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NATIONAL FUEL GAS CO  
Form DEFS14A  
August 07, 2001

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SCHEDULE 14A  
(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION  
PROXY STATEMENT PURSUANT TO SECTION 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. )

Filed by the Registrant  [X]  
Filed by a Party other than the Registrant  [ ]  
Check the appropriate box:

[ ] Preliminary Proxy Statement

[X] Definitive Proxy Statement

[ ] Definitive Additional Materials

[ ] Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

[ ] Confidential, for the Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

National Fuel Gas Company

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(Name of Registrant as Specified in Its Charter)

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(Name of Person(s) Filing Proxy Statement)

Payment of Filing Fee (Check the appropriate box):

[X] No fee required.

[ ] Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

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(4) Proposed maximum aggregate value of transaction:

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(5) Total fee paid:  
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[ ] Fee paid previously with preliminary materials.

[ ] Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid:  
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(2) Form, schedule or registration statement no.:  
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(3) Filing party:  
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(4) Date filed:  
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NATIONAL FUEL GAS COMPANY

NOTICE OF SPECIAL MEETING

AND

PROXY STATEMENT

SPECIAL MEETING OF STOCKHOLDERS

TO BE HELD ON

SEPTEMBER 19, 2001

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NATIONAL FUEL GAS COMPANY

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10 LAFAYETTE SQUARE  
BUFFALO, NEW YORK 14203

August 9, 2001

Dear Stockholder:

We are pleased to invite you to join us at the Special Meeting of Stockholders of National Fuel Gas Company. The meeting will be held at 10:00 A.M. Eastern Time on Wednesday, September 19, 2001, at the offices of LeBoeuf, Lamb, Greene & MacRae, 125 West 55th Street, New York, NY 10019-5389. The matter on the agenda for the meeting is outlined in the enclosed Notice of Meeting and Proxy Statement.

So that you may secure the representation of your interests at the Stockholders Meeting, we urge you to vote your shares. The preferred method of voting is by telephone as described on the proxy card. This method is both convenient for you and reduces the expense of soliciting proxies for the Company. If you prefer not to vote by telephone, please complete, sign and date your proxy card and mail it in the envelope provided. The Proxies are committed by law to vote your proxy as you designate.

If you plan to be present at the Stockholders Meeting, please respond to the question if you vote by telephone, or check the "WILL ATTEND MEETING" box on the proxy card.

Whether or not you plan to attend, please vote your shares by telephone or complete, sign, date and promptly return your proxy card so that your vote may be counted. If you do attend and wish to vote in person, you can revoke your proxy by giving written notice to the Secretary of the meeting and/or the Trustees (as described on the first page of the enclosed Proxy Statement), and/or by casting your ballot at the meeting.

Coffee will be served at 9:30 A.M. and I look forward to meeting you at that time.

Please review the Proxy Statement and take advantage of your right to vote.

Sincerely yours,

BERNARD J. KENNEDY

Chairman of the Board of Directors,  
Chief Executive Officer

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NATIONAL FUEL GAS COMPANY  
10 LAFAYETTE SQUARE  
BUFFALO, NEW YORK 14203

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

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TO BE HELD ON SEPTEMBER 19, 2001

To the Stockholders of National Fuel Gas Company:

Notice is hereby given that a Special Meeting of Stockholders of National Fuel Gas Company will be held at 10:00 A.M. Eastern Time on Wednesday, September 19, 2001, at the offices of LeBoeuf, Lamb, Greene & MacRae, 125 West 55th Street, New York, NY 10019-5389. At the meeting, action will be taken with respect to the approval of amendments to the National Fuel Gas Company 1997 Award and Option Plan and the National Fuel Gas Company 1993 Award and Option Plan, and such other business as may properly come before the meeting or any adjournment thereof.

Stockholders of record at the close of business on July 23, 2001, will be entitled to vote at the meeting.

BY ORDER OF THE BOARD OF DIRECTORS

ANNA MARIE CELLINO  
Secretary

August 9, 2001

YOUR VOTE IS IMPORTANT

WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, AND WHATEVER THE NUMBER OF SHARES YOU OWN, PLEASE VOTE YOUR SHARES BY TELEPHONE AS DESCRIBED ON THE PROXY/ VOTING INSTRUCTION CARD AND REDUCE NATIONAL FUEL GAS COMPANY'S EXPENSE IN SOLICITING PROXIES. ALTERNATIVELY, YOU MAY COMPLETE, SIGN, DATE AND PROMPTLY RETURN THE ENCLOSED PROXY/VOTING INSTRUCTION CARD. PLEASE USE THE ACCOMPANYING ENVELOPE, WHICH REQUIRES NO POSTAGE IF MAILED IN THE UNITED STATES.

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NATIONAL FUEL GAS COMPANY  
10 LAFAYETTE SQUARE  
BUFFALO, NEW YORK 14203

PROXY STATEMENT

This proxy statement is furnished to the holders of National Fuel Gas Company ("Company") common stock ("Common Stock") in connection with the solicitation of proxies on behalf of the Board of Directors of the Company for use at the Special Meeting of Stockholders to be held on September 19, 2001, or any adjournment thereof. This proxy statement and the accompanying proxy/voting instruction card are first being mailed to stockholders on or about August 9, 2001.

All costs of soliciting proxies will be borne by the Company. Morrow & Co., Inc., 445 Park Avenue, New York, New York 10022, has been retained to assist in the solicitation of proxies and will be compensated in the estimated amount of \$9,500 plus reasonable out-of-pocket expenses. In addition to solicitation by that firm and by mail, a number of regular employees of the Company and its subsidiaries may solicit proxies in person, by telephone or by other methods.

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Only stockholders of record at the close of business on July 23, 2001, will be eligible to vote at this meeting. As of that date, 39,662,158 shares of Common Stock were issued and outstanding. On September 7, 2001, those shares will split two-for-one, so there will be approximately 79,324,316 shares outstanding on the meeting date, but votes will be cast using the pre-split outstanding shares as of the record date.

Each share of Common Stock entitles the holder thereof to one vote with respect to each matter that is subject to a vote at the meeting. All shares that are represented by effective proxies received by the Company in time to be voted will be voted at the meeting or any adjournment thereof. Where stockholders direct how their votes shall be cast, shares will be voted in accordance with such directions. If the proxy/voting instruction card is returned signed but without directions marked for item 1, you are granting the Proxies discretion to vote FOR item 1.

Proxies submitted with abstentions and broker non-votes will be treated as shares represented at the meeting, and will be included in determining whether or not a quorum is present. Abstentions and broker non-votes, however, will not be counted as votes cast at the meeting.

The proxy also confers discretionary authority to vote on all matters that may properly come before the Annual Meeting of Stockholders, or any adjournment thereof, respecting matters of which the Board is not currently aware but that may be presented at the meeting, and respecting all matters incident to the conduct of the meeting. Any stockholder giving a proxy may revoke it at any time prior to the voting thereof by mailing a revocation or a subsequent proxy to Anna Marie Cellino at the above address, by filing written revocation at the meeting with Mrs. Cellino, Secretary of the meeting, or by casting a ballot.

If you are a participant in the Company's Employee Stock Ownership Plans, Employees' Thrift Plan or Tax-Deferred Savings Plans, and the accounts are registered in the same name, the proxy card will also serve as a voting instruction for the Trustees of those Plans. Shares in these Plans are not voted unless we receive voting instructions. If the card is returned signed but without directions marked for item 1, you are instructing the Trustees to vote FOR item 1. These instructions may be revoked by written notice to J.P. Morgan Chase & Co., Trustee for the Company's Employee Stock Ownership Plans and the Employees' Thrift Plan, or Vanguard Fiduciary Trust Company, Trustee for the Company's Tax-Deferred Savings Plans, on or before September 17, 2001. Addresses are as follows:

J.P. Morgan Chase & Co.  
c/o Computershare Investor  
Services, LLC  
Attn: Proxy Unit  
2 North LaSalle -- 2nd Floor  
Chicago, IL 60602

Vanguard Fiduciary Trust Company  
c/o Computershare Investor Services, LLC  
Attn: Proxy Unit  
2 North LaSalle -- 2nd Floor  
Chicago, IL 60602

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### ITEM 1. APPROVAL OF CERTAIN AMENDMENTS TO THE 1997 AWARD AND OPTION PLAN AND THE 1993 AWARD AND OPTION PLAN

The Board of Directors called this special meeting primarily to seek the stockholders' approval of the conversion of certain outstanding securities of the Company into a different kind of security, in order to change the accounting treatment of these securities in the Company's favor. Specifically, approval of this proposal would authorize the Compensation Committee to convert outstanding stock appreciation rights (derivative securities called "SARs") into non-qualified stock options (a different form of derivative security) having the same terms as the SARs originally issued.

The accounting treatment required for SARs can distort the Company's reported earnings and earnings per share, because all outstanding SARs are "marked to market" at the end of each quarter. This means that, for each outstanding SAR, the Company's pre-tax reported earnings are increased by a dollar for each dollar decrease in the market price of the Company's common stock since the end of the previous quarter (unless and until the market price falls to the market price on the date the SAR was issued) for each outstanding SAR. Conversely, for each outstanding SAR, the Company's pre-tax reported earnings are reduced by a dollar for each dollar increase in the market price of the Company's common stock since the end of the previous quarter. There were 1,578,586 outstanding SARs under the 1993 and 1997 Plans as of July 12, 2001, so a stock market swing of \$3/share from one quarter-end to the next would reduce or inflate the Company's pre-tax earnings by over \$4.7 million, all because of a non-cash "event."

In the last year the Company's stock has become much more volatile than in the past. The runup in stock price in December 2000 reduced the Company's after-tax earnings by \$0.19 per share. The market price decline in the following quarter increased after-tax earnings by \$0.25 per share. Because of the resulting volatility in the Company's stated earnings, financial and other stock analysts have complained about the difficulty this adds to predicting the Company's earnings.

Converting SARs to non-qualified stock options would virtually eliminate the effect the quarterly "mark to market" accounting entries would otherwise have on future earnings. Instead, the converted securities would be accounted for with the Company's other outstanding stock options, and be reflected in the difference between earnings and "diluted" earnings. The proposed amendments would also eliminate SARs from the types of awards that can be granted in the future under the Company's current stock plans. There will remain outstanding 30,000 SARs issued under the 1997 Plan and 73,068 SARs issued under the 1984 Stock Plan, which will all terminate or be exercised by December 12, 2007 and June 16, 2003, respectively.

Approval of this proposal would also increase the number of shares available for grant under the Company's 1993 Award and Option Plan (the "1993 Plan") and the Company's 1997 Award and Option Plan (the "1997 Plan"). The authorized additional shares would total 6,000,000 post-split shares, after giving effect to the two-for-one stock split which will occur on September 7, 2001. Up to 3,097,172 post-split shares (equivalent to 1,548,586 pre-split shares) would be issuable as a result of converting SARs, leaving a net increase of 2,902,828 additional post-split shares (equivalent to 1,451,414 pre-split additional shares) available for awards under the stock plans described below.

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The Company's stock plans, and the proposed amendments to them, are discussed in more detail in the appropriate section(s) below. The 1997 and 1993 Plans, as proposed to be amended, are attached to this Proxy Statement as Exhibits A and B respectively. The affirmative vote of a majority of the votes cast with respect to this proposal by the holders of shares of Common Stock entitled to vote is required for the adoption of the proposal. Information on the Company's executive compensation generally is provided below under the heading "Executive Compensation."

### BACKGROUND OF THE 1993 AND 1997 AWARD AND OPTION PLANS

On December 13, 1996, the Board of Directors adopted the 1997 Plan, subject to approval by the common stockholders which was granted at the 1997 Annual Meeting. On December 9, 1999, the Board of Directors adopted amendments to the 1997 Plan, subject to approval by the

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common stockholders which was granted at the 2000 Annual Meeting. On June 14, 2001, the Board of Directors adopted amendments to the 1997 Plan, subject to approval by the common stockholders at this meeting. A copy of the 1997 Plan, as proposed to be amended, is attached to and incorporated in this Proxy Statement as Exhibit A.

On December 10, 1992, the Board of Directors adopted the 1993 Plan, subject to approval by the common stockholders which was granted at the 1993 Annual Meeting. On June 14, 2001, the Board of Directors adopted amendments to the 1993 Plan, subject to approval by the common stockholders at this meeting. A copy of the 1993 Plan, as proposed to be amended, is attached to and incorporated in this Proxy Statement as Exhibit B.

### ADMINISTRATION

The 1993 and 1997 Plans provide for administration by the Compensation Committee of the Board or another committee designated by the Board ("Committee"). The Committee is composed entirely of "Disinterested Board Members" who are not present or former employees or officers of the Company. No member of the Committee is eligible to be selected to participate in the 1993 or 1997 Plans. Among the powers granted to the Committee are the authority to interpret the 1993 and 1997 Plans, establish rules and regulations for its administration, select core employees of the Company and its subsidiaries to receive awards, determine the form and amount and other terms and conditions of an award, grant waivers of 1993 and 1997 Plan terms and conditions, accelerate the vesting, exercise or payment of an award and take all action it deems advisable for the proper administration of the 1993 and 1997 Plans. The 1993 and 1997 Plans authorize the Committee to delegate its authority and duties under those Plans, in certain circumstances, to the Chief Executive Officer and other senior officers of the Company.

### ELIGIBILITY FOR PARTICIPATION

All Core Employees and Key Employees (management employees selected by the Committee) of the Company or any of its 80%-or-more owned subsidiaries are

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eligible to be selected to participate in the 1993 and 1997 Plans. The selection of Participants from among core management employees is within the discretion of the Committee. Under the 1997 Plan, "Key Management Employees" (select highly compensated employees) are the only people eligible to receive the awards authorized by the 1997 Plan other than stock options.

### AMENDMENT OF PLAN

The Board may suspend or terminate the 1993 or 1997 Plan at any time, and may also amend the 1993 or 1997 Plan at any time, but any such amendment may be subject to stockholder approval (i) at the discretion of the Board; and (ii) to the extent stockholder approval may be required by law, including, but not limited to, any requirements of Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

### SHARES AVAILABLE FOR GRANT

The 1993 Plan authorizes the Committee to grant awards during the period from February 18, 1993 through February 17, 2003. Subject to equitable adjustment, 1,600,000 shares of Common Stock of the Company were originally available for grant under the 1993 Plan. See Adjustment of Shares Available beginning on p. 8 regarding adjustments due to stock splits, mergers, spin-offs and similar events. As a result of the two-for-one stock split which will occur on September 7, 2001, the 1,600,000 shares originally available will become 3,200,000 shares.

The 1997 Plan authorizes the Committee to grant awards during the period from December 13, 1996 through December 12, 2006. Subject to equitable adjustment, 3,800,000 pre-split shares of Common Stock of the Company were originally available for grant under the 1997 Plan as amended in February 2000. As a result of the two-for-one stock split which will occur on September 7, 2001, the 3,800,000 shares originally available will become 7,600,000 shares.

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Of the total of 5,400,000 pre-split shares that were originally available under the 1993 and 1997 Plans, approximately 5.1 million pre-split options and restricted stock have been issued. This leaves 265,021 pre-split shares actually available under those plans as of July 23, 2001. As a result of the two-for-one stock split which will occur on September 7, 2001, the 265,021 pre-split shares actually available will become 530,042 post-split shares.

These proposed amendments represent an increase in the number of available shares by 6,000,000 post-split shares, the equivalent of 3,000,000 pre-split shares. 1,090,900 post-split shares would be added to the 1993 Plan, and 4,909,100 post-split shares would be added to the 1997 Plan. A share issued upon the exercise of an option (including an option resulting from conversion of a SAR) would reduce the number of shares available.

Shares of Common Stock related to awards which terminate by expiration, forfeiture, cancellation or otherwise without the issuance of shares, or are settled in cash in lieu of Common Stock, will again be available for grant under the 1993 or 1997 Plan. Similarly, shares of Common Stock used by a Participant with the Committee's consent to pay in full or in part the purchase price of shares of Common Stock upon exercise of a stock option will again be available for grant under the 1993 or 1997 Plan.



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No one Participant in the 1993 Plan may receive awards covering more than 650,000 post-split shares (equivalent to 325,000 pre-split shares) of Common Stock of the Company in any fiscal year, subject to equitable adjustment. No one Participant in the 1997 Plan may receive awards covering more than 600,000 post-split shares (equivalent to 300,000 pre-split shares) of Common Stock of the Company in any fiscal year, subject to equitable adjustment. The conversion of a SAR into an option will not count as an award granted in the fiscal year in which the conversion takes place.

### TYPES OF AWARDS

The 1993 and 1997 Plans provide for the grant of any or all of the following types of awards: (1) stock options, including incentive stock options; (2) stock appreciation rights ("SARs"), which may be granted singly, in combination with stock options or in the alternative; (3) Common Stock of the Company, including restricted Common Stock; (4) performance units; (5) performance shares; (6) Common Stock units; and (7) any other award established by the Committee which is consistent with the Plan's purposes. Such awards may be granted singly, in combination or in the alternative, as determined by the Committee.

