynn

Director

Date: December 9, 1999

/s/ W. J. Hill

W. J. Hill

Director

Date: December 9, 1999

SIGNATURE / TITLE

/s/ B. S. Lee

B. S. Lee

Director

Date: December 9, 1999

/s/ E. T. Mann

E. T. Mann

Director

Date: December 9, 1999

/s/ G. L. Mazanec

G. L. Mazanec

Director

Date: December 9, 1999

/s/ G. H. Schofield

G. H. Schofield

Director

Date: December 9, 1999

/s/ J. P. Pawlowski

J. P. Pawlowski

Treasurer and Principal Accounting Officer

Date: December 9, 1999

OFFICERS

NATIONAL FUEL GAS COMPANY

Bernard J. Kennedy <i>Chairman of the Board and Chief Executive Officer</i>	Joseph P. Pawlowski <i>Treasurer</i>
Philip C. Ackerman <i>President</i>	Gerald T. Wehrlin <i>Controller</i>
	Anna Marie Cellino <i>Secretary</i>

Officers of Principal Subsidiaries

NATIONAL FUEL GAS DISTRIBUTION CORPORATION

Bernard J. Kennedy <i>Chairman of the Board</i>	Dennis J. Seeley <i>Senior Vice President</i>	James D. Ramsdell <i>Vice President</i>
David F. Smith <i>President</i>	Gerald T. Wehrlin <i>Senior Vice President</i>	Ronald J. Tanski <i>Vice President and Controller</i>
Walter E. DeForest <i>Senior Vice President</i>	Carl M. Carlotti <i>Vice President</i>	Roger W. Wilcox <i>Vice President</i>
Joseph P. Pawlowski <i>Senior Vice President and Treasurer</i>	Anna Marie Cellino <i>Vice President and Secretary</i>	Robert J. Wright <i>Vice President</i>

NATIONAL FUEL GAS SUPPLY CORPORATION

Bernard J. Kennedy <i>Chairman of the Board</i>	Bruce H. Hale <i>Senior Vice President</i>	William A. Ross <i>Vice President</i>
Richard Hare <i>President</i>	John R. Pustulka <i>Vice President</i>	Joseph P. Pawlowski <i>Secretary and Treasurer</i>
Philip C. Ackerman <i>Executive Vice President</i>		

SENECA RESOURCES CORPORATION

Bernard J. Kennedy <i>Chairman of the Board</i>	Don A. Brown <i>Vice President</i>	Emmett E. Wassell <i>Vice President</i>
James A. Beck <i>President</i>	Gil E. Klefstad <i>Vice President</i>	Calvin H. Friedrich <i>Treasurer</i>
Gerald T. Wehrlin <i>Controller</i>	John F. McKnight <i>Vice President</i>	
William M. Petmecky <i>Senior Vice President and Secretary</i>	Barry L. McMahan <i>Vice President</i>	

NATIONAL FUEL RESOURCES, INC.

Robert J. Kreppel <i>President</i>	William M. Petmecky <i>Secretary and Treasurer</i>
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HIGHLAND LAND & MINERALS, INC.

James A. Beck <i>President</i>	William M. Petmecky <i>Secretary</i>	Calvin H. Friedrich <i>Treasurer</i>
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HORIZON ENERGY DEVELOPMENT, INC.

Philip C. Ackerman <i>President</i>	Gerald T. Wehrlin <i>Vice President</i>
Bruce H. Hale <i>Vice President</i>	Ronald J. Tanski <i>Secretary and Treasurer</i>

DIRECTORS

Bernard J. Kennedy^{ΔΔ}

Chairman of the Board and Chief Executive Officer. Board member since 1978. Chairman of the Board of Associated Electric & Gas Insurance Services Limited. Director of American Precision Industries, Inc., Interstate Natural Gas Association of America, HSBC Bank USA, and Merchants Mutual Insurance Company.

Philip C. Ackerman

President of National Fuel Gas Company since July 1999. President of certain subsidiaries of the Company. Board member since 1994.

