

CONSOL ENERGY INC  
Form 10-Q/A  
February 18, 2004

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q/A**

**(Amendment No. 2)**

**(Mark One)**

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

For the quarterly period ended June 30, 2003 or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number: 001-14901

**CONSOL Energy Inc.**

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**(Exact name of registrant as specified in its charter)**

**Delaware**

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**(State or other jurisdiction of incorporation or organization)**

**51-0337383**

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**(IRS Employer Identification No.)**

**1800 Washington Road, Pittsburgh, Pennsylvania  
15241**

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**(Address of principal executive offices, including zip code)**

**(412) 831-4000**

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**(Registrant's telephone number, including area code)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

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Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of July 31, 2003, there were 78,784,883 shares of Common Stock, \$.01 par value, outstanding.

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**EXPLANATORY NOTE**

We are filing this Amendment No. 3 on Form 10-Q/A to our Report on Form 10-Q for the period ended June 30, 2003 (the "Form 10-Q") to amend the introduction to Note 10 of the Financial Statements in Item 1 - Condensed Financial Statements in connection with the Securities and Exchange Commission's review of the Form 10-Q.

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**PART I**  
**FINANCIAL INFORMATION**

**ITEM 1. CONDENSED FINANCIAL STATEMENTS**

CONSOL ENERGY INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Dollars in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Sales - Outside	\$ 511,235	\$ 482,073	\$ 1,017,795	\$ 987,275
Sales - Related Parties		815	1,369	819
Freight - Outside	25,580	33,699	57,608	70,131
Freight - Related Parties		549	562	549
Other Income	19,703	15,530	38,993	23,901
<b>Total Revenue and Other Income</b>	<b>556,518</b>	<b>532,666</b>	<b>1,116,327</b>	<b>1,082,675</b>
Cost of Goods Sold and Other Operating Charges	383,691	362,511	791,562	725,421
Freight Expense	25,580	34,248	58,170	70,680
Selling, General and Administrative Expense	19,389	17,195	36,473	33,852
Depreciation, Depletion and Amortization	62,293	65,801	122,999	132,258
Interest Expense	8,490	11,848	17,966	21,985
Taxes Other Than Income	42,420	42,867	85,562	93,592
Export Sales Excise Tax Resolution	(614)	(1,037)	(614)	(1,037)
<b>Total Costs</b>	<b>541,249</b>	<b>533,433</b>	<b>1,112,118</b>	<b>1,076,751</b>
Earnings (Loss) Before Income Taxes	15,269	(767)	4,209	5,924
Income Tax Expense (Benefit)	4,710	(9,794)	(9,739)	(8,604)
Earnings Before Cumulative Effect of Change in Accounting Principle	10,559	9,027	13,948	14,528
Cumulative Effect of Changes in Accounting for Mine Closing, Reclamation and Gas Well Closing Costs, net of Income Taxes of \$3,035			4,768	
<b>Net Income</b>	<b>\$ 10,559</b>	<b>\$ 9,027</b>	<b>\$ 18,716</b>	<b>\$ 14,528</b>
Basic Earnings Per Share	\$ 0.13	\$ 0.11	\$ 0.24	\$ 0.18
Dilutive Earnings Per Share	\$ 0.13	\$ 0.11	\$ 0.24	\$ 0.18
Weighted Average Number of Common Shares Outstanding:				

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Basic	<u>78,759,875</u>	<u>78,722,778</u>	<u>78,754,557</u>	<u>78,714,967</u>
Dilutive	<u>79,104,915</u>	<u>78,935,017</u>	<u>78,960,438</u>	<u>78,921,664</u>
Dividends Paid Per Share	<u>\$ 0.14</u>	<u>\$ 0.28</u>	<u>\$ 0.28</u>	<u>\$ 0.56</u>

The accompanying notes are an integral part of these consolidated financial statements.

CONSOL ENERGY INC. AND SUBSIDIARIESCONSOLIDATED BALANCE SHEETS  
(Dollars in thousands, except per share data)

	<b>(Unaudited)</b>	<b>DECEMBER 31,</b>
	<b>JUNE 30,</b>	<b>2002</b>
	<b>2003</b>	<b>2002</b>
	<u>          </u>	<u>          </u>
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 13,967	\$ 11,517
Accounts and Notes Receivable:		
Trade	170,400	205,891
Other Receivables	81,953	127,226
Inventories	129,298	135,621
Deferred Income Taxes	89,077	92,236
Recoverable Income Taxes	14,542	21,935
Prepaid Expenses	29,974	28,411
	<u>          </u>	<u>          </u>
<b>Total Current Assets</b>	<b>529,211</b>	<b>622,837</b>
Property, Plant and Equipment:		
Property, Plant and Equipment	5,365,207	5,257,456
Less - Accumulated Depreciation, Depletion and Amortization	2,714,369	2,651,233
	<u>          </u>	<u>          </u>
<b>Total Property, Plant and Equipment - Net</b>	<b>2,650,838</b>	<b>2,606,223</b>
Other Assets:		
Deferred Income Taxes	442,604	420,718
Intangible Assets, Net	381,485	388,362
Investment in Affiliates	81,573	135,362
Other	115,312	119,658
	<u>          </u>	<u>          </u>
<b>Total Other Assets</b>	<b>1,020,974</b>	<b>1,064,100</b>
	<u>          </u>	<u>          </u>
<b>TOTAL ASSETS</b>	<b>\$ 4,201,023</b>	<b>\$ 4,293,160</b>
	<u>          </u>	<u>          </u>

The accompanying notes are an integral part of these consolidated financial statements.