Of the 1,900,000 pre-split shares authorized at the 2000 Annual Meeting to be added to the 1997 Plan, 1,200,000 shares may be used only for stock options. Of the 4,909,100 post-split shares proposed to be added to the 1997 Plan at this Special Meeting, 4,000,000 shares may be used only for stock options. The 1,090,900 post-split shares proposed to be added to the 1993 Plan at this Special Meeting may be used only for the award of stock options.

### STOCK OPTIONS

Under the 1993 and 1997 Plans, the Committee may grant awards to Key Employees or Core Employees in the form of stock options to purchase shares of the Company's Common Stock. Unless the award notice provides otherwise, each option shall be exercisable in whole or in part. The Committee will, with regard to each stock option, determine the number of shares subject to the option, the manner and time of the option's exercise, and the exercise price per share of Common Stock subject to the option. In no event, however, may the exercise price of a stock option be less than the fair market value of the Company's Common Stock on the date of the stock option's grant, other than options issued upon the conversion of SARs (see Stock Appreciation Rights, at p. 6 below). Unless the award notice provides otherwise, each incentive stock option shall first become exercisable on the first anniversary of its date of grant. Unless the award notice provides for a shorter period, each incentive stock option shall expire on the tenth anniversary of its date of grant. Incentive stock options and nonqualified stock options granted in combination may be exercised separately. Any stock option grant in the form of an incentive stock option will satisfy the applicable requirements of Section 422 of the Internal Revenue Code of 1986, as amended, (the "Code"). See Federal Income Tax Treatment beginning

at page 9 for a discussion of the differing federal tax treatment afforded to incentive and non-qualified stock options.

Unless the award notice provides otherwise, any incentive stock option which has not theretofore expired shall terminate upon termination of the Participant's employment with the Company whether by death or otherwise, and no shares of Common Stock may thereafter be purchased pursuant to such incentive stock option, except that upon termination of employment (other than by death),

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a Participant may, within three months after the date of termination of employment, purchase all or part of any shares of Common Stock which the Participant was entitled to purchase under such incentive stock option on the date of termination of employment. Also, upon the death of any Participant while employed with the Company or within the three-month period after the date of termination of a Participant's employment, the Participant's estate or the person to whom the Participant's rights under the incentive stock option are transferred by will or the laws of descent and distribution may, within one year after the date of the Participant's death, purchase all or part of any shares of Common Stock which the Participant was entitled to purchase under such incentive stock option on the date of death.

Notwithstanding the above, the Committee may at any time within the three-month period after the date of termination of a Participant's employment, with the consent of the Participant, the Participant's estate or the person to whom the Participant's rights under the incentive stock options are transferred by will or the laws of descent and distribution, extend the period for exercise of the Participant's incentive stock options to any date not later than the date on which such incentive stock options would have otherwise expired absent such termination of employment. In no event shall an incentive stock option be exercisable after the expiration of the exercise period therein provided, nor later than ten years after the date of grant.

Unless the award notice provides otherwise, each non-qualified stock option shall expire on the day after the tenth anniversary of the grant. In no event shall a non-qualified stock option be exercisable later than the exercise period set forth in the award notice.

Unless the award notice provides otherwise, any non-qualified stock option which has not previously expired shall terminate upon termination of the Participant's employment with the Company by either (i) voluntary resignation before his or her 60th birthday, or (ii) discharge for cause. A Participant who resigns on or after his or her 60th birthday (a "Retiree") may exercise all or part of the Retiree's non-qualified stock options as described in this paragraph. A Retiree may exercise any non-qualified stock option which the Retiree was entitled to exercise on the date the Retiree's employment terminates, and may also exercise any non-qualified stock option which the Retiree subsequently becomes eligible to exercise. A Retiree may exercise non-qualified stock options no later than the fifth anniversary of the Retiree's resignation, or such later date as the Committee, in its sole discretion, deems appropriate (the "Post-Termination Exercise Period"). A Participant whose employment is terminated other than for cause is treated the same as a Retiree for the purposes described in this paragraph. Notwithstanding the foregoing, if the Committee determines that a Participant is employed by an employer or engaged in a business that competes with the business of the Company, the Participant shall thereafter lose his or her rights to exercise any non-qualified stock options.

Upon the death of a Participant while employed with the Company or within the Post-Termination Exercise Period, the Participant's estate or the person to whom the Participant's rights under the non-qualified stock option are transferred by will or the laws of descent and distribution may, within five years after the date of the Participant's death while employed, or within the Post-Termination Exercise Period, exercise all or part of the non-qualified stock option which the Participant was entitled to exercise on the date of death.

Unless the award notice provides otherwise, each non-qualified option shall first become exercisable on the first anniversary of its date of grant, or if earlier (i) on the date of the Participant's death occurring after the date of

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grant; (ii) six months after the date of grant, if the Participant is a Retiree who retired after the date of grant, and before such six months; or (iii) on the date of a Retiree's retirement and at least six months after the date of grant.

Upon exercise, the exercise price may, at the discretion of the Committee, be paid by a Participant in cash, shares of Common Stock, shares of restricted stock, a combination thereof,

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or such other consideration as the Committee may deem appropriate. An award may provide that a Participant who pays the option exercise price with previously-owned shares of the Company's Common Stock shall automatically be awarded a new stock option to purchase additional shares of Common Stock equal to the number of shares used to pay the exercise price. The 1993 and 1997 Plans also allow for the so-called "cashless exercise" of options by payment of the exercise price using a portion of the shares otherwise receivable upon exercise of the option.

No stock option issued under the 1993 or 1997 Plan can be repriced by reducing the exercise price after the options are granted.

### STOCK APPRECIATION RIGHTS

A SAR is a right to receive a payment equal to the appreciation in fair market value of a stated number of shares of Common Stock from the SAR's exercise price to the fair market value on the date of its exercise. SARs may not be repriced by decreasing the SAR's exercise price after the award date. The 1993 and 1997 Plans authorize the Committee to grant SARs to Key Management Employees or Key Employees either singly ("Independent SARs"), in combination with all or a portion of a related stock option ("Combination SARs") or in the alternative ("Alternative SARs"). The Company has never issued any Independent SARs or Alternative SARs. All the outstanding SARs are Combination SARs.

The proposed amendments would make all SARs convertible, in the Committee's discretion and with the holder's consent, into non-qualified stock options. Such an option will have the same exercise price and expiration date as the converted SAR. The Committee intends to convert substantially all outstanding SARs into options before the end of fiscal 2001, and has secured the consent of the holders of substantially all the SARs. In addition, the proposed amendments would eliminate the authority of the Committee to issue any SARs in the future under the 1993 or 1997 Plan.

A Combination or Alternative SAR could have been granted either at the time of the grant of the related stock option or at any time thereafter during the term of the stock option. Combination SARs may be exercised either together with the related stock option or separately. The exercise price of a Combination SAR shall be the exercise price of the related stock option, and a Combination SAR shall be exercisable only to the extent that the related stock option is exercisable. If a Participant exercises a Combination SAR or a related stock option, but not both, the other shall remain outstanding and exercisable. Unless an award notice provides otherwise, SARs granted in conjunction with stock options shall be Combination SARs.

An Alternative SAR would be exercisable to the extent its related stock option is exercisable, and the exercise price of an Alternative SAR would be the same as the exercise price of its related stock option. Upon the exercise of a stock option as to some or all of the shares covered by the award, the related Alternative SAR would be canceled automatically to the extent of the number of shares covered by the stock option exercise. Upon exercise of an Alternative SAR, the related stock option would be automatically canceled to the extent of

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such exercise.

The Committee would, with regard to an Independent SAR, determine the number of shares subject to the SAR, the manner and time of the SAR's exercise, and the exercise price of the SAR. However, the exercise price of an Independent SAR will in no event be less than the fair market value of the Common Stock on the date of the grant of the Independent SAR.

### STOCK AWARDS

The 1993 and 1997 Plans authorize the Committee to grant awards to Key Management Employees or Key Employees in the form of shares of Common Stock, restricted shares of Common Stock, and Common Stock units. Such awards will be subject to such terms and conditions as the Committee deems appropriate, including restrictions on transferability and continued employment. During any restricted period, the Committee may grant to the Participant all or any rights of a stockholder with respect to such shares, including the rights to vote and to receive dividends. No more than 50,000 restricted pre-split shares can be issued from the 1997 Plan in a fiscal year. No more than 50,000 restricted pre-split shares can be issued from the

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1993 Plan in a fiscal year. The 1993 and 1997 Plans give the Committee the discretion to accelerate the delivery of shares of such awards.

### PERFORMANCE SHARES

The 1993 and 1997 Plans allow for the grant of "performance shares" to Key Management Employees or Key Employees. For purposes of the 1993 and 1997 Plans, "performance shares" means either shares of Common Stock of the Company or units which are expressed in terms of Common Stock of the Company. Such awards will be contingent upon the attainment over a period to be determined by the Committee ("Performance Period") of certain performance or service objectives. Such objectives may be revised by the Committee during the Performance Period to take into account unforeseen events or changed circumstances. The performance or service objectives to be achieved during a Performance Period and the measure of whether and to what degree such objectives have been attained will also be determined by the Committee.

### PERFORMANCE UNITS

Awards may also be granted to Key Management Employees or Key Employees in the form of performance units, which are units valued by reference to criteria chosen by the Committee, other than by reference to the Company's Common Stock. Performance units are similar to performance shares in that they are contingently awarded based on the attainment over a Performance Period of certain performance. Such objectives may be revised by the Committee during the Performance Period to take into account unforeseen events or changed circumstances. The length of the Performance Period, the performance objectives to be achieved during the Performance Period, and the measure of whether and to what degree such objectives have been achieved will be determined by the Committee. At Risk Awards are a type of performance unit.

### OTHER TERMS OF AWARDS

Awards may be paid in cash, Common Stock, a combination of cash and Common Stock, or any other form of property, and in a lump sum or in installments, as the Committee shall determine. If an award is granted in the form of a stock

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award, stock option, or performance share, or in the form of any other stock-based grant, the Committee may include as part of such award an entitlement to receive dividends or dividend equivalents. Dividends or dividend equivalents which are not currently paid may, in the Committee's discretion, accrue interest, be reinvested in additional shares of Common Stock, or be credited as additional performance shares and paid to the Participant if and when, and to the extent that, payment is made pursuant to such award. At the discretion of the Committee, receipt of payment of a stock-based award, performance unit, dividend or dividend equivalent may be deferred by a Participant by the delivery of an irrevocable election prior to the time payment would otherwise be made.

The 1993 and 1997 Plans provide for the forfeiture of awards in the event of termination of employment for a reason other than death, disability, retirement, or any approved reason, unless the award provides otherwise. The 1993 and 1997 Plans authorize the Committee to promulgate administrative guidelines for the purpose of determining what treatment will be afforded to a Participant under the 1993 and 1997 Plans in the event of his or her death, disability, retirement, or termination of employment for an approved reason. Forfeiture is also required if, in the opinion of the Committee, the Participant competes with the Company without its written consent, or if he or she acts in a manner inimical to the Company's best interests.

Upon grant of any award, the Committee may, by way of an award notice or otherwise, establish such other items and conditions governing the grant of such award as are not inconsistent with the 1993 or 1997 Plan. The Committee may unilaterally amend any award if such amendment is not adverse to the Participant. The Company may deduct from any payment under the 1993 or 1997 Plan the amount of any applicable income and employment taxes, or may require the Participant to pay such taxes as a condition to making such payment. A Participant may pay the amount of such taxes required to be withheld from an award, in whole or in part, by requesting that the Company withhold from any payment of Common Stock due as

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a result of such award, or by delivering to the Company, shares of Common Stock with a fair market value less than or equal to the amount of the applicable withholding taxes.

### NONASSIGNABILITY

All awards under the 1993 and 1997 Plans may not be transferred (except by will or the laws of descent and distribution or pursuant to a qualified domestic relations order), and during a Participant's lifetime may be exercised only by the Participant except that, unless the Committee specifies otherwise, all awards of nonqualified stock options or SARs will be transferable, subject to all the terms and conditions to which such nonqualified stock options or SARs are otherwise subject, to (i) members of a Participant's immediate family as defined in Rule 16a-1 of the Exchange Act or any successor rule or regulation, (ii) trusts for the exclusive benefit of the Participant or such immediate family members or (iii) entities which are wholly-owned by the Participant or such immediate family members, provided that (a) there is no consideration for such transfer and (b) subsequent transfers of transferred options are prohibited (except by will or the laws of descent and distribution). Following transfer, any such options continue to be subject to the same terms and conditions as were applicable immediately prior to transfer and, except for events related to the termination of employment of the Participant, the term "Participant" will refer to the transferee.

### CHANGE IN CONTROL/CHANGE IN OWNERSHIP

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In the event of a Change in Control (as defined in the 1993 and 1997 Plans), a Participant whose employment is terminated within two years of the date of such event for a reason other than death, disability, Cause (as defined in the 1993 and 1997 Plans), voluntary resignation or other Good Reason (as defined in the 1993 and 1997 Plans) or retirement, would be entitled to the following treatment under the 1993 and 1997 Plans: (i) all of the terms and conditions in effect on any of the Participant's outstanding awards would immediately lapse; (ii) all of the Participant's outstanding awards would automatically become one hundred percent vested; (iii) all of the Participant's outstanding stock options, SARs, performance units, performance shares, and other stock-based awards would be immediately cashed out on the basis of the Change in Control Price (as defined in the Plan); and (iv) all of the Participant's outstanding performance units would be cashed out on the same basis and under the assumption that all performance criteria applicable to Performance Periods completed or partially completed had been satisfied. Such payments would be made as soon as possible, but no later than the 90th day following such event.

The 1993 and 1997 Plans also provide that upon a Change In Ownership (as defined in the 1993 and 1997 Plans), all Participants, regardless of whether their employment is terminated, would automatically receive the same treatment afforded to a terminated Participant under the Plan in the event of a Change in Control. The 1993 and 1997 Plans define a Change in Ownership as a change which results in the Company's Common Stock ceasing to be actively traded on the New York Stock Exchange, another national stock exchange or the National Association of Securities Dealers Automated Quotation System.

### ADJUSTMENT OF SHARES AVAILABLE

In the event of changes in the Common Stock by reason of a Common Stock dividend, stock split, reverse stock split or other combination, appropriate adjustment will be made by the Committee in the aggregate number of shares of Common Stock available under the 1993 and 1997 Plans, the number of shares of Common Stock with respect to which awards may be granted to any Participant in any fiscal year, and the number of shares of Common Stock, SARs, performance shares, Common Stock units and other stock-based interests subject to outstanding awards, without, in the case of stock options, causing a change in the aggregate purchase price to be paid for such shares of Common Stock. The Committee made an equitable adjustment regarding the two-for-one split which will occur on September 7, 2001, such that the number of options, SARs and restricted shares were doubled, and the exercise price halved.

The 1993 and 1997 Plans also provide that in the event of a merger, consolidation, reorganization of the Company with another corporation, a reclassification of the Common

Stock, a spin-off of a significant asset, or other changes in the capitalization of the Company, appropriate provisions will be made for the protection and continuation of outstanding awards by either (i) the substitution of appropriate stock or other securities, or (ii) by appropriate adjustments, each as set forth under the Plan and as deemed appropriate by the Committee.

### FEDERAL INCOME TAX TREATMENT

The following is a brief summary of the federal income tax aspects of the 1993 and 1997 Plans, based on existing law and regulations which are subject to change. The application of state and local income taxes and other federal taxes is not discussed.

A Participant who is granted an incentive stock option is not required to

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recognize taxable income at the time of the grant or at the time of exercise. Under certain circumstances, however, a Participant may be subject to the alternative minimum tax with respect to the exercise of his incentive stock options. The Company is not entitled to a deduction at the time of grant or at the time of exercise of an incentive stock option. If a Participant does not dispose of the shares acquired pursuant to the exercise of an incentive stock option before the later of two years from the date of grant of the option and one year from the transfer of the shares to him, any gain or loss realized on a subsequent disposition of the shares will be treated as long-term capital gain or loss. Under such circumstances, the Company will not be entitled to any deduction for federal income tax purposes.

If a Participant disposes of the shares received upon the exercise of any incentive stock option either (1) within one year of the transfer of the shares to him or her or (2) within two years after the incentive stock option was granted, the Participant will generally recognize ordinary compensation income equal to the lesser of (a) the excess of the fair market value of the shares on the date the incentive stock option was exercised over the purchase price paid for the shares upon exercise, and (b) the amount of gain realized on the sale. If a Participant is required to recognize ordinary compensation income as a result of the disposition of shares acquired on the exercise of any incentive stock option, the Company will be entitled to a deduction for an equivalent amount.

A Participant who is granted a non-qualified stock option does not have taxable income at the time of grant, but does have taxable income at the time of exercise equal to the difference between the exercise price of the shares and the market value of the shares on the date of exercise. The Company is entitled to a corresponding deduction for the same amount.