Robert T. Brady^{Δ†}

Chairman, President and Chief Executive Officer of Moog Inc., a manufacturer of motion control systems and components. Board member since 1995. Director of Acme Electric Corporation, Astronics Corporation, M&T Bank Corporation, M&T Bank and Seneca Foods Corporation.

James V. Glynn^{*}

President of Maid of the Mist Corporation, which offers scenic boat tours of the American and Canadian Falls, Niagara Falls, New York. Board member since 1997. Director of M&T Bank Corporation, M&T Bank, and Buffalo Niagara Partnership. Chairman of Niagara University Board of Trustees.

William J. Hill^{Δ*}

Retired President of National Fuel Gas Distribution Corporation. Board member since 1995. Director of National Fuel Gas Distribution Corporation and Reed Manufacturing Company.

Bernard S. Lee, PhD^{*}

President of the Institute of Gas Technology, a not-for-profit research and educational institution, Des Plaines, Illinois. Board member since 1994. Director of NUI Corporation and Peerless Manufacturing Company.

Eugene T. Mann^{Δ†}

Retired Executive Vice President of Fleet Financial Group, a diversified financial services company, Providence, Rhode Island. Board member since 1993.

George L. Mazanec^{†Δ}

Former Vice Chairman of PanEnergy Corporation, a diversified energy company, and advisor to the Chief Operating Officer of Duke Energy Corporation. Board member since 1996. Director of the Northern Trust Bank of Texas, NA, Westcoast Energy Inc., and Associated Electric & Gas Insurance Services Limited. Chairman of the Management Committee of Maritimes & Northeast Pipeline, L.L.C.

George H. Schofield^{**}

Retired Chairman of the Board of Directors and Chief Executive Officer of Zurn Industries, Inc., a provider of products and services for water quality control systems, Erie, Pennsylvania. Board member since 1990. Director of The Goodyear Tire & Rubber Company.

* Member of Audit Committee

** Chairman, Audit Committee

† Member of Compensation Committee

†† Chairman, Compensation Committee

Δ Member of Executive Committee

ΔΔ Chairman, Executive Committee

GLOSSARY

bbl barrel

Bcf Billion cubic feet

Bcf (or Mcf) Equivalent The total heat value (Btu) of natural gas and oil expressed as a volume of natural gas. National Fuel uses a conversion formula of 1 barrel of oil = 6 Mcf of natural gas.

Board Foot A measure of lumber and/or timber equal to 12 inches in length by 12 inches in width by one inch in thickness.

Combined Cycle The combination of one or more gas turbines and steam turbines in an electric generation plant. This technology allows electricity to be produced from otherwise lost waste heat exiting from one or more gas turbines. This heat is utilized by a steam turbine to produce additional electricity.

Degree Day A measure of the coldness of the weather experienced, based on the extent to which the daily average temperature falls below a reference temperature, usually 65 degrees Fahrenheit.

District Heating Plant A facility designed to produce steam or hot water for distribution to end users. Normally located in an urban area.

Dth Dekatherm-one Dth of natural gas has a heating value of 1,000,000 British thermal units, approximately equal to the heating value of 1 Mcf of natural gas.

FERC Federal Energy Regulatory Commission

Firm Transportation and/or Storage The transportation and/or storage service that a supplier of such service is obligated by contract to provide.

Gigajoule One billion joules. A “joule” is a unit of energy.

Hedging A method of minimizing the impact of price, interest rate, and/or foreign currency exchange rate changes.

Hub Location where pipelines intersect enabling the trading, transportation, storage, exchange and lending of natural gas.

Interruptible Transportation and/or Storage The transportation and/or storage service that, in accordance with contractual arrangements, can be interrupted by the supplier of such service.

Mbbbl Thousand barrels

Mcf Thousand cubic feet

Megawatt One million watts. A “watt” is a unit of electrical power.

Megawatt hour A unit of electrical energy which equals one megawatt of power used for one hour.

MMcf Million cubic feet

MMcfe Million cubic feet equivalent (1 barrel of oil = 6 Mcf of gas)

NYPSC State of New York Public Service Commission

Open Access Transportation The transportation of natural gas by a pipeline or utility upon request.