CONSOL ENERGY INC. AND SUBSIDIARIESCONSOLIDATED BALANCE SHEETS  
(Dollars in thousands, except per share data)

	(Unaudited) JUNE 30, 2003	DECEMBER 31, 2002
	<u>          </u>	<u>          </u>
<b><u>LIABILITIES AND STOCKHOLDERS EQUITY</u></b>		
Current Liabilities:		
Accounts Payable	\$ 109,973	\$ 151,371
Short-Term Notes Payable	28,357	204,545
Current Portion of Long-Term Debt	52,704	8,615
Other Accrued Liabilities	540,463	449,902
	<u>          </u>	<u>          </u>
<b>Total Current Liabilities</b>	731,497	814,433
Long-Term Debt:		
Long-Term Debt	442,837	485,535
Capital Lease Obligations	1,934	2,896
	<u>          </u>	<u>          </u>
<b>Total Long-Term Debt</b>	444,771	488,431
Deferred Credits and Other Liabilities:		
Postretirement Benefits Other Than Pensions	1,450,458	1,437,987
Pneumoconiosis Benefits	449,273	455,436
Mine Closing	364,050	332,920
Workers Compensation	255,125	261,250
Deferred Revenue	80,715	102,400
Salary Retirement	113,335	91,474
Reclamation	11,190	5,812
Other	150,039	140,970
	<u>          </u>	<u>          </u>
<b>Total Deferred Credits and Other Liabilities</b>	2,874,185	2,828,249
Stockholders Equity:		
Common Stock, \$.01 par value; 500,000,000 Shares Authorized, 80,267,558 Issued; and 78,769,133 Outstanding at June 30, 2003, and 78,749,001 Outstanding at December 31, 2002	803	803
Preferred Stock, 15,000,000 Shares Authorized; None Issued and Outstanding		
Capital in Excess of Par Value	643,907	643,787
Retained Earnings (Deficit)	(375,353)	(372,017)
Other Comprehensive Loss	(101,859)	(93,370)
Common Stock in Treasury, at Cost - 1,498,425 Shares at June 30, 2003 and 1,518,557 Shares at December 31, 2002	(16,928)	(17,156)
	<u>          </u>	<u>          </u>
<b>Total Stockholders Equity</b>	150,570	162,047
	<u>          </u>	<u>          </u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 4,201,023</b>	<b>\$ 4,293,160</b>
	<u>          </u>	<u>          </u>

The accompanying notes are an integral part of these consolidated financial statements.





CONSOL ENERGY INC. AND SUBSIDIARIESCONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(Dollars in thousands, except per share data)

	<u>Common Stock</u>	<u>Capital in Excess of Par Value</u>	<u>Retained Earnings (Deficit)</u>	<u>Other Comprehensive Income (Loss)</u>	<u>Treasury Stock</u>	<u>Total Stockholders Equity</u>
<b>Balance - December 31, 2002</b>	\$ 803	\$ 643,787	\$ (372,017)	\$ (93,370)	\$ (17,156)	\$ 162,047
<b>(Unaudited)</b>						
Net Income			18,716			18,716
Minimum Pension Liability (Net of \$3,136 tax)				(5,825)		(5,825)
Treasury Rate Lock (Net of \$26 tax)				(41)		(41)
Interest Rate Swap Contract (Net of \$133 tax)				(208)		(208)
Gas Cash Flow Hedge (Net of \$1,537 tax)				(2,415)		(2,415)
Comprehensive Income (Loss)			18,716	(8,489)		10,227
Treasury Stock Issued (20,132 shares)		120			228	348
Dividends (\$.28 per share)			(22,052)			(22,052)
<b>Balance - June 30, 2003</b>	<b>\$ 803</b>	<b>\$ 643,907</b>	<b>\$ (375,353)</b>	<b>\$ (101,859)</b>	<b>\$ (16,928)</b>	<b>\$ 150,570</b>

The accompanying notes are an integral part of these consolidated financial statements.

CONSOL ENERGY INC. AND SUBSIDIARIESCONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in thousands)

	<b>Six Months Ended June 30,</b>	
	<b>2003</b>	<b>2002</b>
<i>Operating Activities:</i>		
Net Income	\$ 18,716	\$ 14,528
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Cumulative Effect of Change in Accounting Principle, net of tax	(4,768)	
Depreciation, Depletion and Amortization	122,999	132,258
Gain on the Sale of Assets	(17,403)	(2,126)
Amortization of Advance Mining Royalties	1,424	4,940
Deferred Income Taxes	(15,638)	(19,797)
Equity in Earnings of Affiliates	5,077	2,589
Changes in Operating Assets:		
Accounts Receivable Securitization	50,000	
Accounts and Notes Receivable	30,402	4,817
Inventories	1,104	(87,807)
Prepaid Expenses	(4,782)	(2,121)
Changes in Other Assets	3,601	3,137
Changes in Operating Liabilities:		
Accounts Payable	(30,622)	(41,226)
Other Operating Liabilities	97,460	79,968
Changes in Other Liabilities	(15,053)	(6,433)
Other	(3,415)	(6,998)
	<u>220,386</u>	<u>61,201</u>
Net Cash Provided by Operating Activities	<u>239,102</u>	<u>75,729</u>
<i>Investing Activities:</i>		
Capital Expenditures	(110,720)	(149,689)
Additions to Intangible Assets	(3,222)	(2,818)
Investment in Equity Affiliates	(4,710)	(34,920)
Proceeds from Sales of Assets	80,735	3,366
	<u>(37,917)</u>	<u>(184,061)</u>
Net Cash Used in Investing Activities	<u>(37,917)</u>	<u>(184,061)</u>
<i>Financing Activities:</i>		
Payments on Commercial Paper	(177,954)	(32,078)
Payments on Miscellaneous Borrowings	(84)	(1,973)
Payments on Long Term Notes		(66,000)
Proceeds from Long Term Notes	1,007	246,310

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Dividends Paid	(22,032)	(44,054)
Proceeds from Treasury Rate Lock		1,332
Payments for Bond Issuance Costs		(957)
Issuance of Treasury Stock	328	384
	<u>          </u>	<u>          </u>
Net Cash (Used in) Provided by Financing Activities	(198,735)	102,964
	<u>          </u>	<u>          </u>
Net (Decrease)Increase in Cash and Cash Equivalents	2,450	(5,368)
Cash and Cash Equivalents at Beginning of Period	11,517	15,582
	<u>          </u>	<u>          </u>
Cash and Cash Equivalents at End of Period	\$ 13,967	\$ 10,214
	<u>          </u>	<u>          </u>

The accompanying notes are an integral part of these consolidated financial statements.