The grant of an SAR will produce no federal tax consequences for the Participant or the Company. The exercise of an SAR results in taxable income to the Participant, equal to the difference between the exercise price of the SAR and the fair market value of a share on the date of exercise, and a corresponding deduction to the Company. The conversion of outstanding SARs into non-qualified stock options as proposed in these amendments will produce no federal tax consequences for the Participant or the Company. Upon exercising the stock option resulting from the conversion, the Participant and the Company would be taxed as described in the paragraph immediately above.

A Participant who has been granted either performance units or performance shares expressed in the form of units of Common Stock generally will not be required to recognize taxable income at the time of the grant, and the Company will not be entitled to a deduction at such time. A Participant will be required to recognize ordinary income either at the time the award vests or is paid, depending upon the terms and conditions of the award, and the Company will have a corresponding deduction.

A Participant who has been granted shares of restricted stock will not be required to recognize taxable income at the time of the grant, and the Company will not be entitled to a deduction at the time of the grant, assuming that the restrictions constitute a substantial risk of forfeiture for federal income tax purposes. When such restrictions lapse, the Participant will recognize taxable income in an amount equal to the excess of the fair market value of the shares at such time over the amount, if any, paid for such shares. The Company will be entitled to a corresponding deduction subject to the limitations imposed under Section 162(m) of the Code.

The award of an outright grant of Common Stock to a Participant will

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produce immediate tax consequences for both the Participant and the Company. The Participant will be treated as having received taxable compensation in an amount equal to the then fair market value of the Common Stock distributed to him. The Company will receive a corresponding deduction for the same amount subject to the limitations imposed under Section 162(m) of the Code.

### MARKET PRICE OF THE COMMON STOCK

The closing price of the Company's Common Stock reported on the New York Stock Exchange for July 23, 2001 was \$48.67 per share. As of such date the aggregate market value of the shares of Common Stock underlying the additional awards which would become available for issuance under the 1993 and 1997 Plans was \$146,010,000. The Company will cancel 3,097,172 post-split SARs (equivalent to 1,548,586 pre-split SARs) which, if exercised on that date, would have been worth \$12,209,034 pre-tax.

### EXECUTIVE COMPENSATION

The information under this heading "Executive Compensation" is the same as was published under that heading in the Company's Proxy Statement for the Annual Meeting of Stockholders held February 15, 2001. The Company is required to provide this information with respect to the last completed fiscal year, which was fiscal 2000 for both the 2001 Annual Meeting and this Special Meeting.

### REPORT OF THE COMPENSATION COMMITTEE

#### General

The Compensation Committee (the "Committee") sets the base salaries and bonuses (if any) of the Company's executive officers, makes awards and sets goals for certain executive officers under the Annual At Risk Compensation Incentive Program (the "At Risk Program"), and makes awards to executive officers and others under various compensation plans as described below. The Committee consists exclusively of non-employee independent directors, appointed by resolution of the entire Board of Directors. No member of the Committee is permitted to receive any award under any plan administered by the Committee.

The Committee's objective is to set executive compensation at levels which (i) are fair and reasonable to the stockholders, (ii) link executive compensation to long-term and short-term interests of the stockholders, and (iii) are sufficient to attract, motivate, and retain outstanding individuals for executive positions. The executive officers' compensation is linked to the interests of the stockholders by making a significant part of each executive officer's potential compensation depend on the price of the Company's Common Stock on the open market, the Company's earnings per share, and the officer's own performance. The retention of officers is encouraged by making a substantial portion of the compensation package in the form of awards which either increase in value, or only have value, if the executive officer remains with the Company for specified periods of time.

Specific components of executive officers' compensation earned or paid in fiscal 2000 are discussed below. The Company's five most highly compensated executive officers are identified on the Summary Compensation Table on page 13, and are sometimes referred to as the "named executive officers."



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### Base Salary

The Committee annually reviews base salaries for the Company's officers and adjusts them on a calendar year basis and as promotions occur. The Committee generally uses a range of the 50th percentile to the 75th percentile of its survey data as the starting point. The Committee also takes into account an individual's specific responsibilities, experience and effectiveness.

As part of the Committee's effort to emphasize the at risk and incentive portions of executive officer compensation, the base salary of Mr. Kennedy has remained the same since

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calendar 1996. The fiscal 2000 base salaries of the named executive officers are shown on the Summary Compensation Table on page 13 in the "Base Salary" column.

### Annual At Risk Incentive and Bonus

Under the At Risk Program, the Committee makes At Risk Awards which grant for certain named executive officers the opportunity to earn cash payments depending on the achievement of goals set within the first quarter of each fiscal year. Performance goals are both financial (for example, Company earnings per share or subsidiary earnings) and non-financial (for example, customer service).

The Summary Compensation Table on page 13 includes in the "LTIP (Long-Term Incentive Plan) Payouts" column the amounts earned by Messrs. Kennedy and Ackerman in fiscal 2000 under the At Risk Program. These payments are considered by the SEC to be "long-term" incentives because payments are based on the rolling average of performance during the two fiscal years most recently completed. The range of potential At Risk Program awards for fiscal 2000 for Messrs. Kennedy and Ackerman is set out in the Long-Term Incentive Plan Table on page 15.

At Risk Program goals for Mr. Kennedy, as Chief Executive Officer, were a specified level of Company earnings per share (weighted as 75% of the formula) and customer service/other goals (weighted as 25% of the formula). Company earnings per share (exclusive of non-cash asset write downs, non-cash cumulative effect of changes in accounting methods, and certain other special items) must reach a pre-determined target to trigger the maximum annual incentive award to Mr. Kennedy.

In furtherance of the Committee's goal of emphasizing incentive-based compensation for the Company's executive officers, most of the executive officers, including Messrs. Beck, Seeley and Smith were paid amounts as bonuses in December 2000 (for performance in fiscal 2000). These awards were based on the performance of their respective subsidiaries and/or their effectiveness in performing their respective responsibilities. Messrs. Kennedy and Ackerman made recommendations for fiscal 2000 bonuses for the Company's executive officers and other officers which were accepted by the Committee. The Summary Compensation Table on page 13 includes in the "Bonus" column the amount earned by the named executive officers in fiscal 2000 as bonuses. These awards are considered by the SEC to be bonuses because they are based on performance during a single fiscal year. As shown on that table, the Committee awarded to Mr. Kennedy

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performance-based bonuses totaling \$802,890 because the combination of his base salary (frozen at the 1996 level) and maximum At Risk Award (limited to 100% of his base salary) would have left him undercompensated in the Committee's opinion.

### Stock Options, SARs and Restricted Stock

Stock options, stock appreciation rights (SARs) and restricted stock represent the longer-term incentive and retention component of the executive compensation package. In fiscal 2000, the Committee awarded stock options to 94 employees, including the named executive officers. These awards are intended to focus attention on managing the Company from a long-term investor's perspective and encourage officers and other managers to have a significant, personal investment in the Company through stock ownership. Employees are encouraged to retain their stock for long-term investment, rather than sell option shares after receiving them. Awards are made under plans such as the 1997 Award and Option Plan which allow the Committee broad flexibility to use a wide range of stock-based performance awards.

The Committee annually awards SARs and stock options to buy Company Common Stock, both of which have value only to the extent the market price of the Company's Common Stock increases after the date of an award. The Committee also from time to time awards restricted stock, which increases or decreases in value to the same extent as the Company's Common Stock. Dividends are paid on restricted stock and on the shares held for employees (including executive officers) in various employee benefit plans, so executive officers benefit directly from dividends paid on the Company's Common Stock.

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During fiscal 2000, the Committee awarded to each named executive officer options to buy stock in the future at the market price on the award date. The Committee also awarded to Mr. Kennedy and Mr. Ackerman an equal number of SARs with the same exercise price. None of the options or SARs awarded can normally be exercised for at least one year after the award date, and all of them expire no later than 10 years after the award date. Awards to the named executive officers are shown on the Option/SAR Grants in Fiscal 2000 table on page 14.

As a general rule, the Committee uses the prior year's grant as the starting point for determining each subsequent year's grant. The Committee changes the size of grants as (1) participants are promoted to new positions, (2) surveys indicate that stock options should be adjusted, or (3) depending on the Committee's perception of individual and Company performance.

### Benefits Based on Retirement, Death, or Change in Control

Benefits based on retirement, death, or change in control are payable under various arrangements which are applicable to the named executive officers (as well as other core employees). The Committee is not generally authorized to amend such arrangements, but makes recommendations to the Board of Directors to amend such plans.

Neither the Company nor the Committee made any other material changes in any of the plans described in this section, nor any material changes in any of the "miscellaneous minor perquisites and personal benefits" discussed in footnote (1) of the Summary Compensation Table on page 13.

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### Compensation of Chief Executive Officer

The bases for Mr. Kennedy's fiscal 2000 base salary and At Risk Program award, and performance-based bonus, including the Committee's goals and methodology, are discussed earlier in this report under the heading Base Salary and Annual At Risk Incentive and Bonus. The bases for Mr. Kennedy's other fiscal 2000 longer-term incentive awards are discussed earlier in this report under the heading Stock Options, SARs and Restricted Stock.

Based on a survey completed by an independent compensation consulting firm in the first quarter of fiscal 2001, total direct compensation earned by the four principal executive officers of the Company -- Messrs. Kennedy, Ackerman, Smith and Seeley, who became President of National Fuel Gas Supply Corporation on April 1, 2000 -- equated to the 74th percentile of the compensation packages earned by officers in a 12 company peer group selected for the survey. In light of the Company's performance in fiscal 2000, the Committee believes this level of executive compensation is appropriate.

### Policy With Respect to Qualifying Compensation Paid to Executive Officers For Deductibility Under Section 162(m) of the Internal Revenue Code

The Committee intends that, whenever reasonably possible, compensation paid to its managers, including its executive officers, should be deductible for federal income tax purposes. Compensation paid under the At Risk Program qualifies as performance-based compensation under Section 162(m) of the Internal Revenue Code. The Committee may vote to award compensation, especially to a chief executive officer, that is not fully deductible, if the Committee determines that such award is consistent with its philosophy and is in the best interests of the Company and its stockholders.

COMPENSATION COMMITTEE

GEORGE L. MAZANEC, CHAIRMAN

ROBERT T. BRADY

EUGENE T. MANN

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### EXECUTIVE COMPENSATION SUMMARY TABLE

The following table sets forth information with respect to compensation paid by the Company and its subsidiaries for services rendered during the last three fiscal years to the Chief Executive Officer and each of the four other most highly compensated executive officers for the fiscal year ended September 30, 2000 (the "named executive officers").

### SUMMARY COMPENSATION TABLE

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ANNUAL COMPENSATION

LONG TERM C

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NAME AND PRINCIPAL POSITION	FISCAL YEAR	BASE SALARY (\$)	BONUS (\$)	OTHER ANNUAL COMPENSA-TION (\$ (1))	AWARDS	
					RESTRICTED STOCK AWARDS (\$ (2))	SECURITIES UNDERlying OPTIOnS (\$ (3))
Bernard J. Kennedy.....	2000	848,150	802,890	0	0	300
Chairman of the Board	1999	848,150	0	0	241,017	240
of Directors, Chief Executive Officer	1998	848,150	0	0	210,966	300
Philip C. Ackerman.....	2000	570,000	0	0	0	220
President of the Company and President of Certain Subsidiaries	1999	495,000	0	0	32,495	160
	1998	470,000	0	0	0	200
David F. Smith.....	2000	300,000	100,000	0	0	45
President of National Fuel Gas Distribution Corporation	1999	250,750	75,000	0	0	25
	1998	227,750	65,000	0	0	25
Dennis J. Seeley.....	2000	281,500	100,000	0	0	40
President of National Fuel Gas Supply Corporation	1999	238,500	80,000	0	0	25
	1998	228,750	65,000	0	0	25
James A. Beck.....	2000	277,500	100,000	0	111,190	25
President of Seneca Resources Corporation	1999	245,250	0	0	97,875	25
	1998	209,708	25,000	0	92,125	25

(1) Excludes perquisites or personal benefits because, for each named executive officer, the cost to the Company of all such items was less than \$50,000 and less than 10% of that executive's base salary and bonus, if any, for each fiscal year listed.

(2) The dollar values shown in the Restricted Stock Awards column are based on the fair market value of the Company's Common Stock on the date of the restricted stock award. Restricted shares may not be transferred or pledged, but such Company-imposed restrictions lapse with the passage of time and continued employment with the Company.

As of September 30, 2000, the aggregate number of unvested shares of restricted stock held by each named executive officer and the aggregate fair market value of such shares using a closing market price as of September 30, 2000 of \$56.063 are as follows: for Mr. Kennedy, 24,987 shares (\$1,400,846); Mr. Ackerman, 5,214 shares (\$292,312); Mr. Smith, 6,500 shares (\$364,409); Mr. Seeley, 6,500 shares (\$364,409); and Mr. Beck, 7,000 shares (\$392,441). Dividends are paid on all shares of restricted stock.

Mr. Kennedy's restricted stock awards reported in the table may vest, in whole or in part, in under three years from the date of grant, together with their vesting schedule, as follows: For fiscal 1999, 4,925 restricted shares were granted on December 9, 1999 for performance in fiscal 1999. For fiscal 1998, 4,580 restricted shares were granted on December 10, 1998 for performance in fiscal 1998. Vesting restrictions on Mr. Kennedy's fiscal 1999 and fiscal 1998 awards lapse on the first January 15 which occurs after the year in which Mr. Kennedy retires as an officer of the Company. These shares do not vest if both his employment and Directorship with the Company and its subsidiaries terminate for any reason prior to the expiration of vesting restrictions, unless such termination is on account

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of death, disability or retirement.

Mr. Ackerman was awarded 664 shares of restricted stock on December 9, 1999 for performance in fiscal 1999. Vesting restrictions lapse on the first January 15 which occurs after the year in which Mr. Ackerman retires as an officer of the Company. These shares do

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not vest if both his employment and Directorship with the Company and its subsidiaries terminate for any reason prior to the expiration of vesting restrictions, unless such termination is on account of death, disability or retirement.

On December 7, 2000, Mr. Beck was awarded 2,000 shares of restricted stock for performance in fiscal 2000. He was also awarded 2,000 shares of restricted stock on December 9, 1999 for performance in fiscal 1999 and 2,000 shares of restricted stock on December 10, 1998 for performance in fiscal 1998. Vesting restrictions lapse on December 7, 2006, December 9, 2005 and December 10, 2005, respectively. These shares do not vest if Mr. Beck's employment with the Company and its subsidiaries terminates for any reason except death or prior to the expiration of the vesting restrictions.

- (3) In fiscal 2000, the Company paid, contributed or accrued for Messrs. Kennedy, Ackerman, Smith, Seeley and Beck \$0, \$10,000, \$10,000, \$10,000 and \$2,642, respectively, under the Tax-Deferred Savings Plan; \$102,565, \$44,530, \$12,986, \$10,946 and \$1,478, respectively, under the Tophat Plan which pays all participants a sum intended to replace amounts which they will not receive as Company-matching contributions under the Tax-Deferred Savings Plan as a result of tax law limits or other tax considerations; \$0, \$5,254, \$696, \$1,870 and \$0, respectively, under a program that passes through to employees the Company's tax savings associated with payment of dividends on Employee Stock Ownership Plan shares; \$44,408, \$16,780, \$3,884, \$7,641 and \$0, respectively, as above-market interest under the Deferred Compensation Plan (which amount, in the case of Mr. Smith, could be forfeited); and \$117,609, \$56,149, \$38,475, \$25,006 and \$0 respectively, as the dollar value of split-dollar or other life insurance benefits paid for by the Company. In addition, Messrs. Kennedy and Ackerman were paid \$44,039 and \$23,750, respectively to reimburse them for incremental taxes incurred as a result of errors by an ex-employee.

STOCK OPTION GRANT TABLE

The following table sets forth information with respect to options to purchase shares of Common Stock and Stock Appreciation Rights ("SARs") awarded during fiscal 2000 to the named executive officers pursuant to plans approved by the Company's stockholders.

OPTION/SAR GRANTS IN FISCAL 2000 (1)

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INDIVIDUAL GRANTS

NUMBER OF SECURITIES UNDERLYING	PERCENT OF TOTAL OPTIONS/SARS GRANTED TO EMPLOYEES	EXERCISE OR BASE PRICE PER
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GRANT DAT

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NAME	OPTIONS/SARS GRANTED (#)	IN FISCAL YEAR	SHARE (\$/SH)	EXPIRATION DATE	PRESENT VALUE (\$)
Bernard J. Kennedy.....	150,000 options	13.1%	\$42.6563	2/2010	\$1,213,50
	150,000 SARs	13.1%	42.6563	2/2010	1,213,50
Philip C. Ackerman.....	110,000 options	9.6%	42.6563	2/2010	889,90
	110,000 SARs	9.6%	42.6563	2/2010	889,90
David F. Smith.....	45,000 options	3.9%	42.6563	2/2010	364,05
Dennis J. Seeley.....	40,000 options	3.5%	42.6563	2/2010	323,60
James A. Beck.....	25,000 options	2.2%	42.6563	2/2010	202,25

(1) The options and SARs shown on this table were granted under the 1993 and 1997 Award and Option Plans and can be exercised at any time during the nine years preceding the expiration date if the holder remains with the Company. These options and SARs terminate upon termination of employment, except that upon termination of employment for any reason other than discharge for cause or voluntary resignation prior to age 60, most of such options and SARs may be exercised within five years after termination of employment. Payment of the exercise price may be in cash or by tendering shares of Company Common Stock.