PaPUC Pennsylvania Public Utility Commission

Pay Sands The geological deposit in which oil and/or gas is found in commercial quantities.

Reserves Estimated volumes of oil, gas or other minerals that can be recovered from deposits in the earth with reasonable certainty.

Spot Gas Purchases The purchase of natural gas on a short-term basis usually at a lower cost than long-term pipeline contracts.

Stranded Costs Costs associated with facilities or contracts that, because of restructuring, may not be directly recoverable from customers.

Transportation Gas The movement of gas for third parties through pipeline facilities for a fee.

Unbundled Service The separation of services, with rates charged that reflect the cost of the selected service.

Underground Storage The injection of large quantities of natural gas into underground rock formations for storage during periods of low market demand and withdrawal during periods of high market demand.

Weather Normalization A clause in utility rates which adjusts customer costs to reflect normal temperatures. If temperatures during the measured period are warmer than normal, customers receive a surcharge. If temperatures during the measured period are colder than normal, customers receive a credit.

Weighted Average Price A price computed by averaging together the cost of each unit.

INVESTOR INFORMATION

Common Stock Transfer Agent and Registrar*

ChaseMellon Shareholder Services, L.L.C.
P.O. Box 3316
South Hackensack, N.J. 07606-1916
Tel. (800) 648-8166 or
Web site at <http://www.chasemellon.com>

**Change-of-address notices and inquiries about dividends should be sent to the Transfer Agent at address shown.*

Stock Listing

New York Stock Exchange (Stock Symbol: NFG)

National Fuel Direct Stock Purchase and Dividend Reinvestment Plan

National Fuel offers a simple, cost-effective method for purchasing shares of National Fuel Stock directly from the Company.

A Prospectus which includes details of the Plan can be obtained by calling, writing or e-mailing ChaseMellon Shareholder Services, L.L.C., the agent for the Plan, at:

ChaseMellon Shareholder Services, L.L.C.
Dividend Reinvestment Department
P.O. Box 3336
South Hackensack, N.J. 07606-1936
Tel. (800) 648-8166
E-mail: shrrelations@chasemellon.com

Trustee for Debentures

The Bank of New York
101 Barclay Street
New York, N.Y. 10286

Independent Accountants

PricewaterhouseCoopers LLP
3600 Marine Midland Center
Buffalo, N.Y. 14203

Annual Meeting

The Annual Meeting of Shareholders will be held at 10 a.m. (local time) on Thursday, February 17, 2000, at The Ritz-Carlton, Palm Beach, 100 South Ocean Boulevard, Manalapan, Florida 33462.

Formal notice of the meeting, proxy statement and proxy will be mailed to shareholders of record as of December 20, 1999.

Investor Relations

Financial analysts desiring information should contact:

Joseph P. Pawlowski

Treasurer

Tel. (716) 857-6904

Margaret M. Suto

Director, Investor Relations

Tel. (716) 857-6987 or

E-mail: sutom@natfuel.com

National Fuel Gas Company
10 Lafayette Square
Buffalo, N.Y. 14203

Additional Shareholder Reports

Additional copies of this report and the Financial and Statistical Supplement to the 1999 Annual Report can be obtained without charge by writing to:

Anna Marie Cellino

Corporate Secretary

National Fuel Gas Company

10 Lafayette Square

Buffalo, N.Y. 14203

Tel. (716) 857-7858

This Annual Report and the statements contained herein are submitted for the general information of shareholders and employees of the Company and are not intended to induce any sale or purchase of securities or to be used in connection therewith.

For up-to-date information we have two sources for your use. You may call 1-800-334-2188 at any time to receive National Fuel's current stock price and trade volume or to hear the latest news releases. You may also have news releases faxed or mailed to you. National Fuel has an Internet Web site at <http://www.nationalfuelgas.com>. You may sign-up there to automatically receive news releases by e-mail. Simply go to the news release section and subscribe.



National Fuel Gas Company

10 Lafayette Square

Buffalo, NY 14203

(716) 857-7000

www.nationalfuelgas.com