CONSOL ENERGY INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2003

(Dollars in thousands, except per share data)

**NOTE 1 - BASIS OF PRESENTATION:**

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month and six-month periods ended June 30, 2003 are not necessarily indicative of the results that may be expected for future periods.

The balance sheet at December 31, 2002 has been derived from the audited financial statements at that date but does not include all the footnotes required by generally accepted accounting principles for complete financial statements.

For further information, refer to the consolidated financial statements and footnotes to the consolidated financial statements for the year ended December 31, 2002 included in CONSOL Energy Inc.'s (CONSOL Energy) Form 10-K, as amended.

Certain reclassifications of the prior year's data have been made to conform to the six months ended June 30, 2003 classifications.

Basic earnings per share are computed by dividing net earnings by the weighted average shares outstanding during the reporting period. Diluted earnings per share are computed similarly to basic earnings per share except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of stock options, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options were exercised and that the proceeds from such exercises were used to acquire shares of common stock at the average market price during the reporting period. Options to purchase 1,089,393 and 1,729,780 shares of common stock were outstanding for the three and six month periods ended June 30, 2003, respectively, but were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares and, therefore, the effect would be antidilutive. Options to purchase 1,101,693 shares of common stock were outstanding for the three and six month periods ended June 30, 2002, but were not included in the computation of diluted earnings per share because the options' exercise prices were antidilutive.

The computations for basic and diluted earnings per share from continuing operations are as follows:

	<b>For the Three Months Ended June 30,</b>		<b>For the Six Months Ended June 30,</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
Net Income	\$ 10,559	\$ 9,027	\$ 18,716	\$ 14,528
Average shares of common stock				
Outstanding:				
Basic	78,759,875	78,722,778	78,754,557	78,714,967
Effect of stock options	345,040	212,239	205,881	206,697
Diluted	79,104,915	78,935,017	78,960,438	78,921,664
Earnings per share:				
Basic	\$ 0.13	\$ 0.11	\$ 0.24	\$ 0.18
Diluted	\$ 0.13	\$ 0.11	\$ 0.24	\$ 0.18

**NOTE 2 STOCK-BASED COMPENSATION:**

CONSOL Energy has implemented the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS No. 123). CONSOL Energy continues to measure compensation expense for its stock-based compensation plans using the intrinsic value based method of accounting prescribed by Accounting Principles Board Opinion (APB) No. 25, Accounting for Stock Issued to Employees, as amended. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of the grant. The following table illustrates the effect on net income and earnings per share if CONSOL Energy had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
Net income, as reported	\$ 10,559	\$ 9,027	\$ 18,716	\$ 14,528
Deduct: Total stock-based employee compensation expense determined under Black-Scholes option pricing model	(1,052)	(486)	(1,696)	(1,259)
Pro forma net income	\$ 9,507	\$ 8,541	\$ 17,020	\$ 13,269
Earnings per share:				
Basic - as reported	\$ 0.13	\$ 0.11	\$ 0.24	\$ 0.18
Basic - pro forma	\$ 0.12	\$ 0.11	\$ 0.22	\$ 0.17
Diluted - as reported	\$ 0.13	\$ 0.11	\$ 0.24	\$ 0.18

Diluted - pro forma	\$ 0.12	\$ 0.11	\$ 0.22	\$ 0.17
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The pro forma adjustments in the current period are not necessarily indicative of future period pro forma adjustments as the assumptions used to determine fair value can vary significantly and the number of future shares to be issued under these plans is unknown.

**NOTE 3 CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING FOR  
MINE CLOSING, RECLAMATION AND GAS WELL CLOSING COSTS:**

Effective January 1, 2003, CONSOL Energy adopted Statement of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations (SFAS No. 143). As a result of this statement, CONSOL Energy recognized additional liabilities of \$51,692 for asset retirement obligations associated with the costs of mine closing, reclamation and gas well closing. In addition, CONSOL Energy capitalized asset retirement costs by increasing the carrying amount of related long-lived assets, net of the associated accumulated depreciation, by \$59,495.

The cumulative effect adjustment recognized upon adoption of this statement was a gain of \$4,768, net of a tax cost of approximately \$3,035. The cumulative effect adjustment was recognized in the three months ended March 31, 2003. Net income for the three months and six months ended June 30, 2002 and for the twelve months ended December 31, 2002 would not materially differ if this statement had been adopted January 1, 2002. The obligation for asset retirements is included in Mine Closing, Reclamation, Other Accrued Liabilities and Other Liabilities in the balance sheets.