(2) This column shows the hypothetical value of these options and SARs according to a binomial option pricing model. The assumptions used in this model for the options granted

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in fiscal 2000 were: quarterly dividend yield of 1.0901%, an annual standard deviation (volatility) of 18.91%, a risk-free rate of 6.86%, and an expected term before exercise of 5.5 years. Whether the assumptions used will prove accurate cannot be known at the date of grant. The model produces a value based on freely tradable securities, which the options and SARs are not. The holder can derive a benefit only to the extent the market value of Company Common Stock is higher than the exercise price at the date of actual exercise.

STOCK OPTION EXERCISES AND FISCAL YEAR-END VALUE TABLE

The following table sets forth as to each named executive officer information with respect to stock option and SAR exercises during fiscal 2000 and the number and value of unexercised options and SARs at September 30, 2000.

AGGREGATED OPTION/SAR EXERCISES IN FISCAL 2000

AND OPTION/SAR VALUES ON SEPTEMBER 30, 2000

NAME	SECURITIES UNDERLYING OPTIONS/SARS EXERCISED (#)	VALUE REALIZED (\$) (1)	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS/SARS AT FISCAL YEAR-END (#)		IN AT EXE
			EXERCISABLE	UNEXERCISABLE	

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Bernard J. Kennedy.....	14,000	364,250	1,344,421	300,000	25,
Philip C. Ackerman.....	22,500	589,922	777,585	220,000	13,
David F. Smith.....	1,135	27,666	94,458	45,000	1,
Dennis J. Seeley.....	8,000	222,852	98,000	40,000	1,
James A. Beck.....	4,779	114,869	100,421	25,000	1,

(1) Market value of stock at exercise less exercise price or base price.

(2) Market value of stock at fiscal year-end less exercise price or base price.

LONG-TERM INCENTIVE PLAN AWARD TABLE

The following table sets forth information with respect to long-term incentive plan awards made during fiscal 2000 to the named executive officers pursuant to the At Risk Program.

LONG-TERM INCENTIVE PLAN -- AWARDS IN FISCAL 2000

NAME	PERFORMANCE PERIOD UNTIL MATURATION	ESTIMATED FUTURE PAYOUTS UNDER NON-STOCK PRICE-BASED PLANS (1)		
		THRESHOLD (\$)	TARGET (\$)	MAXIMUM (\$)
Bernard J. Kennedy.....	2 years ended 9/30/00	0	848,150	848,150
Philip C. Ackerman.....	2 years ended 9/30/00	0	285,000	570,000

(1) This table describes the sole At Risk Program opportunity which was made to executive officers in fiscal 2000 based on the rolling two-year average of performance in fiscal 1999 and fiscal 2000. The actual amounts awarded and paid for fiscal 2000 under the At Risk Program are shown in the Summary Compensation Table on page 13 in the LTIP Payouts column.

REPORT ON REPRICING OF OPTIONS/SARS

The Company did not reprice any stock options or SARs in fiscal 2000. Under the 1997 Award and Option Plan, from which 99% of the current grants are issued, options and SARs can not be repriced after they have been granted.

CORPORATE PERFORMANCE GRAPH

The following graph compares the yearly cumulative stockholder return on the Company's Common Stock against the cumulative total return of the Standard & Poor's 500 Composite Stock Price Index ("S&P 500") and the Standard & Poor's Utilities Index ("S&P Utilities") for a period of five years commencing September 30, 1995, and ended September 30, 2000.

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## COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURNS\*

FISCAL YEARS 1996-2000

### COMPARISON CHART

	NATIONAL FUEL	S&P 500
1995	100.00	100.00
1996	134.00	120.00
1997	167.00	184.00
1998	185.00	169.00
1999	194.00	235.00
2000	239.00	267.00

\* Assumes \$100 invested on September 30, 1995, and reinvestment of dividends.

### EMPLOYMENT CONTRACTS AND TERMINATION OF EMPLOYMENT AND CHANGE-IN-CONTROL AGREEMENTS

Mr. Kennedy entered into an employment agreement with the Company on September 17, 1981, which was most recently extended as of September 1, 1999. The agreement is effective until September 1, 2002, subject to earlier termination in the event of his death or disability. The agreement preserves, as a minimum level of compensation, monthly compensation levels as are in effect from time to time.

Messrs. Ackerman, Beck, Smith and Seeley entered into Employment Continuation and Noncompetition Agreements with the Company dated December 11, 1998 that are to become effective in the event of a defined change of control of the Company. They preserve as a minimum, for the three years following such change of control, the annual salary levels and employee benefits as are then in effect for these executives and provide that, in the event of certain terminations of employment, these executives shall receive severance payments up to 1.99 times their respective annual base salaries and annual bonuses prior to termination. Unless an executive elects not to be bound by the Noncompetition part of the agreement, an additional payment of 1.00 times salary and annual bonus prior to termination will be made. In addition, executives shall receive continuation of certain employee benefits for three years or receipt of the value of such benefits.

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Also, in the event of a defined change in control, these executives shall receive the above-market rate interest on certain deferrals under the Deferred Compensation Plan, which otherwise could have been forfeited. At September 30, 2000, the above-market rate interest account balance for each of the named executive officers were as follows: \$261,969 for Mr. Kennedy, \$106,615 for Mr. Ackerman, \$40,201 for Mr. Smith, \$0 for Mr. Beck and \$49,943 for Mr. Seeley.

### PENSION PLAN TABLE

The following table shows annual 50% joint and survivor life annuity total benefits payable under the Retirement Plan plus the Executive Retirement Plan to



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eligible officers retiring on the later of the normal retirement age of 65 or their current age with a spouse of the same age. Forms of benefit payment other than the 50% joint and survivor life annuity, or retirement at an age earlier than 65, would result in different annual benefits to eligible officers.

REMUNERATION (2) (3)	ESTIMATED ANNUAL RETIREMENT BENEFITS FOR YEARS OF BENEFIT SERVICE CREDITED (1)				
	20	25	30	35	40
\$ 300,000.....	\$ 99,436	\$124,294	\$ 149,153	\$ 165,501	\$ 181,848
700,000.....	237,020	296,275	355,531	394,925	434,319
1,100,000.....	374,605	468,256	561,908	624,349	686,791
1,500,000.....	512,190	640,237	768,285	853,774	1,155,975
1,900,000.....	649,775	812,218	974,662	1,083,198	1,403,530
2,100,000.....	718,567	898,209	1,077,851	1,197,910	1,527,307

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- (1) The service credited for retirement benefit purposes to the officers named in the Summary Compensation Table, as of September 30, 2000, is as follows: Mr. Kennedy, 40 years; Mr. Ackerman, 32 years, 2 months; Mr. Smith, 22 years, 2 months; Mr. Seeley, 35 years, 3 months; Mr. Beck, 10 years, 4 months.
  
  - (2) Compensation covered for retirement benefit purposes differs from the amounts appearing in the three "annual compensation" columns of the Summary Compensation Table on page 14, because the retirement benefits are based on the average of the "annual cash compensation" (including At Risk Awards and some restricted stock) payable for the 60 consecutive month period during the last ten years before retiring which produces the highest average. Accordingly, the current compensation covered by the plans (meaning the average "annual cash compensation" for the 60 months ending September 2000) for each of the named executive officers was: Mr. Kennedy, \$1,692,103; Mr. Ackerman, \$778,419; Mr. Smith, \$307,217; Mr. Seeley, \$303,867; and Mr. Beck, \$261,450.
  
  - (3) Benefits described in this table reflect a partial offset for Social Security benefits.

### NEW PLAN BENEFITS TABLE

The benefits or amounts that will be received or allocated to specific individuals as a result of approval of Proposal 1 are not determinable. For each of the named executive officers and the various indicated groups, the following table shows the benefits or amounts that would have been received by or allocated to them for the last completed fiscal year if the proposed plan amendments had been in effect.

Because Proposal 1 includes the adding of shares to existing plans which have not yet run out of shares, having the plan amendments in effect last year would not have changed the awards that were actually made, which are also included on the following table. However, if the proposed plan amendments had been in effect last year, virtually all SARs outstanding under the 1997 and 1993 Plans would have been converted into stock options, so the following table shows the effect of those conversions as the cancellation of SARs and the issuance of options having the same terms and value of the canceled SARs. All options and SARs are shown before the two-for-one stock split effective September 7, 2001.

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NAME AND POSITION	93 PLAN		97 PLAN	
	DOLLAR VALUE (1)	NUMBER OF UNITS	DOLLAR VALUE (1)	NUMBER OF UNITS
Bernard J. Kennedy.....	\$61,937 (2)	7,656 options (2)	\$ 241,017 (2)	4,925 R
Chairman of the Board and	\$61,937 (2)	7,656 SARs (2)	\$1,151,563 (2)	142,344 op
Chief Executive Officer	(3)	390,568 options (4)	\$1,151,563 (2)	142,344 S
	(3)	(390,568) SARs (4)	(3)	562,344 op
			(3)	(562,344)
Philip C. Ackerman.....	\$0	0 (3)	\$ 32,494 (2)	664 R/
President of the Company	(3)	180,674 options (4)	\$ 889,900 (2)	110,000 op
and	(3)	(180,674) SARs (4)	\$ 889,900 (2)	110,000 S
President of certain			(3)	415,000 op
subsidiaries			(3)	(415,000)
David F. Smith.....	\$0	0	\$ 364,050 (2)	45,000 opt
President of National Fuel				
Gas Distribution				
Corporation				
Dennis J. Seeley.....	\$0	0	\$ 323,600 (2)	40,000 opt
President of National Fuel				
Gas Supply Corporation				
James A. Beck.....	\$0	0	\$ 97,875 (2)	2,000 R
President of Seneca			\$ 202,250 (2)	25,000 opt
Resources Corporation				
All current executive				
officers as a group.....	\$61,937 (2)	7,656 options (2)	\$ 371,386 (2)	7,589 R
	\$61,937 (2)	7,656 SARs (2)	\$3,740,363 (2)	462,344 op
	(3)	571,242 options (4)	\$2,041,463 (2)	252,344 S
	(3)	(571,242) SARs (4)	(3)	977,344 op
			(3)	(977,344)
All non-employee directors				
as a group (7 persons) as				
of July 12, 2001.....	\$0	0	\$0	0
All employees, including all				
current officers who are				
not executive officers, as				
a group.....	\$0 (2)	0 (2)	\$3,383,793 (2)	391,100

(1) This column reflects the dollar value of restricted shares at the fair

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market value at grant date, and the grant date value of stock options and SARs calculated as described in the table "Options/SAR Grants in Fiscal 2000" on page 14 (except as described in footnote (2) below).

- (2) Reflects an award actually made in Fiscal 2000. "R/S" means shares of restricted stock.
- (3) Because each outstanding SAR would have been converted into an option having the same terms as the canceled SAR, the dollar value of the canceled SARs would have been offset by the dollar value of the issued options.
- (4) Reflects the cancellation of SARs and the issuance of options that would have occurred in Fiscal 2000 if the proposed plan amendments had been in effect.

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THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THIS PROPOSAL.

### OTHER BUSINESS

In accordance with applicable law, this Special Meeting of Stockholders may not consider any matters other than those set out in the Notice of Meeting.

### PROPOSALS OF SECURITY HOLDERS

Proposals that security holders intend to present at the 2002 Annual Meeting of Stockholders must be received by the Secretary at the principal offices of the Company no later than September 30, 2001, in order to be considered for inclusion in the Company's proxy statement and proxy for that meeting. Notice of a shareholder proposal submitted outside the processes of SEC Rule 14a-8 under the Securities Exchange Act, for consideration at the 2002 Annual Meeting of Stockholders, shall be considered untimely unless received by the Secretary at the Company's principal office no later than October 10, 2001.

BY ORDER OF THE BOARD OF DIRECTORS

ANNA MARIE CELLINO

Secretary

August 9, 2001

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### EXHIBIT A

NATIONAL FUEL GAS COMPANY  
1997 AWARD AND OPTION PLAN

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### 1. PURPOSE

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

### 2. DEFINITIONS

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

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

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

2.4 "Board" means the Board of Directors of the Company.

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

2.6 "Change in Control" shall be deemed to have occurred at such time as (i) any "person" within the meaning of Section 14(d) of the Exchange Act, other than the Company, a Subsidiary, or any employee benefit plan or plans sponsored by the Company or any Subsidiary, is or has become the "beneficial owner," as defined in Rule 13d-3 under the Exchange Act, directly or indirectly, of twenty percent (20%) or more of the combined voting power of the outstanding securities of the Company ordinarily having the right to vote at the election of directors, or (ii) approval by the stockholders of the Company of (a) any consolidation or merger of the Company in which the Company is not the continuing or surviving corporation or pursuant to which shares of stock of the Company would be converted into cash, securities or other property, other than a consolidation or merger of the Company in which the common stockholders of the Company immediately prior to the consolidation or merger have substantially the same proportionate ownership of common stock of the surviving corporation immediately after the consolidation or merger as immediately before, or (b) any consolidation or merger in which the Company is the continuing or surviving corporation but in which the common stockholders of the Company immediately prior to the consolidation or merger do not hold at least a majority of the outstanding common stock of the continuing or surviving corporation (except where such holders of Common Stock hold at least a majority of the common stock of the corporation which owns all of the Common Stock of the Company), or (c) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all the assets of the Company, or (iii) individuals who constitute the Board on January 1, 1997 (the "Incumbent Board") have ceased for any reason to constitute at least a majority thereof,

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provided that any person becoming a director subsequent to January 1, 1997 whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least three-quarters ( 3/4) of the directors comprising

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the Incumbent Board (either by specific vote or by approval of the proxy statement of the Company in which such person is named as nominee for director without objection to such nomination) shall be, for purposes of this Plan, considered as though such person were a member of the Incumbent Board.

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

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

2.9 "Code" means the Internal Revenue Code of 1986, as amended from time to time.

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

2.11 "Common Stock" means the common stock of the Company.

2.12 "Company" means National Fuel Gas Company.

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

2.14 "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time.

2.15 "Fair Market Value" of a share of Common Stock on any date means the average of the high and low sales prices of a share of Common Stock as reflected in the report of consolidated trading of New York Stock Exchange-listed

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securities for that date (or, if no such shares were publicly traded on that date, the next preceding date that such shares were so traded) published in The Wall Street Journal or in any other publication selected by the Committee; provided, however, that if shares of Common Stock shall not have been publicly traded for more than ten (10) days immediately preceding such date, then the Fair Market Value of a share of Common Stock shall be determined by the Committee in such manner as it may deem appropriate.

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

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Participant's consent, to another place of employment more than 30 miles from the Participant's current place of employment, or (iii) reduction in the Participant's total compensation or benefits or any component thereof, provided in each case that the Participant shall specify the event relied upon for such determination by written notice to the Board at any time within six months after the occurrence of such event.

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

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

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

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

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

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

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

### 3. ADMINISTRATION

The Plan shall be administered by the Committee. The Committee shall have the authority to: (a) interpret the Plan; (b) establish such rules and regulations as it deems necessary for the proper administration of the Plan; (c) select Key Management Employees and Core Employees to receive Awards under the Plan; (d) determine the form of an Award, whether a stock option, stock appreciation right, Restricted Stock, performance unit, performance share, or

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

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#### 4. ELIGIBILITY

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

#### 5. SHARES AVAILABLE

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

(b) Any shares of Common Stock related to Awards which terminate by expiration, forfeiture, cancellation or otherwise without the issuance of such shares, are settled in cash in lieu of Common Stock, or are exchanged with the Committee's permission for Awards not involving Common Stock, shall be available again for grant under the Plan, provided, however, that if dividends or dividend equivalents pursuant to paragraph 14, or other benefits of share ownership (not including the right to vote the shares) have been received by the Participant in respect of an Award prior to such termination, settlement or exchange, the shares which were the subject of the Award shall not again be available for grant under the Plan. Further, any shares of Common Stock which are used by a Participant for the full or partial payment to the Company of the purchase price of shares of Common Stock upon exercise of a stock option, or for any

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withholding taxes due as a result of such exercise, shall again be available for Awards under the Plan. Similarly, shares of Common Stock with respect to which an Alternative SAR has been exercised and paid in cash shall again be available for grant under the Plan. Shares to which independent or combination SARs relate shall not count against the 12,509,100 post-split share limit set forth in this paragraph 5.