The following table illustrates the pro forma impact on the carrying amounts of the obligations as of and for the period ended June 30, 2002 and December 31, 2002 as if this statement had been adopted on January 1, 2002:

	<b>Six Months Ended June 30, 2002</b>	<b>Twelve Months Ended December 31, 2002</b>
Balance at beginning of period	\$ 452,750,822	\$ 450,420,116
Accretion Expense	12,376,152	24,793,428
Payments	(14,605,900)	(24,378,722)
Other	(4,604,074)	1,916,000
Balance at end of period	<u>\$ 445,917,000</u>	<u>\$ 452,750,822</u>



**NOTE 4 - INCOME TAXES:**

The following is a reconciliation, stated in dollars and as a percentage of pretax income, of the U. S. statutory federal income tax rate to CONSOL Energy's effective tax rate:

	<b>For the Three Months Ended</b>			
	<b>June 30,</b>			
	<b>2003</b>		<b>2002</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Statutory U.S. federal income tax rate	\$ 5,344	35.0 %	\$ (269)	35.0%
Excess tax depletion	(2,133)	(14.0)	(5,956)	776.6
Net effect of state tax	658	4.3	894	(116.6)
Net effect of foreign tax	1,255	8.2	729	(95.0)
Prior year tax settlement			(1,908)	248.8
Other	(414)	(2.7)	(3,284)	428.1
<b>Income Tax (Benefit)Expense/ Effective Rate</b>	<b>\$ 4,710</b>	<b>30.8%</b>	<b>\$ (9,794)</b>	<b>1,276.9%</b>

	<b>For the Six Months Ended</b>			
	<b>June 30,</b>			
	<b>2003</b>		<b>2002</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Statutory U.S. federal income tax rate	\$ 1,473	35.0 %	\$ 2,073	35.0 %
Excess tax depletion	(9,678)	(229.9)	(7,945)	(134.1)
Net effect of state tax	(773)	(18.4)	1,227	20.7
Net effect of foreign tax	864	20.5	1,290	21.8
Prior year tax settlement			(1,908)	(32.2)
Other	(1,625)	(38.6)	(3,341)	(56.4)
<b>Income Tax (Benefit)Expense/ Effective Rate</b>	<b>\$ (9,739)</b>	<b>(231.4)%</b>	<b>\$ (8,604)</b>	<b>(145.2)%</b>

CONSOL Energy estimates the effective tax rate expected to be applicable for the full fiscal year. This rate is used to provide for income taxes on a current year-to-date basis. The effective tax rate is sensitive to changes in annual profitability and percentage depletion. In addition, the provision for income taxes is adjusted at the time the tax returns are filed to reflect changes in previously estimated amounts. These adjustments, which are included in the Other line above, decreased income tax expense by \$1,128 for the three months and six months ended June 30, 2003, and \$2,974 for the three months and six months ended June 30, 2002.



**NOTE 5 - INVENTORIES:**

The components of inventories consist of the following:

	<b>June 30, 2003</b>	<b>December 31, 2002</b>
Coal	\$ 57,347	\$ 67,119
Merchandise for resale	20,455	18,855
Supplies	51,496	49,647
<b>Total Inventories</b>	<b>\$ 129,298</b>	<b>\$ 135,621</b>

**NOTE 6 ACCOUNTS RECEIVABLE SECURITIZATION:**

In April 2003, CONSOL Energy and certain of its U.S. subsidiaries entered into a trade account receivables facility with financial institutions for the sale on a continuous basis of eligible trade accounts receivable. CONSOL Energy formed CNX Funding Corporation, a wholly owned, special purpose, bankruptcy-remote subsidiary for the sole purpose of buying and selling eligible trade receivables generated by certain subsidiaries of CONSOL Energy. Under the receivables facility, CONSOL Energy and certain subsidiaries, irrevocably and without recourse, sell all of their eligible trade accounts receivable to CNX Funding Corporation. CNX Funding Corporation then sells, on a revolving basis, an undivided percentage interest in the pool of eligible trade accounts receivable to financial institutions and their affiliates, while maintaining a subordinated interest in a portion of the pool of trade receivables. CONSOL Energy will continue to service the sold trade receivables for the financial institutions for a fee based upon market rates for similar services.

The receivables facility allows CONSOL Energy to receive, on a revolving basis, up to \$125 million. The cost of funds are consistent with commercial paper rates plus a charge for administrative services paid to the financial institutions. The receivables facility expires in 2006.

At June 30, 2003, eligible accounts receivable totaled approximately \$116,000, of which the subordinated retained interest was approximately \$66,000. Accordingly, \$50,000 of accounts receivable were removed from the consolidated balance sheet at June 30, 2003. The \$50,000 of proceeds are included in cash flows from operating activities in the consolidated statement of cash flows. Costs associated with the Receivables Facility totaled \$252 for the six months ended June 30, 2003. These costs have been recorded as financing fees which are included in Cost of Goods Sold and Other Operating Charges in the consolidated statements of income. No servicing asset or liability has been recorded.

The key economic assumptions used to measure the retained interest at the date of the securitization for all such sales completed in 2003 were a discount rate of 1.78% and an estimated life of 35 days. At June 30, 2003, an increase in the discount rate or estimated life of 10% and 20% would have reduced the fair value of the retained interest by \$20 and \$40, respectively. These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10% variation in assumption to the change in fair value may not be linear. Also, in this example, the effect of a variation in a particular assumption on the fair value of the subordinated retained interest is calculated without changing any other assumption. Changes in one factor may result in changes in another.

**NOTE 7 INTANGIBLE ASSETS:**

Intangible assets consist of leased coal interests and advance mining royalties. Advance mining royalties are advance payments made to lessors under terms of mineral lease agreements that are recoupable against future production primarily using the units-of-production method. Depletion of coal interests is computed primarily using the units-of-production method over the estimated proven and probable reserves. Advance mining royalties and leased coal interests are evaluated quarterly for impairment issues, of which none were recognized in the quarter ended June 30, 2003.

	<b>June 30, 2003</b>	<b>December 31, 2002</b>
Leased coal interests	433,834	440,268
Advance mining royalties	344,027	340,229
<b>Total gross carrying value</b>	<b>777,861</b>	<b>780,497</b>
Less - Accumulated depletion of leased coal interests	145,284	142,467
Less - Accumulated amortization of advance mining royalties	251,092	249,668
<b>Total accumulated depletion and amortization</b>	<b>396,376</b>	<b>392,135</b>
<b>Net Intangible Assets</b>	<b>\$ 381,485</b>	<b>\$ 388,362</b>

Included in the June 30, 2003 gross carrying value for leased coal interests and advance mining royalties are \$186 and \$3,036 of current year additions, respectively. The additions to leased coal interests are depleted using the units-of-production method where proven and probable coal reserves are not yet reported. The additions to advance mining royalties are recoupable against future production using the units-of-production method where proven and probable coal reserves are reported and using the straight-line method where proven and probable coal reserves are not yet reported.

Aggregate depletion and amortization expense for the six months ended June 30, 2003 was \$5,302.

Estimated depletion and amortization expense of leased coal interests and advance mining royalties during the next five years is as follows:

Year ended December 31,

2003	\$ 14,624
2004	\$ 14,323
2005	\$ 5,499
2006	\$ 3,627
2007	\$ 3,350

**NOTE 8 COMMITMENTS AND CONTINGENCIES:**

CONSOL Energy has various purchase commitments for materials, supplies and items of permanent investment incidental to the ordinary conduct of business. Such commitments are not at prices in excess of current market values.

One of our subsidiaries, Fairmont Supply Company, which distributes industrial supplies, currently is named as a defendant in approximately 22,100 asbestos claims in state courts in Pennsylvania, Ohio, West Virginia, Maryland, New Jersey and Mississippi. Because a very small percentage of products manufactured by third parties and supplied by Fairmont in the past may have contained asbestos and many of the pending claims are part of mass complaints filed by hundreds of plaintiffs against a hundred or more defendants, it has been difficult for Fairmont to determine how many of the cases actually involve valid claims or plaintiffs who were actually exposed to asbestos-containing products supplied by Fairmont. In addition, while Fairmont may be entitled to indemnity or contribution in certain jurisdictions from manufacturers of identified products, the availability of such indemnity or contribution is unclear at this time and, in recent years, some of the manufacturers named as defendants in these actions have sought protection from these claims under bankruptcy laws. Fairmont has no insurance coverage with respect to these asbestos cases. To date, payments by Fairmont with respect to asbestos cases have not been material. However, there cannot be any assurance that payments in the future with respect to pending or future asbestos cases will not be material to the financial position, results of operations or cash flows of CONSOL Energy.

CONSOL Energy is subject to various lawsuits and claims with respect to such matters as personal injury, wrongful death, damage to property, exposure to hazardous substances, governmental regulations including environmental remediation, employment and contract disputes, and other claims and actions arising out of the normal course of business. In September 1991, CONSOL Energy was named a potentially responsible party related to the Buckeye Landfill Superfund Site. The estimated total remaining remediation cost for all responsible parties is estimated to be approximately \$15,000. CONSOL Energy's portion of this claim is approximately 15-20%. CONSOL Energy has paid \$2,182 to date, of which \$90 has been in the three months ended June 30, 2003, related to the remediation of this waste disposal site and, accordingly, reduced the liability to \$2,793 at June 30, 2003. In the opinion of management, the ultimate liabilities resulting from such pending lawsuits and claims will not materially affect the financial position, results of operations or cash flows of CONSOL Energy.

CONSOL Energy and certain of its subsidiaries have provided the following financial guarantees. CONSOL Energy Management believes that these guarantees will expire without being funded, and therefore, the commitments will not have a material adverse effect on the financial condition of CONSOL Energy and its subsidiaries. The fair values of all liabilities associated with these guarantees have been properly recorded and reported in the financial statements at June 30, 2003.

Guarantee	Term	Maximum Payments
Workers Compensation Surety Bonds (a)	Various	\$ 381,700
Reclamation Surety Bonds (b)	Various	264,500
Gas Sales Agreements (c)	Various	109,000
Ohio Power Company (d)	6/1993-6/2006	43,248
1992 Benefit Plan (e)	10/2002-10/2003	35,784
Miscellaneous Surety Bonds (f)	Various	29,500
West Virginia Workers Compensation Division (g)	4/2003-4/2004	26,261
Orix Financial Services (h)	12/2002-12/2007	17,700
U.S. Bancorp (i)	7/2002-7/2007	15,311
Ohio Valley Electric Corporation (j)	5/2000-12/2006	10,868
Court Bonds (k)	Various	10,000
Illinois Industrial Commission (l)	10/2002-10/2003	8,325
Citibank ISDA Agreements (m)	Various	6,900
Old Republic Insurance (n)	Various	6,777
Duke Energy Corporation (o)	2/2003-12/2003	5,835
U.S. Department of Energy (p)		4,900
GE Capital Finance (q)		2,372
Centimark Corp. (r)	8/2000-8/2008	1,581
Reliant Energy (s)	12/2002-12/2005	1,575
U.S. Department of Labor (t)	12/2002-12/2003	1,150
Orion Power (u)	12/2002-12/2005	635
Ginger Hill Synfuels, LLC (v)	1/2003-12/2007	635
Highmark Life & Casualty (w)	5/2003-4/2004	500
LABAR Co. (x)	4/1999-4/2005	346
Lumbermens Mutual (y)	7/2002-11/2003	253
<b>Total Guarantees</b>		<b>\$ 985,656</b>

- a) CONSOL Energy and its subsidiaries, at various times throughout the year, have obtained surety bonds related to workers compensation obligations. These bonds are necessary as a result of CONSOL Energy being self insured for workers compensation, and will be called to the extent that CONSOL Energy or any of its subsidiaries fails to pay workers compensation claims.
- b) A number of CONSOL Energy subsidiaries have obtained surety bonds related to reclamation and subsidence obligations. CONSOL Energy, through these bonds, guarantees the performance of these obligations related to reclamation and subsidence.
- c) Certain subsidiaries of CONSOL Energy have entered into gas sales agreements in which CONSOL Energy guarantees the delivery of a specific quantity of fixed price gas for the duration of the contract. These agreements include the following:
- 1) CNX Gas Company LLC, a subsidiary of CONSOL Energy, has an agreement with CONOCO/Phillips Inc. that guarantees the physical delivery of CNX Gas Company LLC production through December 31, 2005. CONSOL Energy has guaranteed any unpaid obligations of CNX Gas Company LLC to this sales agreement, up to \$60,000.
  - 2) CONSOL Energy has an agreement with Dominion Field Services to guarantee any unpaid obligations of CNX Gas Company LLC and Greene Energy, subsidiaries of CONSOL Energy, pursuant to their gas sales agreements with Dominion Field Services. The maximum undiscounted future payments required pursuant to the agreement to be made by these subsidiaries at June 30,

2003 are as follows: (a) CNX Gas Company LLC - \$36,000 and (b) Greene Energy - \$3,000.