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

### 6. TERM

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

### 7. PARTICIPATION

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

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### 8. STOCK OPTIONS

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

(b) Terms and Conditions of Options. Unless the Award Notice provides otherwise, an option shall be exercisable in whole or in part. The price at which Common Stock may be purchased upon exercise of a stock option shall be established by the Committee, but such price shall not be less than the Fair Market Value of the Common Stock on the date of the stock option's grant. The Committee shall not have the authority to decrease such price after the date of the stock option's grant, except for adjustments appropriate to reflect a Common Stock dividend, stock split, reverse stock-split or other combination pursuant to Section 18(a). An Award Notice evidencing a stock option may, in the discretion of the Committee, provide that a Participant who pays the option price of a stock option by an exchange of shares of Common Stock previously owned by the Participant shall automatically be issued a new stock option to purchase additional shares of Common Stock equal to the number of shares of Common Stock so exchanged. Such new stock option shall have an option price equal to the Fair Market Value of the Common Stock on the date such new stock option is issued and shall be subject to such other terms and conditions as the Committee deems appropriate. Unless the Award Notice provides otherwise, each



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incentive stock option shall first become exercisable on the first anniversary of its date of grant, and each non-qualified stock option shall first become exercisable on the first anniversary of its date of grant, or, if earlier (i) on the date of the Participant's death occurring after the date of grant, (ii) six months after the date of grant, if the Participant has voluntarily resigned on or after his 60th birthday, after the date of grant, and before such six months, or (iii) on the date of the Participant's voluntary resignation on or after his 60th birthday and at least six months after the date of grant. Unless the Award Notice provides otherwise, each non-qualified stock option shall expire on the day after the tenth anniversary of its date of grant, and incentive stock options and non-qualified stock options granted in combination may be exercised separately.

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

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

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### 9. STOCK APPRECIATION RIGHTS

(a) Grants and Valuation. Awards may be granted in the form of stock appreciation rights ("SARs") until June 15, 2001. SARs may be granted singly ("Independent SARs"), in combination with all or a portion of a related stock option under the Plan ("Combination SARs"), or in the alternative ("Alternative SARs"). Combination or Alternative SARs may be granted either at the time of the grant of related stock options or at any time thereafter during the term of the stock options. Combination SARs shall be subject to paragraph 9(b) hereof. Alternative SARs shall be subject to paragraph 9(c) hereof. Independent SARs shall be subject to paragraph 9(d) hereof. Unless this Plan or the Award Notice provides otherwise, SARs shall entitle the recipient to receive a payment equal to the appreciation in the Fair Market Value of a stated number of shares of Common Stock from the award date to the date of exercise. Once a SAR has been

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issued, the Committee shall not reprice the SAR by changing the initial Fair Market Value from which the payment is calculated except for adjustments appropriate to reflect a Common Stock dividend, stock split, reverse stock-split or other combination pursuant to Section 18(a). In the case of SARs granted in combination with, or in the alternative to, stock options, the appreciation in value is from the option price of such related stock option to the Fair Market Value on the date of exercise of such SARs. Unless this Plan or the Award Notice provides otherwise, SARs granted in conjunction with stock options shall be Combination SARs, and all SARs shall be exercisable between one year and ten years and one day after the date of their award.

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

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

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

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

(f) Conversion of SARs to Non-Qualified Stock Options. Each unexercised SAR shall be convertible to a non-qualified option to purchase one share of Common Stock, at the option of the Committee and with the consent of the Participant to whom that SAR was awarded (or his successor or assignee). Notwithstanding paragraph 8(b), such an option will have the same exercise price and expiration date as did the converted SAR, and will have the same other terms and conditions as the other non-qualified stock options issued to the same Participant and on the

same day as the converted SAR. A share issued upon exercise of such an option

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will count against the 12,509,100 post-split shares available under paragraph 5(a). For purposes of the limit set forth in paragraph 5(a) that Awards covering no more than 600,000 post-split shares of Common Stock may be granted to a Participant in a fiscal year, the conversion of a SAR into an option in accordance with this paragraph 9(f) will not count as an Award granted in the fiscal year in which the conversion takes place.

### 10. RESTRICTED STOCK

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

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

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

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

### 11. PERFORMANCE UNITS

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

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

### 12. PERFORMANCE SHARES

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

(b) Performance or Service Criteria. Performance shares shall be contingent upon the attainment during a performance period of certain performance or service objectives. The length of the performance period, the performance or service objectives to be achieved, and the extent to which such objectives have been attained shall be conclusively determined by the Committee in the exercise of its absolute discretion. Performance and service objectives

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may be revised by the Committee during the performance period, in order to take into consideration any unforeseen events or changes in circumstances.

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### 13. PAYMENT OF AWARDS

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

### 14. DIVIDENDS AND DIVIDEND EQUIVALENTS

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

### 15. DEFERRAL OF AWARDS

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

### 16. TERMINATION OF EMPLOYMENT

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

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

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pursuant to such incentive stock option, except that:

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

(ii) Upon the death of any Participant while employed with the Company or within the three-month period referred to in paragraph 16(b)(i) above, the Participant's estate or the person to whom the Participant's rights under the incentive stock option are transferred by

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will or the laws of descent and distribution may, within one year after the date of the Participant's death, purchase all or part of any shares of Common Stock which the Participant was entitled to purchase under such incentive stock option on the date of death.

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

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

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

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

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

17. NONASSIGNABILITY

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

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### 18. ADJUSTMENT OF SHARES AVAILABLE

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

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

### 19. WITHHOLDING TAXES

The Company shall be entitled to deduct from any payment under the Plan,

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regardless of the form of such payment, the amount of all applicable income and employment taxes required by law to be withheld with respect to such payment or may require the participant to pay to it such tax prior to and as a condition of the making of such payment. Subject to the administrative guidelines established by the Committee, a Participant may pay the amount of taxes required by law to be withheld from an Award, in whole or in part, by requesting that the Company withhold from any payment of Common Stock due as a result of such Award, or by delivering to the Company, shares of Common Stock having a Fair Market Value less than or equal to the amount of such required withhold8.48%;">

**Total revenues**

**615 054**

**671 195**

**9.1**

**%**

**Employee-related expenses**

**(92 783**

**)**

**(95 253**

)

2.7

%

**Depreciation and amortization**

(114 686

)

(122 249

)

6.6

%

**Payments to other network operators**

(88 587

)

(93 154

)

5.2

%

**Cost of telecommunications equipment sales**

(37 221

)

(59 714

)

60.4

%

**Other operating expenses - net**



(140 023

)

(164 435

)

17.4

%

**Total operating expenses**

(473 300

)

(534 805

)

13.0

%

**Operating profit**

**141 754**

**136 390**

**(3.8**

**)%**

**Net financial expenses**

**(31 501**

**)**

**(25 410**

**)**

**(19.3**

**)%**

**Share of associates' profits**

**330**

**703**

**113.0**

**%**

**Profit before income tax**

**110 583**

**111 683**

1.0

%

**Income tax**

(21 858

)

(23 013

)

5.3

%

**Profit for the period**

88 725

88 670

(0.1

)%

**Attributable to:**

**Equity holders of the Company (Net income)**

78 415

76 659

(2.2

)%

Minority interests

10 310

12 011

16.5

%

88 725

88 670

(0.1

)%

5

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## MAGYAR TELEKOM

## Consolidated

## Balance Sheets - IFRS

(HUF million)	Dec 31, 2005 (Unaudited)	Dec 31, 2006 (Unaudited)	% change	
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	46 060	79 128	71.8	%
Other financial assets	1 817	2 692	48.2	%
Trade and other receivables	95 956	104 016	8.4	%
Current income tax receivable	1 679	6 735	301.1	%
Inventories	8 414	10 460	24.3	%
Assets held for disposal	2 302	6 825	196.5	%
<b>Total current assets</b>	<b>156 228</b>	<b>209 856</b>	<b>34.3</b>	<b>%</b>
<b>Non current assets</b>				
Property, plant and equipment - net	580 736	550 900	(5.1)	)%
Intangible assets - net	319 797	331 740	3.7	%
Associates	5 020	5 771	15.0	%
Deferred taxes	14 966	10 503	(29.8)	)%
Other financial assets	6 201	23 753	283.1	%
<b>Total non current assets</b>	<b>926 720</b>	<b>922 667</b>	<b>(0.4)</b>	<b>)%</b>
<b>Total assets</b>	<b>1 082 948</b>	<b>1 132 523</b>	<b>4.6</b>	<b>%</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Loans from related parties	74 648	74 000	(0.9)	)%
Loans and other borrowings - third party	43 602	29 605	(32.1)	)%
Trade and other payables	119 464	200 589	67.9	%
Current income tax payable	1 472	1 736	17.9	%
Deferred revenue	918	234	(74.5)	)%
Provisions for liabilities and charges	6 817	8 414	23.4	%
<b>Total current liabilities</b>	<b>246 921</b>	<b>314 578</b>	<b>27.4</b>	<b>%</b>
<b>Non current liabilities</b>				
Loans from related parties	212 000	185 432	(12.5)	)%
Loans and other borrowings - third party	14 215	20 697	45.6	%
Deferred revenue	267	170	(36.3)	)%
Deferred taxes	3 189	5 368	68.3	%
Provisions for liabilities and charges	3 141	3 344	6.5	%
Other non current liabilities	5 521	8 560	55.0	%
<b>Total non current liabilities</b>	<b>238 333</b>	<b>223 571</b>	<b>(6.2)</b>	<b>)%</b>
<b>Total liabilities</b>	<b>485 254</b>	<b>538 149</b>	<b>10.9</b>	<b>%</b>

**EQUITY****Shareholders' equity**

<b>Common stock</b>	<b>104 281</b>	<b>104 277</b>	<b>(0.0)</b>	<b>)%</b>
<b>Additional paid in capital</b>	<b>27 382</b>	<b>27 380</b>	<b>(0.0)</b>	<b>)%</b>
<b>Treasury stock</b>	<b>(1 926 )</b>	<b>(1 504 )</b>	<b>(21.9)</b>	<b>)%</b>
<b>Cumulative translation adjustment</b>	<b>(420 )</b>	<b>(1 474 )</b>	<b>251.0</b>	<b>%</b>
<b>Retained earnings and other reserves</b>	<b>398 250</b>	<b>398 567</b>	<b>0.1</b>	<b>%</b>
<b>Total shareholders' equity</b>	<b>527 567</b>	<b>527 246</b>	<b>(0.1)</b>	<b>)%</b>
<b>Minority interests</b>	<b>70 127</b>	<b>67 128</b>	<b>(4.3)</b>	<b>)%</b>
<b>Total equity</b>	<b>597 694</b>	<b>594 374</b>	<b>(0.6)</b>	<b>)%</b>
<b>Total liabilities and equity</b>	<b>1 082 948</b>	<b>1 132 523</b>	<b>4.6</b>	<b>%</b>

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## MAGYAR TELEKOM

## Consolidated

## Cashflow Statements - IFRS

(HUF million)	Year ended Dec 31, 2005 (Unaudited)	2006 (Unaudited)	% change
Operating profit	141 754	136 390	(3.8) %
Depreciation and amortization	114 686	122 249	6.6 %
Change in working capital	(1 588 )	(13 204 )	731.5 %
Interest paid	(31 078 )	(29 876 )	(3.9) %
Bank and other finance charges paid	(3 157 )	(3 604 )	14.2 %
Income tax paid	(11 479 )	(19 392 )	68.9 %
Other cashflows from operations	(7 802 )	(6 557 )	(16.0) %
<b>Net cashflows from operating activities</b>	<b>201 336</b>	<b>186 006</b>	<b>(7.6) %</b>
<b>Cashflows from investing activities</b>			
Purchase of tangible and intangible assets	(103 587 )	(96 992 )	(6.4) %
Purchase of subsidiaries and business units	(35 927 )	(35 367 )	(1.6) %
Cash acquired through business combinations	1 866	379	(79.7) %
Interest received	2 195	2 002	(8.8) %
Dividends received	1 729	157	(90.9) %
Purchase of financial investments - net	(371 )	3 551	n.m.
Proceeds from disposal of non current assets	2 529	6 798	168.8 %
Proceeds from disposal of subsidiaries	0	115	n.a.
<b>Net cashflows from investing activities</b>	<b>(131 566 )</b>	<b>(119 357 )</b>	<b>(9.3) %</b>
<b>Cashflows from financing activities</b>			
Dividends paid to shareholders and minority interest	(84 551 )	(77 )	(99.9) %
Net proceeds of loans and other borrowings	20 734	(35 564 )	n.m.
Other	1 969	491	(75.1) %
<b>Net cashflows from financing activities</b>	<b>(61 848 )</b>	<b>(35 150 )</b>	<b>(43.2) %</b>
Effect of foreign exchange rate changes on cash and cash equivalents	1 259	1 569	24.6 %
<b>Change in cash and cash equivalents</b>	<b>9 181</b>	<b>33 068</b>	<b>260.2 %</b>
Cash and cash equivalents, beginning of period	36 879	46 060	24.9 %
Cash and cash equivalents, end of period	46 060	79 128	71.8 %
<b>Change in cash and cash equivalents</b>	<b>9 181</b>	<b>33 068</b>	<b>260.2 %</b>

## Summary of key operating statistics

GROUP	Dec 31, 2005	Dec 31, 2006	% change	
<b>EBITDA margin</b>	41.7	% 38.5	% n.a.	
<b>Operating margin</b>	23.0	% 20.3	% n.a.	
<b>Net income margin</b>	12.7	% 11.4	% n.a.	
<b>ROA</b>	7.4	% 6.9	% n.a.	
<b>Net debt</b>	296,588	227,914	(23.2)	)%
<b>Net debt to total capital</b>	33.2	% 27.7	% n.a.	
<b>Number of employees (closing full equivalent)</b>	11,919	12,341	3.5	%
<b>FIXED LINE SEGMENT</b>				
	<b>Dec 31, 2005</b>	<b>Dec 31, 2006</b>	<b>% change</b>	
<b>Hungarian fixed line operations</b>				
<b>Fixed line penetration</b>	35.6	% 34.2	% n.a.	
<b>Digitalization of exchanges with ISDN</b>	100.0	% 100.0	% n.a.	
<b>Number of closing lines (1)</b>				
<b>Residential</b>	1,981,876	1,902,011	(4.0)	)%
<b>Business</b>	248,955	236,019	(5.2)	)%
<b>Payphone</b>	22,112	20,517	(7.2)	)%
<b>ISDN channels</b>	500,696	485,290	(3.1)	)%
<b>Total lines</b>	2,753,639	2,643,837	(4.0)	)%
<b>Traffic in minutes (thousands) (1)</b>				
<b>Local</b>	3,282,575	3,284,852	0.1	%
<b>Long distance</b>	1,096,685	1,157,640	5.6	%
<b>Fixed to mobile</b>	747,195	594,743	(20.4)	)%
<b>Domestic outgoing traffic</b>	5,126,455	5,037,235	(1.7)	)%
<b>International outgoing traffic</b>	113,315	98,723	(12.9)	)%
<b>Internet (2)</b>	1,953,968	1,044,782	(46.5)	)%
<b>Total outgoing traffic</b>	7,193,738	6,180,740	(14.1)	)%
<b>Data products</b>				
<b>ADSL lines</b>	329,314	512,810	55.7	%
<b>Number of Internet subscribers</b>				
<b>Dial-up</b>	80,938	31,401	(61.2)	)%
<b>Leased line</b>	751	656	(12.6)	)%
<b>DSL</b>	218,954	336,181	53.5	%
<b>W-LAN</b>	1,467	1,175	(19.9)	)%
<b>CATV</b>	26,425	57,587	117.9	%
<b>Total Internet subscribers</b>	328,535	427,000	30.0	%
<b>Market share in the dial-up market (estimated)</b>	42	% 39	% n.a.	
<b>Managed leased lines (Flex-Com connections) (1)</b>	10,289	9,165	(10.9)	)%
<b>Cable television customers</b>	403,631	414,286	2.6	%
<b>Total broadband Internet access (3)</b>	357,957	572,228	59.9	%
<b>International fixed line operations</b>				
<b>Macedonian fixed line penetration</b>	26.0	% 23.9	% n.a.	
<b>Number of closing lines</b>				
<b>Residential</b>	467,559	430,082	(8.0)	)%
<b>Business</b>	48,252	42,780	(11.3)	)%
<b>Payphone</b>	2,063	2,087	1.2	%
<b>ISDN channels</b>	41,262	42,200	2.3	%
<b>Total Macedonian lines</b>	559,136	517,149	(7.5)	)%
<b>Macedonian traffic in minutes (thousands)</b>				
<b>Local</b>	1,368,786	1,196,762	(12.6)	)%

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<b>Long distance</b>	201,206	176,964	(12.0)	)%
<b>Fixed to mobile</b>	139,203	123,032	(11.6)	)%
<b>Domestic outgoing traffic</b>	1,709,195	1,496,758	(12.4)	)%
<b>International outgoing traffic</b>	31,557	27,455	(13.0)	)%
<b>Internet</b>	207,213	179,338	(13.5)	)%
<b>Total outgoing Macedonian traffic</b>	1,947,965	1,703,551	(12.5)	)%
<b>Data products (Macedonia)</b>				
<b>ADSL lines</b>	7,798	16,462	111.1	%
<b>Number of Internet subscribers</b>				
<b>Dial-up</b>	83,930	109,096	30.0	%
<b>Leased line</b>	137	141	2.9	%
<b>DSL</b>	7,798	16,462	111.1	%
<b>Total Internet subscribers</b>	91,865	125,699	36.8	%
<b>Market share in the dial-up market (estimated)</b>	81	% 94	% n.a.	