- 3) CONSOL Energy has an agreement with AEP Energy Services to unconditionally guarantee the full and prompt payment of all obligations, up to \$10,000, of CNX Gas Company LLC, a subsidiary of CONSOL Energy, arising from AEP Energy Services purchase, sale or exchange of energy services or energy related commodities with respect to the sales agreement between CNX Gas Company LLC and AEP Energy Services.
  - 4) The CNX Gas Company LLC Sales Agreement guarantees the delivery of specific quantities of gas through May 7, 2022. If our subsidiary fails to deliver the volume specified in the contract, it is obligated to pay a deficiency charge, for each day delivery is not made, equal to the undelivered volumes times the daily price of gas.
- d) CONSOL Energy is the guarantor of the Coal Supply Agreement dated June 3, 1993 between several of its subsidiaries and Ohio Power Company. Under this agreement, CONSOL Energy guarantees full and timely performance of all obligations of its subsidiary arising from the Coal Supply Agreement.
  - e) On October 15, 2002, a subsidiary of CONSOL Energy arranged for the issuance of a letter of credit to the 1992 Benefit Plan. This letter of credit will be drawn upon if the subsidiary fails to pay the claims related to this plan.
  - f) Several subsidiaries of CONSOL Energy have issued miscellaneous surety bonds, primarily water quality bonds and road bonds. CONSOL Energy guarantees the performance of these obligations by its subsidiaries.
  - g) On April 24, 2003, a subsidiary of CONSOL Energy issued a letter of credit to the West Virginia Workers Compensation Division. This letter of credit is related to workers compensation, as a result of the fact that CONSOL Energy and its subsidiaries are self insured for these liabilities. This letter of credit will be drawn upon if CONSOL Energy fails to pay the related workers compensation claims.
  - h) A CONSOL Energy subsidiary entered into an equipment lease agreement on December 30, 2002 for a longwall to be used at Buchanan Mine. In accordance with this agreement, CONSOL Energy guarantees the payment of all liabilities and the performance of all obligations of the subsidiary.
  - i) A CONSOL Energy subsidiary entered into an agreement on July 17, 2002 with U.S. Bancorp Equipment Finance, Inc. to lease a longwall for use at McElroy Mine. CONSOL Energy is the guarantor of this agreement and promises prompt and full payment to U.S. Bancorp upon the failure of the subsidiary to satisfy the obligations of the agreement.
  - j) CONSOL Energy is the guarantor of the Coal Supply Agreement between several of its subsidiaries and Ohio Valley Electric Corporation. Under this agreement, CONSOL Energy guarantees the full and faithful performance of all obligations of these subsidiaries with respect to this Coal Supply Agreement.
  - k) Several subsidiaries of CONSOL Energy have issued court bonds related to court proceedings in which they are involved. These bonds would be called should any of the subsidiaries file bankruptcy while the proceedings were still in existence and unresolved. The bonds will be released by the court when the proceedings conclude.
  - l) On October 15, 2002, CONSOL Energy, in conjunction with several of its subsidiaries, obtained the issuance of a letter of credit to the Illinois Industrial Commission. This letter of credit is related to CONSOL Energy's self-insurance program for workers compensation. Should CONSOL Energy, or any of these subsidiaries, fail to pay the workers compensation claims, the Illinois Industrial Commission will draw on this letter of credit.
  - m) CONSOL Energy has several International Swap and Derivative Association (ISDA) Agreements with Citibank effective November 21, 2002. These agreements cover the gas derivative hedging activity of CNX Gas Company LLC.
  - n) A subsidiary of CONSOL Energy obtained the issuance of several letters of credit to Old Republic Insurance Company at various times. These letters of credit are related to workers compensation liabilities, and are due to the fact that CONSOL Energy and its subsidiaries are self insured for workers compensation. The letters of credit will be drawn upon if the subsidiary fails to pay the related workers compensation claims.