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<b>Montenegrin fixed line penetration</b>	31.2	% 31.4	% n.a.	
<b>Number of closing lines</b>				
<b>PSTN lines</b>	175,122	173,248	(1.1)	)%
<b>ISDN channels</b>	18,750	21,288	13.5	%
<b>Total Montenegrin lines</b>	193,872	194,536	0.3	%
<b>Montenegrin traffic in minutes (thousands)</b>				
<b>Local</b>	301,927	313,854	4.0	%
<b>Long distance</b>	126,024	126,676	0.5	%
<b>Fixed to mobile</b>	42,206	39,090	(7.4)	)%
<b>Domestic outgoing traffic</b>	470,157	479,620	2.0	%
<b>International outgoing traffic</b>	12,662	13,138	3.8	%
<b>Internet</b>	385,264	361,201	(6.2)	)%
<b>Total outgoing Montenegrin traffic</b>	868,083	853,959	(1.6)	)%
<b>Data products (Montenegro)</b>				
<b>ADSL lines</b>	1,085	6,639	511.9	%
<b>Number of Internet subscribers</b>				
<b>Prepaid</b>	25,594	25,669	0.3	%
<b>Leased line</b>	117	121	3.4	%
<b>DSL</b>	1,085	6,639	511.9	%
<b>Total Internet subscribers</b>	26,796	32,429	21.0	%
<b>Market share in the dial-up market (estimated)</b>	96	% 98	% n.a.	

(1) Magyar Telekom Plc. + Emitel (100% owned by Magyar Telekom Plc.)

(2) Internet minutes include traffic both on analog lines (reported earlier as local traffic) and on ISDN lines (not reported earlier as traffic minutes)

(3) Includes ADSL lines operated by Magyar Telekom Plc. and Emitel plus T-Online Hungary's broadband customers (other than the ADSL purchased from Magyar Telekom)

MOBILE SEGMENT	Dec 31, 2005	Dec 31, 2006	% change	
<b>Hungarian mobile operations</b>				
<b>Mobile penetration</b>	92.4	% 99.0	% n.a.	
<b>Market share of T-Mobile Hungary</b>	45.0	% 44.5	% n.a.	
<b>Number of customers (RPC)</b>	4,193,855	4,431,136	5.7	%
<b>Postpaid share in the RPC base</b>	31.6	% 34.9	% n.a.	
<b>MOU</b>	127	142	11.8	%
<b>ARPU</b>	4,832	4,800	(0.7)	)%
<b>Overall churn rate</b>	18.5	% 17.9	% n.a.	
<b>Postpaid</b>	10.4	% 9.9	% n.a.	
<b>Prepaid</b>	22.0	% 21.9	% n.a.	
<b>Enhanced services within ARPU</b>	621	667	7.4	%
<b>Average acquisition cost (SAC) per customer</b>	7,062	6,234	(11.7)	)%
<b>International mobile operations</b>				
<b>Macedonian mobile penetration</b>	61.3	% 68.3	% n.a.	
<b>Market share of T-Mobile Macedonia</b>	69.2	% 66.5	% n.a.	
<b>Number of customers (RPC)</b>	877,142	944,530	7.7	%
<b>Postpaid share in the RPC base</b>	15.9	% 18.8	% n.a.	

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<b>MOU</b>	63	72	14.3	%
<b>ARPU</b>	3,065	3,206	4.6	%
<b>Montenegrin mobile penetration</b>	78.6	% 129.8	% n.a.	
<b>Market share of T-Mobile Crna Gora</b>	42.7	% 41.2	% n.a.	
<b>Number of customers (RPC) (4)</b>	208,094	331,616	59.4	%
<b>Postpaid share in the RPC base</b>	15.0	% 14.6	% n.a.	
<b>MOU</b>	127	127	0.0	%
<b>ARPU</b>	3,745	3,858	3.0	%

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(4) In October 2006, prepaid voucher lifecycle was extended from 3 to 11 months in Montenegro, resulting in increase in the number of prepaid RPC

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**Analysis of the Financial Statements**

**for the year ended December 31, 2006**

**Exchange rate information**

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The Euro weakened by 0.2% against the Hungarian Forint year on year (from 252.73 HUF/EUR on December 31, 2005 to 252.30 HUF/EUR on December 31, 2006). The average HUF/EUR rate increased from 248.05 in 2005 to 264.27 in 2006.

The U.S. Dollar depreciated by 10.3% against the Hungarian Forint year on year (from 213.58 HUF/USD on December 31, 2005 to 191.62 HUF/USD on December 31, 2006).

### **Analysis of group income statements**

Crnogorski Telekom's balance sheet was consolidated in our accounts as of March 31, 2005, while its results are included in our consolidated income statement from the second quarter of 2005. As a result, changes in group revenue and expense lines are partly explained by that we consolidated 9 months results of Crnogorski Telekom in 2005, while the full year results were consolidated in 2006.

As previously disclosed, Magyar Telekom (the Company) is still investigating certain contracts to determine whether they were entered into in violation of Company policy or applicable law or regulation.

In the course of conducting their audit of our 2005 financial statements, PricewaterhouseCoopers Könyvvizsgáló és Gazdasági Tanácsadó Kft. (PwC) identified certain contracts the nature and business purposes of which were not readily apparent. PwC notified the Audit Committee of the Supervisory Board (the Audit Committee) and advised them to retain independent counsel to conduct an investigation into these contracts. Our Audit Committee retained the law firm of White & Case LLP (White & Case), as its independent legal counsel, to conduct the investigation. Based on the documentation and other evidence obtained by it, the White & Case investigation has preliminarily concluded that it was unable to determine a proper business purpose for four consulting contracts entered into by the Company and two of its subsidiaries in 2005, and further found that certain employees had destroyed evidence that was relevant to the investigation. We have taken and are taking remedial measures to address weaknesses in our control environment that were revealed by the investigation.

The investigation delayed the finalization of our 2005 financial statements, and as a result we and some of our subsidiaries have failed and may fail to meet certain deadlines prescribed by applicable laws and regulations for preparing and filing audited annual results and holding annual general meetings. We have to date been fined HUF 13 million as a consequence of these delays and additional fines could be imposed in the future.

See our press release dated December 21, 2006 for further details on this investigation.

Magyar Telekom ( MT ) incurred HUF 4.1 bn expenses relating to the investigation in 2006, which are included in other operating expenses net in the Hungarian fixed line operations.

Although the investigation has not been finalized, based on the independent investigators findings and conclusions to date, the contracts under investigation were entered into without full compliance with internal company procedures regarding the entry of such contracts. Moreover, sufficient evidence could not be obtained that adequate value was received under these contracts. In its preliminary 2005 results announcement Magyar Telekom capitalized HUF 1.1 bn payments made related to two of these contracts. As a result of the findings of the investigation, Magyar Telekom changed the accounting treatment of these contracts and expensed this amount, as well as the related HUF 0.2 bn potential tax obligation, increasing other operating expenses in 2005 by HUF 1.3 bn.

After the publication of the preliminary results, the Supreme Court revised the original decision of the court in September 2005 regarding the Universal Telecommunications Support Fund and the related obligations of T-Mobile Hungary. Although the impacts were reported in the 2006 quarterly financial statements, the changes related to 2005. Hence, the related receivables, liabilities and tax balances, as well as operating expenses and tax expense have been adjusted in the 2005 financial statements. As a result, the 2005 consolidated operating profit of Magyar Telekom decreased by HUF 0.4 bn compared to the preliminary results released in our 4Q05 flash report.

Magyar Telekom has voluntarily changed its accounting policy with regard to the classification of the local business tax and the innovation contribution considering the decision of the European Court of October 3, 2006 in the case of the Italian local tax also in light of the IFRIC rejection wording issued in March 2006. Accordingly, the tax charges have been reclassified to the income tax line of the profit and loss statement instead of other operating expenses. Magyar Telekom believes to provide better information on the effective tax charges on income to the readers of the financial statements as a result of the revised classification of the above taxes. As this is considered as a voluntary change in accounting policy for better presentation, the change had to be carried out retrospectively. As a result, 2005 other operating expenses decreased and income tax line increased by HUF 8.4 bn with no effect on net income. In 2006, the related taxes at the income tax line amounted to HUF 8.5 bn.

Further, due to a change in IAS 39, effective from January 2006, MT had to change its accounting policy retrospectively and restate its 2005 comparatives with respect to the fair valuation of its shares in CKB, a Montenegrin Bank sold to OTP in 2006. This resulted in minor changes in Financial expenses, Tax and Minority interest having a HUF 149 million negative impact on the 2005 Net income, reversing in 2006.

MT has reassessed its status in the provision of a number of value added services, where so far we accounted for revenue on a gross basis implying a principal status rather than an agent status in the provision of the service. A gross basis means that revenues included the full amount of fees collected from customers, and outpayments to related service providers were included in operating expenses. After analyzing the relationships with our subcontractors one by one, we have changed our judgment of the situation in some cases, and now we assess that in these cases MT is more the selling agent of these products than the principal provider of the service, from an IFRS accounting point of view. This had a decreasing impact on the fixed line Value added, cable voice and other services



revenues and the mobile Enhanced services revenues as well as on subcontractor payments in Other operating expenses - net . The change only meant netting between revenues and expenses; it had no impact on either operating profit or net income. These services change year to year: certain services that were justifiably disclosed gross are running out and new services may be identified as an agent s service, such as the motorway sticker sales in 2006. The contractual terms of a given service may change from period to period, and the principal / agent status is always dependent on the particulars of a given contract.

## Revenues

Fixed line voice-retail revenues decreased by 7.8% in 2006 compared to the previous year, mainly driven by lower domestic outgoing traffic revenues at Magyar Telekom Plc. due to wider use of flat-rate packages and decreased customer base resulting mainly from competition and mobile substitution.

Subscription fees showed an increase as subscription revenue from customized and supplementary packages at Magyar Telekom Plc. generated higher revenues as higher proportion of our customers chose such packages. The increase in subscription fee revenues was helped by Maktel due to favorable foreign exchange movement and higher tariffs as tariff rebalancing occurred in August 2005. The positive effect of the consolidation of T-Com CG s full year revenues in 2006 also appears on this revenue line. These increases were partly offset by decreased ISDN subscription revenues resulting from lower average number of customers and lower prices in Hungary.

Domestic outgoing fixed line traffic revenues in 2006 amounted to HUF 69.7 bn compared to HUF 87.5 bn in 2005. Domestic outgoing traffic revenues decreased due to lower average per minute fees and loss of fixed line customers mainly owing to competition from other fixed line service providers and mobile substitution. Both Magyar Telekom Plc. and Emitel offered several price discounts to customers choosing different tariff packages. Customized tariff packages represented 83.4% of the lines at Magyar Telekom Plc. at December 31, 2006. The most popular of these packages are the Favorit packages and the Felezó (Halving) package. Domestic outgoing traffic revenues also decreased at Maktel primarily due to lower usage. The consolidation of T-Com CG s full year revenues in 2006 partly offset these decreases.

International outgoing fixed line traffic revenues decreased by 8.0%, from HUF 11.2 bn in 2005 to HUF 10.3 bn in the same period of 2006. This decrease is mainly due to decreased outgoing minutes at Magyar Telekom Plc. Outgoing international traffic revenues also decreased at Maktel as a result of lower volume of minutes and decreased prices. The consolidation of T-Com CG s revenues in 2006 partly offset these decreases.

Voice-wholesale revenues increased by 12.2% in 2006 compared to 2005 driven by higher international incoming traffic revenues.

Domestic incoming fixed line traffic revenues for the year ended December 31, 2006 decreased by 4.2% compared to the same period in 2005. Traffic revenues from LTOs decreased at Magyar Telekom Plc. due to the application of the new RIO prices based on NHH decision from June 2006, also applied retrospectively since September 2005. Revenues from call origination and call termination also declined owing to lower RIO

fees, partly offset by higher volume of traffic. Incoming revenues from mobile operators showed a decrease at Maktel resulting from lower interconnection prices of international calls. These decreases were somewhat offset by the additional revenue resulting from the consolidation of T-Com CG.

International incoming fixed line traffic revenues increased to HUF 19.6 bn for the year ended December 31, 2006 compared to HUF 16.0 bn for the same period in 2005. International incoming revenues increased mainly at Maktel due to the 28.6% higher international incoming minutes resulting from the restricted illegal VoIP traffic and, to a lesser extent, the favorable foreign exchange movements. The higher international incoming revenue was also due to the inclusion of T-Com CG's full year revenues. International incoming traffic revenues are also higher at Magyar Telekom Plc. due to the increased volume of international incoming traffic and higher HUF/EUR exchange rate, partly offset by lower average settlement rates. Higher traffic terminated in Magyar Telekom Plc. and LTO areas was only partly offset by lower mobile terminated international traffic transited by Magyar Telekom Plc. (due to migrations of international calls to mobile networks).

Internet revenues of the fixed line operations grew significantly to HUF 49.7 bn in 2006 compared to HUF 39.8 bn in last year. This growth was due to the strong increase in the number of ADSL, Internet and cable TV subscribers in the Hungarian fixed line operations. The number of ADSL subscribers of Magyar Telekom Plc. and Emitel grew to 512,810 by December 31, 2006 (from 329,314 a year earlier) and the number of T-Online Internet connections grew by 30.0% to 427,000 compared to the previous year. The proportion of higher revenue generating broadband Internet customers grew significantly within the customer base, which also contributed to the revenue growth. By the end of 2006, the total number of our broadband connections exceeded 572,000 in our Hungarian fixed line operations. The number of ADSL and Internet subscribers also significantly increased in our foreign subsidiaries.

Data revenues grew by 1.2% to HUF 27.1 bn in 2006 compared to 2005. The increase is mainly driven by higher broadband data retail revenues (mainly HSSL) and higher broadband IP revenue at Magyar Telekom Plc. The inclusion of T-Com CG and Orbitel revenues also contributed to the increase. These increases were partly offset by lower narrowband retail revenues at Magyar Telekom Plc.

System Integration ( SI ) and IT revenues increased significantly, by 73.5% compared to last year and reached HUF 24.7 bn in 2006, which resulted mainly from the consolidation of KFKI and Dataplex revenues since their acquisitions in 2006. The increased number of SI/IT service projects at Magyar Telekom Plc. and BCN also had positive effects on revenues. The most significant projects are the outsourcing services provided to E.ON and Erste Bank, set-up of low current systems as well as SI and IT solutions provided to the Hungarian government (E-Közmű).

Multimedia revenues amounted to HUF 17.5 bn in 2006 as compared to HUF 15.0 bn in 2005. The increase is mainly due to the growth in cable TV revenues resulting from the increase in average number of cable TV subscribers in Hungary and price increases effective from January 1, 2006.

Revenues from fixed line equipment sales decreased to HUF 4.2 bn for the year ended December 31, 2006 compared to HUF 5.2 bn for the same period in 2005. Equipment

sales revenue decrease is due to lower rental fees of telecommunications equipment and decreased PBX charges at Magyar Telekom Plc.

Other fixed line revenues decreased by 5.0% and amounted to HUF 9.6 bn in 2006. Other revenues include construction, maintenance, rental, wholesale infrastructure service and miscellaneous revenues.

Revenues from mobile telecommunications services amounted to HUF 327.3 bn for the year ended December 31, 2006 compared to HUF 285.8 bn for the same period in 2005 (a 14.5% increase). The increase in mobile revenues was mainly due to Pro-M PrCo. Ltd. s ( Pro-M ) operations. Pro-M s EDR activities contributed HUF 18.0 bn to total mobile revenues and a similar amount to cost of equipment sales. From the second quarter of 2005, the consolidated revenues of T-Mobile CG, our Montenegrin mobile operator positively affected the revenues from mobile operations. T-Mobile CG generated HUF 12.2 bn revenues in 2006, compared to HUF 7.9 bn in 2005 (from April 1 to December 31). As of December 31, 2006, T-Mobile CG had more than 330,000 customers compared to about 208,000 a year earlier.

Within mobile telecommunications services, voice traffic revenues represent the largest portion of revenues. It increased by 6.2% and amounted to HUF 216.7 bn in 2006. Its growth was mainly driven by the inclusion of T-Mobile CG as well as the improved voice traffic revenues of T-Mobile Macedonia. The traffic revenue generated by T-Mobile Hungary s customers increased as well, mainly due to the higher MOU. TMH s average usage per customer per month measured in MOU increased by 11.8% from 127 minutes in 2005 to 142 minutes in 2006. TMH s monthly average revenue per user ( ARPU ) decreased by 0.7% from HUF 4,832 in 2005 to HUF 4,800 in 2006, mainly as a result of lower average per minute fees.