- o) CONSOL Energy is the guarantor of the Coal Supply Agreement dated February 1, 2003 between several of its subsidiaries and Duke Energy Corporation. Under this agreement, CONSOL Energy guarantees full and timely performance of all obligations of its subsidiaries arising from this Coal Supply Agreement.
- p) CONSOL Energy, along with SynAggs Inc., organized Universal Aggregates, LLC on January 1, 2000. Universal Aggregates is obligated to complete the design, construction and operation phases of the Birchwood Power Plant Project, and CONSOL Energy is obligated to provide its 50% share of the funds for this project. CONSOL Energy, acting as guarantor, guarantees the performance of the obligations of Universal Aggregates, with respect to this agreement, to the Department of Energy, to the extent of its 50% membership interest in Universal Aggregates.
- q) Universal Aggregates received financing from GE Capital Public Finance, Inc. for the purchase of equipment for the Birchwood Power Plant Project, through an agreement dated December 1, 2002. CONSOL Energy unconditionally guarantees to GE Capital the full and prompt payment when due of all debts, liabilities and obligations owed by Universal Aggregates with respect to this loan agreement, not to exceed \$2,500.
- r) A subsidiary of CONSOL Energy entered into an agreement to lease office space from Centimark Corporation on August 1, 2000. In connection with this agreement, CONSOL Energy guarantees full and timely performance of all obligations of the subsidiary to Centimark, in relation to this lease agreement.
- s) CONSOL Energy is the guarantor of the Coal Supply Agreement dated December 17, 2002 between several of its subsidiaries and Reliant Energy Mid-Atlantic Power Holdings, LLC. Under this agreement, CONSOL Energy guarantees the full and faithful performance of all obligations of these subsidiaries with respect to this Coal Supply Agreement.
- t) On December 17, 2002, three subsidiaries of CONSOL Energy obtained the issuance of a letter of credit to the U.S. Department of Labor. This letter of credit is related to Longshore and Harborworkers' compensation claims and will be drawn upon should these subsidiaries fail to pay the claims.
- u) CONSOL Energy is the guarantor of the Coal Supply Agreement dated December 17, 2002 between several of its subsidiaries and Orion Power MidWest, LP. Under this agreement, CONSOL Energy guarantees the full and timely performance of all obligations of these subsidiaries with respect to this Coal Supply Agreement.
- v) CONSOL Energy is the guarantor of the Coal Supply Agreement dated January 15, 2003 between one of its subsidiaries and Ginger Hill Synfuels, LLC. Under this agreement, CONSOL Energy guarantees the full and faithful performance of all obligations of its subsidiary with respect to this Coal Supply Agreement.
- w) On May 1, 2003, a subsidiary of CONSOL Energy obtained the issuance of a letter of credit to Highmark Life and Casualty to support the administrative service program of making medical payments under various CONSOL Energy medical benefit programs. CONSOL Energy and its subsidiaries are self-insured. Highmark processes and pays the medical claims under the CONSOL Energy medical benefit programs and then bills CONSOL Energy for reimbursement. The letter of credit will be drawn upon if CONSOL Energy or its subsidiary fails to reimburse Highmark for these payments.
- x) On April 1, 1999, a subsidiary of CONSOL Energy entered into an agreement with Alaska Supply Chain Integrators (ASCI) to lease warehouse space from LABAR Co. CONSOL Energy guarantees prompt payment of all amounts due under the lease in the event of default by the subsidiary.
- y) On July 19, 2002, CONSOL Energy obtained the issuance of a letter of credit to Lumbermens Mutual. Lumbermens Mutual processes and pays all automobile claims and then bills CONSOL Energy, which is self-insured, for reimbursement. The letter of credit will be drawn upon if CONSOL Energy should fail to reimburse Lumbermens Mutual for these payments.

**NOTE 9- FAIR VALUE OF FINANCIAL INSTRUMENTS:**

The following methods and assumptions were used to estimate the fair values of financial instruments:

**Cash and cash equivalents:** The carrying amount reported in the balance sheets for cash and cash equivalents approximates its fair value due to the short-term maturity of these instruments.

**Short-term notes payable:** The carrying amount reported in the balance sheets for short-term notes payable approximates its fair value due to the short-term maturity of these instruments.

**Current and long-term debt:** The fair values of current and long-term debt are estimated using discounted cash flow analyses, based on CONSOL Energy's current incremental borrowing rates for similar types of borrowing arrangements.

**Capital leases:** The fair values of capital leases are estimated using discounted cash flow analyses, based on CONSOL Energy's current incremental borrowing rates for similar types of borrowing arrangements.

The carrying amounts and fair values of financial instruments, excluding derivative financial instruments disclosed in Item 3 Quantitative and Qualitative Disclosure About Market Risk, are as follows:

	June 30, 2003		December 31, 2002	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 13,967	\$ 13,967	\$ 11,517	\$ 11,517
Short-term notes payable	\$ (28,357)	\$ (28,357)	\$ (204,545)	\$ (204,545)
Current and long-term debt	\$ (491,219)	\$ (522,623)	\$ (488,907)	\$ (492,534)
Capital leases	\$ (6,256)	\$ (6,584)	\$ (8,139)	\$ (8,679)

**NOTE 10- SEGMENT INFORMATION:**

CONSOL Energy has two major business units: Coal and Gas. The principal activities of the Coal unit are mining, preparation and marketing of steam coal, sold primarily to electric utilities, and metallurgical coal, sold to steel and coke producers. The Coal unit includes four reportable segments. These reportable segments are High Sulfur, Low Sulfur, Metallurgical and Other Coal. Each of these reportable segments includes a number of operating segments (mines). For the three months and six months ended June 30, 2003 and June 30, 2002, the High Sulfur aggregated segment includes the following mines: Shoemaker, Blacksville #2, Robinson Run, Humphrey #138, Mahoning Valley and McElroy. For the three months and six months ended June 30, 2003 and June 30, 2002, the Low Sulfur aggregated segment includes the following mines: Enlow Fork, Mine 84, Bailey, Jones Fork, Mill Creek and Wiley-Mill Creek. For the three months and six months ended June 30, 2003 and June 30, 2002, the Metallurgical aggregated segment includes the following mines: Buchanan, Cardinal River, Amonate Contract and V.P. #8. The Other Coal segment includes the Company's purchased coal activities, idled mine cost, coal segment business units not meeting aggregation criteria, as well as various activities assigned to the coal segment but not allocated to each individual mine. The principal activity of the Gas unit is to produce pipeline quality methane gas for sale primarily to gas wholesalers. CONSOL Energy's All Other Classification is made up of the Company's terminal services, river and dock services, industrial supply services and other business activities, including rentals of buildings and flight operations that do not qualify as operating segments.