While the growth of mobile penetration has slowed down in Hungary, TMH still maintains its leading position with 44.5% market share. TMH s average customer base increased by 4.7% year over year. The proportion of postpaid customers increased to 34.9% at December 31, 2006 from 31.6% a year earlier as a number of the prepaid customers migrated to more favorable, for example flat-rate postpaid packages.

The increase in revenues from mobile telecommunications services at T-Mobile Macedonia reflects primarily the weaker average HUF against the MKD. Higher revenues were also supported by higher average number of mobile customers and higher MOU, partly offset by lower per minute rates. The number of T-Mobile Macedonia customers increased by 7.7% and reached 944,530 at December 31, 2006. T-Mobile Macedonia s average usage per customer per month measured in MOU increased by 14.3% from 63 minutes in 2005 to 72 minutes in 2006.

Mobile equipment sales revenues showed an increase in 2006 compared to last year due to the increase in TMH s revenues reflecting higher gross additions and higher average handset prices.

## Operating Expenses

Employee-related expenses in 2006 amounted to HUF 95.3 bn compared to HUF 92.8 bn in 2005 (an increase of 2.7%). The increase is mainly due to the inclusion of new subsidiaries (such as Pro-M, Dataplex, KFKI). Expenses increased at Crnogorski Telekom resulting from the severance provision recognized in connection with the headcount reduction program and also from higher severance expenses of Magyar Telekom Plc. in 2006. The group headcount number increased from 11,919 on December 31, 2005 to 12,341 on December 31, 2006.

The increase in employee-related expenses was partly offset by lower expenses at Maktel reflecting higher severance payments to employees in 2005.

Depreciation and amortization increased by 6.6% to HUF 122.2 bn in 2006 from HUF 114.7 bn in last year. The increase in depreciation is mainly driven by the consolidation of Crnogorski Telekom and by the impairment of the Monet, TCG and Internet CG brandnames in connection with the rebranding in Montenegro in September 2006. In addition, depreciation increased at T-Mobile Hungary due to the capitalized UMTS concession and also due to their higher gross asset base of telecommunications and IT equipment.

Payments to other network operators reached HUF 93.2 bn in 2006 compared to HUF 88.6 bn in 2005. The growth was mainly related to TMH's higher domestic mobile outpayments due to higher mobile penetration and increased traffic. With the introduction of flat-rate packages the proportion of calls to other mobile service providers increased, resulting in higher outpayments at T-Mobile Hungary. The inclusion of Crnogorski Telekom and Orbitel expenses also contributed to the increase. International outpayments also increased at Magyar Telekom Plc. driven by the weaker average HUF against the EUR, partly compensated by lower average settlement rates and decrease in traffic. These increases were partly offset by significantly lower mobile outpayments at Magyar Telekom Plc., due to lower traffic and lower fixed to mobile termination rates. Magyar Telekom Plc.'s outpayments to LTOs decreased as well due to lower RIO fees applied retrospectively.

The cost of telecommunications equipments in 2006 was HUF 59.7 bn compared to HUF 37.2 bn in 2005. The strong increase is mainly due to Pro-M. Higher cost of equipment sales at Magyar Telekom Plc. resulted from various network construction and system integration tenders. The increase in TMH's cost of equipment sales was driven by higher gross additions and higher average cost of phonesets, partly compensated by lower equipment sales ratio. Higher sales at BCN as well as the inclusion of Orbitel and KFKI also contributed to the increase.

Other operating expenses - net increased by 17.4% year over year. Other operating expenses include materials, maintenance, marketing, service fees, outsourcing expenses, energy and consultancy. Increase in other operating expenses is due to higher fees for outsourcing services (for example real estate management, transportation, customer service and informatics) as well as higher expenses in connection with various projects. The significant increase in materials and maintenance fees was driven by the consolidation of new subsidiaries such as Dataplex and KFKI. In 2006, higher concession fees were due to the UMTS fee paid by TMH and owing to increased frequency fees at T-Mobile Macedonia. Non-rebranding related marketing expenses increased significantly as well at Magyar Telekom Plc., due to more intensive advertising activity in 2006. Other operating

expenses - net include a HUF 4.1 bn one-off item, which includes the expenses Magyar Telekom incurred relating to the ongoing investigation.

### **Operating Profit**

Operating margin for the year ended December 31, 2006 was 20.3%, while operating margin for the same period in 2005 was 23.0%. The decrease is due to the fact that in percentage terms the increase in expenses was higher than the growth in revenues.

### **Net financial expenses**

Net financial expenses amounted to HUF 25.4 bn in 2006 compared to HUF 31.5 bn in 2005. Net financial expenses decreased mainly due to decrease in HUF interest expenses in line with lower average HUF interest rates. In addition, Magyar Telekom did not have to take loans for dividends in 2006, as no dividends were paid due to the delayed acceptance of the 2005 financial statements. The proportion of loan portfolio with variable interest rates was higher than a year earlier. Higher interest and other financial income at Crnogorski Telekom (the sale of CKB s shares in December 2006), T-Mobile Macedonia and Pro-M also caused favorable changes in net financial expenses. The increase in Magyar Telekom Plc. s foreign exchange gains was owing to the strengthening of the HUF this year. Net financial expenses were negatively hit by higher foreign exchange losses at Maktel resulting from the unfavorable movements of the MKD against the USD. Net financial expenses included HUF 0.3 bn net FX loss, HUF 27.3 bn interest expense, HUF 2.8 bn other financial expenses and HUF 5.0 bn interest and other financial income in 2006.

### **Share of associates profits**

Share of associates profits amounted to HUF703 million for the year ended December 31, 2006 compared to HUF 330 million for the same period in 2005. Higher profit is mainly due to the improving performance of T-Systems Hungary.

### **Income tax**

Income tax expense increased from HUF 21.9 bn in 2005 to HUF 23.0 bn in 2006 mainly due to the deferred tax recognized in relation to withholding tax on future dividends based on the undistributed reserves of Maktel and Crnogorski Telekom.

### **Minority interests**

Minority interests in 2006 amounted to HUF 12.0 bn compared to HUF 10.3 bn in 2005. The increase mainly results from the good performance and longer consolidation period of Crnogorski Telekom and T-Mobile Macedonia.

### **Analysis of group balance sheets**

Total assets and total shareholders' equity and liabilities as of December 31, 2005 were HUF 1,083 bn. Total assets and total shareholders' equity and liabilities amounted to HUF 1,133 bn as of December 31, 2006.

### **Cash and cash equivalents**

Cash and cash equivalents increased from HUF 46.1 bn at December 31, 2005 to HUF 79.1 bn at December 31, 2006, mainly due to high amount of cash accumulated at the Macedonian and Montenegrin subsidiaries. As the financial statements of Maktel have not been approved yet (due to the ongoing investigation at Magyar Telekom Group), Maktel could not pay dividend in 2006.

### **Loans and other borrowings**

The current portion of loans and other borrowings decreased by 12.4% from December 31, 2005 to HUF 103.6 bn at December 31, 2006. Non current loans and other borrowings decreased by 8.9% from December 31, 2005 to HUF 206.1 bn at December 31, 2006. These decreases in the loan portfolio reflect that in 2006 Magyar Telekom Plc. did not pay dividend for the year 2005 and the excess cash was used to repay loans.

At December 31, 2006, almost 100% of the loan portfolio was HUF denominated. At the end of the year, 2006 38.9% of the loans bore floating interest rates. The gearing ratio defined as net debt divided by net debt plus total equity was 27.7% at December 31, 2006 compared to 33.2% a year earlier.

### **Trade and other payables**

Trade and other payables increased from HUF 119.5 bn as of December 31, 2005 to HUF 200.6 bn as of December 31, 2006. This significant increase is mainly due to the HUF 76 bn dividend payable to Magyar Telekom Plc. shareholders as approved on the Extraordinary General Meeting on December 21, 2006.

### **Analysis of group cashflow**

Net cashflows from operating activities decreased by 7.6% compared to the previous year and amounted to HUF 186,006 million in 2006 due to strong increase in working capital requirements (mainly due to Pro-M) and increased amount of income tax paid, partly offset by higher EBITDA.

Net cash outflow for investing activities amounted to HUF 119,357 million in 2006, while it was HUF 131,566 million in 2005. This decrease in cash outflow is predominantly due to the combined effect of the lower cash outflow for capital expenditures, the higher amounts of proceeds from disposal of real estate and from the sale of financial assets, partly offset by lower amount of dividends received.

Net cashflows from financing activities amounted to minus HUF 61,848 million in 2005 compared to minus HUF 35,150 million in the same period of 2006. While during 2005,

Magyar Telekom took a net HUF 20,734 million loan (mainly in connection with the acquisition of Crnogorski Telekom) and paid HUF 84,551 million dividend, in 2006 it repaid a net HUF 35,564 million loan as Magyar Telekom Plc. and Maktel did not pay dividends in 2006.

### Analysis of segment results

Magyar Telekom divides its two business segments (fixed line and mobile) into Hungarian and international operations, thus the segment reporting information below presents these four activities. The sum of the financial results of the four operations presented below does not equal to the group financial results because of intra- and intersegment eliminations.

#### **Hungarian fixed line operations**

Hungarian fixed line operations include Magyar Telekom Plc. and its Hungarian subsidiaries, other than its mobile operations, T-Mobile Hungary and Pro-M.

HUF millions	Year ended Dec 31, 2005	Year ended Dec 31, 2006	Change (%)
Voice - retail revenues	162,155	143,350	(11.6 )
Voice - wholesale revenues	18,479	18,161	(1.7 )
Internet	37,234	45,801	23.0
Other revenues	67,117	84,881	26.5
Total revenues	284,985	292,193	2.5
EBITDA before restructuring charges	108,313	97,261	(10.2 )
EBITDA	106,559	94,525	(11.3 )
Operating profit	45,269	32,128	(29.0 )
Property, plant and equipment	358,568	336,623	(6.1 )
Intangible assets	38,003	52,467	38.1
Gross additions to tangible and intangible fixed assets	45,533	43,115	(5.3 )

*EBITDA = Earnings before net interest and other charges, taxes, depreciation and amortization*

Revenues from the Hungarian fixed line operations increased only by 2.5% year over year, however the proportion of revenue elements changed significantly. On the one hand Internet and other revenues increased by HUF 26.3 bn, on the other hand voice retail and voice wholesale revenues decreased by HUF 19.1 bn. The domestic outgoing fixed voice business experienced a decline mainly due to price discounts and due to loss of lines reflecting the effect of strong competition and mobile substitution. The netting of certain value added services revenues with related subcontractors' outpayments also contributed to the fixed line retail voice revenue decrease. International outgoing traffic revenues decreased as well, due to lower outgoing traffic. Lower incoming traffic revenues resulted mainly from the application of the new lower RIO prices. This decrease in domestic incoming traffic was partly offset by higher international incoming traffic revenues due to

higher traffic and the weaker average HUF against EUR, partly offset by lower international average settlement rates. Internet revenues increased by 23.0% in 2006 compared to 2005 driven by strong volume increases in the number of ADSL, Internet and cable TV customers. Other revenues also showed a significant growth mainly due to IT service revenues from various projects as well as higher cable TV revenues.

Operating profit of the Hungarian fixed line operations decreased by 29.0%. While total revenues increased only by 2.5%, operating expenses increased by 8.5% mainly owing to higher other operating expenses net, cost of equipment sales and employee-related expenses. These negative effects were partly offset by lower payments to other network operators.

### International fixed line operations

International fixed line operations include our foreign subsidiaries, other than T-Mobile Macedonia and T-Mobile CG.

HUF millions	Year ended	Year ended	Change (%)
	Dec 31, 2005	Dec 31, 2006	
Voice - retail revenues	35,922	38,833	8.1
Voice - wholesale revenues	12,299	17,084	38.9
Internet	2,703	4,045	49.6
Other revenues	7,059	8,991	27.4
Total revenues	57,983	68,953	18.9
EBITDA before restructuring charges	22,347	27,502	23.1
EBITDA	19,565	24,169	23.5
Operating profit	8,961	11,492	28.2
Property, plant and equipment	79,185	74,136	(6.4)
Intangible assets	20,420	20,743	1.6
Gross additions to tangible and intangible fixed assets	7,519	6,530	(13.2)

*EBITDA = Earnings before net interest and other charges, taxes, depreciation and amortization*

From the second quarter of 2005, the consolidation of Crnogorski Telekom's fixed line operation had significant effect on the results of the international fixed line operations. T-Com CG's revenue reached HUF 9.9 bn with an operating profit of HUF 1.0 bn and HUF 4.7 bn EBITDA in the 2006. The closing number of fixed line employees was 983 on December 31, 2006.

All revenues and expenses of Maktel were affected by the 6.4% higher average HUF/MKD exchange rates.

Higher subscription revenues at Maktel in 2006 resulted from the higher tariffs, partly offset by the lower average number of customers. The total number of fixed line subscribers at Maktel decreased by 7.5% to 517,149 at December 31, 2006. Domestic outgoing traffic revenues decreased mainly due to usage decrease. Lower international



outgoing traffic revenues resulted from decreased volume of traffic and lower prices. International incoming traffic revenues increased mainly due to higher traffic.

Revenues from Internet showed an increase, resulting from the significantly higher number of ADSL subscribers as well as increased average number of Internet customers. The number of Maktel's Internet subscribers increased further and reached 25,699 by December 31, 2006 from 91,865 a year earlier.

Increase in operating expenses in the international fixed line operations is mainly due the consolidation of T-Com CG and Orbitel in 2006. The increase in depreciation is mainly driven by the impairment of our Montenegrin subsidiaries' brandnames in connection with their rebranding in September 2006. Operating expenses in MKD terms decreased by 6.6% at Maktel, but the weaker average HUF against MKD led to broadly flat operating expenses expressed in HUF.

### Hungarian mobile operations

Hungarian mobile operations include T-Mobile Hungary and Pro-M.

HUF millions	Year ended Dec 31, 2005	Year ended Dec 31, 2006	Change (%)
Network usage and access	211,360	216,658	2.5
Enhanced services	31,876	35,110	10.1
Equipment sales and activation	21,718	23,027	6.0
Other revenues	1,263	22,414	1,674.7
Total revenues	266,217	297,209	11.6
EBITDA before restructuring charges	109,722	112,461	2.5
EBITDA	109,116	112,036	2.7
Operating profit	75,219	75,677	0.6
Property, plant and equipment	119,924	119,656	(0.2)
Intangible assets	204,199	202,674	(0.7)
Gross additions to tangible and intangible fixed assets	39,231	34,748	(11.4)

*EBITDA = Earnings before net interest and other charges, taxes, depreciation and amortization*

Mobile penetration reached 99.0% in Hungary and T-Mobile Hungary accounts for 44.5% market share in the highly competitive mobile market at December 31, 2006.

Revenues in the Hungarian mobile operations increased by 11.6% in 2006 compared to 2005 primarily due to Pro-M's EDR revenues. T-Mobile Hungary's customer base increased by 5.7% to 4,431,136 subscribers, including 2,886,021 prepaid customers by December 31, 2006. Average monthly usage per T-Mobile Hungary subscriber increased by 11.8% from 127 minutes in 2005 to 142 minutes in 2006. T-Mobile Hungary's ARPU decreased by 0.7% from HUF 4,832 in 2005 to HUF 4,800 in 2006. Revenues from call terminations also increased. While interconnection fees received from other mobile service providers increased due to higher mobile penetration and traffic, interconnection fees from Magyar Telekom Plc. decreased due to the lower per minute termination fees.

Operating profit remained broadly stable as total revenues increased by HUF 31 bn, while operating expenses increased by HUF 30.5 bn year over year. Operating expenses increased by 16.0% due to the combined effect of significantly higher cost of equipment sales (primarily due to Pro-M s EDR services), increased payments to other mobile operators, higher depreciation (resulting from higher gross asset base of telecom and informatics equipment as well as capitalized UMTS concession) increased other operating expenses - net and lower employee-related expenses.

### International mobile operations

International mobile operations include T-Mobile Macedonia and T-Mobile CG.

HUF millions	Year ended Dec 31, 2005	Year ended Dec 31, 2006	Change (%)
Network usage and access	35,548	43,870	23.4
Enhanced services	4,736	5,882	24.2
Equipment sales and activation	1,992	2,194	10.1
Other revenues	417	452	8.4
Total revenues	42,693	52,398	22.7
EBITDA before restructuring charges	21,199	27,939	31.8
EBITDA	21,199	27,910	31.7
Operating profit	12,305	17,094	38.9
Property, plant and equipment	23,059	20,485	(11.2 )
Intangible assets	57,175	55,856	(2.3 )
Gross additions to tangible and intangible fixed assets	7,091	6,480	(8.6 )

*EBITDA = Earnings before net interest and other charges, taxes, depreciation and amortization*

The acquisition of T-Mobile CG had positive impact on the results of the international mobile operations. Total revenues of T-Mobile CG amounted to HUF 13.4 bn with an operating profit of HUF 2.8 bn and EBITDA reached HUF 6.0 bn in 2006. The closing number of T-Mobile CG employees was 163 at the end of December 2006.

Total revenues of T-Mobile Macedonia in MKD terms increased by 8.0%, which was largely intensified by the 6.4% weaker average HUF against the MKD. The 15.0% revenue increase in HUF terms in 2006 was mainly due to higher average customer base. T-Mobile Macedonia s subscriber base increased considerably, by 7.7%, to 944,530 including 767,219 prepaid customers on December 31, 2006. T-Mobile Macedonia had 66.5% share in the Macedonian mobile market and mobile penetration was 68.3% at the end of 2006. Traffic revenues increased due to higher MOU and higher average number of customers, partly offset by lower per minute rates. Enhanced services revenues increased as a result of higher number of SMSs.

Total operating expenses of T-Mobile Macedonia increased by 7.2% in HUF terms mainly due to increase in payments to other network operators and depreciation and amortization, which were partly offset by decrease in other operating expenses - net.

## Magyar Telekom

Company name: Magyar Telekom Plc.  
 Company address: H-1013 Budapest Krisztina krt. 55.  
 Sector: Telecommunications  
 Reporting period: January 1, 2006 – December 31, 2006  
 Telephone: 36-1-458-04-24  
 Fax: 36-1-458-04-43  
 E-mail address: investor.relations@telekom.hu  
 Investor Relations manager: Szabolcs Czente

**PK1. General information about financial data**

	Yes	No	
Audited		x	
Consolidated	x		
Accounting principles	Hungarian	IFRS x	Other

**PK2. Consolidated Companies with direct ownership of Magyar Telekom Plc.**

Name	Equity / Registered Capital (mHUF)	Interest held (direct and indirect)	Voting right	Classification
Stonebridge	mEUR 349	100.00	% 100.00	% L
Crnogorski Telekom	mEUR 141	76.53	% 76.53	% L
BCN Rendszerház	6,161	100.00	% 100.00	% L
Pro-M	5,200	100.00	% 100.00	% L
InvesTel	4,862	100.00	% 100.00	% L
Emitel	3,110	100.00	% 100.00	% L
Vidanet	2,000	90.00	% 50.00	% L
T-Online Hungary	1,906	100.00	% 100.00	% L
Egertel	1,425	100.00	% 100.00	% L
T-Kábel Hungary	920	100.00	% 100.00	% L
EPT	777	97.20	% 97.20	% L
Integris Rendszerház	615	100.00	% 100.00	% L
EurAccount	450	100.00	% 100.00	% L
KFKI-LNX	220	100.00	% 100.00	% L
Dataplex	200	100.00	% 100.00	% L
Tele-Data	39	50.98	% 50.98	% L
ProMoKom	21	100.00	% 100.00	% L
X-Byte	20	100.00	% 100.00	% L
M Factory	10	75.05	% 75.05	% L
Mindentudás Egyeteme	5	60.00	% 60.00	% L
Matáv	3	100.00	% 100.00	% L
Axelero	3	100.00	% 100.00	% L
MatávKábel TV	3	100.00	% 100.00	% L
Viabridge	mEUR 1.16	100.00	% 100.00	% L
Telemacedonia	mEUR 0.01	100.00	% 100.00	% L
Novatel Ukraine	mEUR 0.28	100.00	% 100.00	% L

**PK6. Significant off-balance sheet items**

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Description	Value (HUF million)
Future finance lease obligations	4,312
Future obligations from rental and operating lease contracts	39,289
Future obligation from capex contracts	6,336
Other future obligations	2,849

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**TSZ2/1. Changes in the headcount (number of persons) employed**

	End of reference period	Current period opening	Current period closing
Company	5,478	5,478	6,980
Group	11,919	11,919	12,341

**TSZ2/2. Changes in the headcount (number of persons) employed in full time by the company/group**

	Start of the business year	End of the I. quarter	End of the II. quarter	End of the III. quarter	End of the business year
Company	5,478	6,992	6,946	7,005	6,980
Group	11,919	12,014	11,967	12,361	12,341

**RS1. Ownership Structure, Ratio of Holdings and Votes**

Description of owners	Total equity			Closing (December 31st, 2006)		
	Year Opening (January 1st, 2006)			Ownership ratio %	Voting right %	No. of shares
	Ownership ratio %	Voting right %	No. of shares			
Domestic institution/company	3.48	3.49	36,322,446	4.66	4.67	48,557,295
Foreign institution/company	91.51	91.73	954,250,296	79.80	79.99	832,189,613
Domestic individual	1.45	1.46	15,162,132	1.18	1.18	12,261,779
Foreign individual	0.01	0.01	133,954	0.01	0.01	142,621
Employees, senior officers	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Treasury Shares	0.24	n.a.	2,456,659	0.24	n.a.	2,456,659
Government Institutions	0.35	0.35	3,630,080	0.18	0.18	1,874,242
International Development Institutions	0.00	0.00	0	0.00	0.00	0
Not registered*	1.83	1.83	19,037,080	13.40	13.43	139,714,579
Depositories	1.13	1.13	11,775,568	0.53	0.54	5,571,427
Other**	0.00	0.00	43,385	0.00	0.00	0
B Share	0.00	0.00	1	0.00	0.00	1
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>1,042,811,601</b>	<b>100.00</b>	<b>100.00</b>	<b>1,042,768,216</b>

\*Category Not registered includes shares deposited on accounts where account holder is not specified. The owners of these shares are mainly foreign, partly domestic institutions.

\*\* The holders of these shares do not wish to be a shareholder of the merged company in connection with the merger of Magyar Telekom Plc. and T-Mobile Hungary Ltd.

**RS2. Volume (qty) of treasury shares held in the year under review**

	1, January	31, March	30, June	30, September	31, December
Company	2,456,659	2,456,659	2,456,659	2,456,659	2,456,659
Subsidiaries	0	0	0	0	0
<b>Total</b>	<b>2,456,659</b>	<b>2,456,659</b>	<b>2,456,659</b>	<b>2,456,659</b>	<b>2,456,659</b>

**RS3. List and description of shareholders with more than 5% (at the end of period)**

Name	Nationality	Activity	Quantity	Interest (%)	Voting right (%)	Remarks
MagyarCom Holding GmbH	Foreign	Institutional	617,452,081	59.21	59.35	Strategic owner

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JP Morgan Chase Bank	Foreign	Depository	61,149,200	5.86	5.88	ADR Depository
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## TSZ3. Senior officers, strategic employees

Type(1)	Name	Position	Beginning of assignment	End	No. of shares held
SE	Christopher	Chairman-CEO	December 5, 2006		
BM	Mattheisen	Board Member	December 21, 2006		0
SE	Thilo Kusch	Chief Financial Officer	October 1, 2006		
BM		Board Member	November 6, 2006		0
BM	Dr. Klaus Hartmann	Board Member	October 27, 2000		8,000
BM	Dr. István Földesi	Board Member	April 25, 2003		0
BM	Dr. Mihály Gálik	Board Member	November 6, 2006		1,000
BM	Michael Günther	Board Member	April 26, 2002		0
BM	Horst Hermann	Board Member	April 25, 2003		
		Remuneration Committee Member			400
BM	Gerhard Mischke	Board Member	April 27, 2005		0
BM	Frank Odzuck	Board Member	November 6, 2006		
		Remuneration Committee Member			0
BM	Dr. Ralph Rentschler	Board Member	April 25, 2003		
		Remuneration Committee Member			0
SBM	Dr. László Pap	Supervisory Board - Chairman Audit Committee Member	May 26, 1997		0
SBM	Géza Böhm	Supervisory Board Member	April 26, 2002		0
SBM	Attila Csizmadia	Supervisory Board Member	April 25, 2003		6,272
SBM	Dr. Ádám Farkas	Supervisory Board Member Chairman and financial expert of the Audit Committee	April 27, 2005		0
SBM	Dr. János Illéssy	Supervisory Board Member Audit Committee Member	November 6, 2006		0
SBM	Gellért Kadlót	Supervisory Board Member	April 26, 2002		0
SBM	Dr. Sándor Kerekes	Supervisory Board Member Audit Committee Member	November 6, 2006		0
SBM	Dr. Thomas Knoll	Supervisory Board Member	April 27, 2005		0
SBM	Konrad Kreuzer	Supervisory Board Member	November 6, 2006		0
SBM	György Varju	Supervisory Board Member	April 27, 2005		417
SBM	Péter Vermes	Supervisory Board Member	June 27, 1995		8,800
SE	Dr. Tamás Pásztory	Chief Human Resources and Legal Officer	February 1, 1996		0
SE	György Simó	Chief Operating Officer, Wireline Services Line of Business	September 20, 2006		0
SE	Zoltán Tankó	Chief Operating Officer, Corporate Services Line of Business	January 1, 2002		1,100
SE	János Winkler	Chief Operating Officer, Mobile Services Line of Business	March 1, 2006		0

Own share property total:

25,989

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(1) Strategic Employee (SE), Board Member (BM), Supervisory Board Member (SBM)

Members of the Board of Directors and Supervisory Board serve until May 31, 2007, unless otherwise stated.

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**ST1. Extraordinary reports published in the period under review**

Date	Subject matter, brief summary
January 12, 2006	Magyar Telekom signs project financing loan granted by European Investment Bank
January 20, 2006	János Winkler is the new CEO of T-Mobile Hungary
February 28, 2006	The Court of Registry registered the merger of Magyar Telekom and T-Mobile Hungary
March 6, 2006	Draft resolution to Magyar Telekom's reference interconnection offer published by the Regulator
March 30, 2006	The Annual General Meeting of Magyar Telekom will not be held at the end of April 2006
April 7, 2006	Magyar Telekom closed the transaction to acquire Dataplex Kft.
April 26, 2006	Magyar Telekom's Annual General Meeting will be delayed further
April 28, 2006	T-Online signed a contract to gain control of iWiW Kft.
April 28, 2006	Declaration of Magyar Telekom regarding its corporate governance practices based on the Corporate Governance Recommendations published by the Budapest Stock Exchange
May 10, 2006	T-Online concluded an agreement to acquire Adnetwork Kft.
May 22, 2006	The Court of Registry registered the ownership change in PRO-M Zrt. Magyar Telekom Plc. gained direct ownership of 100% of PRO-M Zrt. shares
May 24, 2006	Dr. Mihály Patai resigned from his Board membership as of May 23, 2006
May 30, 2006	The General Meeting of MakTel authorized the management of the company to buy a maximum of 10% of the shares of MakTel from the Government of the Republic of Macedonia
May 31, 2006	General Meetings of Emitel and Vidanet, as well as the Quotaholders' Meeting of Tele-Data decided on dividend payment
June 6, 2006	MakTel won tender to buy 9.9% of its shares from the Macedonian Government
June 12, 2006	MakTel bought an additional 0.1% of the company's shares at the auction held by the Macedonian Government
June 13, 2006	Rebranding of Macedonian Mobimak to T-Mobile
June 15, 2006	Christopher Mattheisen, the Chief Operating Officer of the Wireline Services Line of Business has resigned as of June 15, 2006
June 16, 2006	Magyar Telekom announced the acquisition of the Hungarian IT company, KFKI
June 26, 2006	The Extraordinary General Meeting of Telekom Montenegro elected new members to the Board of Directors based on Magyar Telekom's proposal
June 26, 2006	The Extraordinary General Meeting of Telekom Montenegro decided to change the company name and to introduce the T brand to the Montenegrin telecommunications market
June 30, 2006	The Board of the Hungarian National Regulatory Authority published its draft resolution regarding the Hungarian mobile voice termination fees
July 3, 2006	Magyar Telekom to notify U.S. Securities and Exchange Commission of late filing of 20-F annual report
July 17, 2006	The Board of the Hungarian National Regulatory Authority has published its draft resolution concerning the new reference unbundling and local bitstream access offer of Magyar Telekom
July 27, 2006	Supervisory Authority measures against Magyar Telekom
August 15, 2006	Magyar Telekom Board of Directors calls an Extraordinary General Meeting
August 18, 2006	The Board of Directors of Magyar Telekom notified shareholders that the Company will hold its Extraordinary General Meeting on October 9, 2006
August 22, 2006	Dr. György Surányi, a member of Magyar Telekom's Board of Directors resigned from his position as of October 9, 2006
August 29, 2006	The Montenegrin subsidiary of Magyar Telekom sold its 11.5% stake in CKB bank
August 30, 2006	Magyar Telekom sold its 72% stake in Cardnet Zrt.
September 5, 2006	Dr. Klaus Hartmann continues his career in Poland as CEO of PTC
September 11, 2006	S&P revised Magyar Telekom outlook to negative
September 15, 2006	Magyar Telekom announced that following approval by the Hungarian Competition Authority, it has completed the transaction to acquire KFKI
September 20, 2006	The Board of Directors appointed György Simó Chief Operating Officer of the Wireline Services Line of Business and Thilo Kusch Chief Financial Officer of Magyar Telekom
October 2, 2006	Magyar Telekom Supervisory Board decided to call a General Meeting to be held on November 15, 2006
October 9, 2006	Magyar Telekom held Extraordinary General Meeting
October 9, 2006	Resolutions of the Extraordinary General Meeting of Magyar Telekom held on October 9, 2006

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October 13, 2006	The Supervisory Board of Magyar Telekom notifies Shareholders that the Company will hold its Extraordinary General Meeting on November 15, 2006
October 25, 2006	Magyar Telekom informed its shareholders of the continuation of its Extraordinary General Meeting held and suspended on October 9, 2006
November 2, 2006	Magyar Telekom announced that it had failed to publish proposed resolutions for its General Meeting to be held on November 15, 2006
November 6, 2006	Magyar Telekom Extraordinary General Meeting suspended on October 9 resumed
November 15, 2006	The General Meeting of Magyar Telekom was closed without discussing the agenda items. As a result, no decision has been made on the company's 2005 annual report and on the dividend payment
November 17, 2006	The Board of Directors of Magyar Telekom decided to call a General Meeting to be held on December 21. The agenda will include the discussion of the 2005 annual report as well as the proposal on the dividend payment
November 17, 2006	The Board of Directors of Magyar Telekom notified shareholders that the Company will hold its Extraordinary General Meeting on December 21, 2006
December 5, 2006	The Board of Directors of Magyar Telekom proposes a HUF 70 per share dividend payment for the financial year 2005 plus a HUF 3 per share compensation for the late payment for approval to the General Meeting
December 5, 2006	Elek Straub resigned from the CEO position and his Board membership
December 5, 2006	The Board of Directors of Magyar Telekom appointed Mr. Christopher Mattheisen as Chief Executive Officer
December 6, 2006	Magyar Telekom published main figures of the 2005 annual reports submitted to the General Meeting and an update on its investigation into certain consultancy contracts entered into by the Company and one of its subsidiaries
December 13, 2006	Magyar Telekom signed agreements to acquire MobilPress and MFactory, two service providers in the mobile multimedia and content market
December 21, 2006	Magyar Telekom announced further updates on the investigation
December 21, 2006	Extraordinary General Meeting approved Magyar Telekom Group and Magyar Telekom Plc. 2005 annual reports Resolutions of the Extraordinary General Meeting of Magyar Telekom Telecommunications Public Limited Company held on December 21, 2006
December 21, 2006	Magyar Telekom's Board of Directors appointed Christopher Mattheisen, CEO of Magyar Telekom Plc., as Chairman of the Board
December 22, 2006	Announcement of Magyar Telekom Plc. regarding dividend payment for business year 2005
January 2, 2007	Magyar Telekom acquired an additional 2% stake in T-Systems Hungary and strengthened its strategic cooperation with T-Systems Enterprise Services
January 2, 2007	Change in the number of Magyar Telekom's treasury shares
January 5, 2007	No social security number (TAJ) is required for the 2005 dividend payment
January 24, 2007	Dr. Tamás Pásztor, the Chief Human Resources and Legal Officer of Magyar Telekom will leave the company with effect from March 30, 2007
January 25, 2007	Magyar Telekom has closed the transaction to acquire a 100% stake in Mobilpress
January 25, 2007	Magyar Telekom announced share ownership of senior officers
	Magyar Telekom Plc. publishes its announcements in Magyar Tókepiac.

#### **Change in the organizational structure**

There was no significant change in the organizational structure in the fourth quarter of 2006.

#### **Declaration of responsibility**

We the undersigned declare that to the best of our knowledge all data and information in the attached report are true and correct and the report does not omit any material information necessary for investors to make an informed judgement of Magyar Telekom.

Christopher Mattheisen  
Chairman and Chief Executive Officer

Thilo Kusch  
Chief Financial Officer and Board Member

Budapest, February 13, 2007



**Signatures**

Pursuant to the requirements 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.

Magyar Telekom Plc.  
(Registrant)

By:

Szabolcs Czenthe  
Director, Investor Relations

Date: February 13, 2007

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