Industry segment results for the three months ended June 30, 2003:

	High Sulfur	Low Sulfur	Metallurgical	Other Coal	Total Coal	Gas	All Other	Corporate, Adjustments & Eliminations	Consolidated
Sales outside	\$ 148,905	\$ 199,416	\$ 62,022	\$ 31,280	\$ 441,623	\$ 50,742	\$ 18,870	\$	\$ 511,235
Freight outside				25,555	25,555			25	25,580
Intersegment transfers						834	22,609	(23,443)	
<b>Total Sales and Freight</b>	<b>\$ 148,905</b>	<b>\$ 199,416</b>	<b>\$ 62,022</b>	<b>\$ 56,835</b>	<b>\$ 467,178</b>	<b>\$ 51,576</b>	<b>\$ 41,504</b>	<b>\$ (23,443)</b>	<b>\$ 536,815</b>
Earnings (Loss) Before Income Taxes	\$ 26,489	\$ 10,304	\$ 5,183	\$ (29,421)	\$ 12,555	\$ 17,173	\$ (5,060)	\$ (9,399)	\$ 15,269(A)
Segment assets					\$ 2,803,276	\$ 609,898	\$ 224,272	\$ 563,577	\$ 4,201,023(B)
Depreciation, depletion and amortization					\$ 49,790	\$ 9,589	\$ 2,914	\$	\$ 62,293
Capital expenditures					\$ 45,194	\$ 18,240	\$ 640	\$	\$ 64,074

(A) Includes equity in earnings (loss) of unconsolidated equity affiliates of (\$3,940), (\$328) and (\$472) for Other Coal, Gas and All Other, respectively.

(B) Includes investments in unconsolidated equity affiliates of \$37,378, \$15,767 and \$28,428 for Coal, Gas and All Other, respectively. Also, included in the Coal segment is \$26,006 of receivables related to the Export Sales Excise Tax Resolution.

Industry segment results for the three months ended June 30, 2002:

	High Sulfur	Low Sulfur	Metallurgical	Other Coal	Total Coal	Gas	All Other	Corporate, Adjustments & Eliminations	Consolidated
Sales outside	\$ 109,160	\$ 216,011	\$ 45,077	\$ 56,411	\$ 426,659	\$ 35,020	\$ 20,394	\$	\$ 482,073
Sales related parties		815			815				815
Freight outside				33,663	33,663		36		33,699
Freight related parties				549	549				549
Intersegment transfers						543	22,815	(23,358)	
<b>Total Sales and Freight</b>	<b>\$ 109,160</b>	<b>\$ 216,826</b>	<b>\$ 45,077</b>	<b>\$ 90,623</b>	<b>\$ 461,686</b>	<b>\$ 35,563</b>	<b>\$ 43,245</b>	<b>\$ (23,358)</b>	<b>\$ 517,136</b>
<b>Earnings (Loss) Before</b>									
Income Taxes	\$ 8,800	\$ 22,698	\$ 192	\$ (20,352)	\$ 11,338	\$ 8,323	\$ (6,975)	\$ (13,453)	\$ (767)(C)
Segment assets					\$ 3,043,109	\$ 548,084	\$ 210,384	\$ 547,098	\$ 4,348,675(D)
<b>Depreciation, depletion and amortization</b>									
					\$ 54,773	\$ 8,597	\$ 2,431	\$	\$ 65,801
Capital expenditures					\$ 64,894	\$ 11,401	\$ 3,088	\$	\$ 79,383

(C) Includes equity in earnings (loss) of unconsolidated equity affiliates of (\$1,256), (\$556) and (\$217) for Other Coal, Gas and All Other, respectively.

(D) Includes investments in unconsolidated equity affiliates of \$78,067, \$11,259 and \$29,933 for Coal, Gas and All Other, respectively. Also, included in the Coal segment is \$71,581 of receivables related to the Export Sales Excise Tax Resolution.

Industry segment results for the six months ended June 30, 2003:

	High Sulfur	Low Sulfur	Metallurgical	Other Coal	Total Coal	Gas	All Other	Corporate, Adjustments & Eliminations	Consolidated
Sales outside	\$ 278,658	\$ 404,869	\$ 120,885	\$ 72,661	\$ 877,073	\$ 102,525	\$ 38,197	\$	\$ 1,017,795
Sales related parties		1,267	102		1,369				1,369
Freight outside				57,462	57,462		146		57,608
Freight related parties				562	562				562
Intersegment transfers						1,785	46,842	(48,627)	
<b>Total Sales and Freight</b>	<b>\$ 278,658</b>	<b>\$ 406,136</b>	<b>\$ 120,987</b>	<b>\$ 130,685</b>	<b>\$ 936,466</b>	<b>\$ 104,310</b>	<b>\$ 85,185</b>	<b>\$ (48,627)</b>	<b>\$ 1,077,334</b>
Earnings (Loss) Before Income Taxes	\$ 21,200	\$ 42,586	\$ 10,872	\$ (74,702)	\$ (44)	\$ 33,257	\$ (11,220)	\$ (17,784)	\$ 4,209(E)
Segment assets					\$ 2,803,276	\$ 609,898	\$ 224,272	\$ 563,577	\$ 4,201,023(F)
Depreciation, depletion and amortization					\$ 98,750	\$ 18,623	\$ 5,626	\$	\$ 122,999
Capital expenditures					\$ 82,747	\$ 26,912	\$ 1,061	\$	\$ 110,720

(E) Includes equity in earnings (loss) of unconsolidated equity affiliates of (\$3,431), (\$606) and (\$1,040) for Other Coal, Gas and All Other, respectively.

(F) Includes investments in unconsolidated equity affiliates of \$37,378, \$15,767 and \$28,428 for Coal, Gas and All Other, respectively. Also, included in the Coal segment is \$26,006 of receivables related to the Export Sales Excise Tax Resolution.

Industry segment results for the six months ended June 30, 2002:

	High Sulfur	Low Sulfur	Metallurgical	Other Coal	Total Coal	Gas	All Other	Corporate, Adjustments & Eliminations	Consolidated
Sales outside	\$ 244,547	\$ 424,879	\$ 92,438	\$ 120,669	\$ 882,533	\$ 62,712	\$ 42,030		\$ 987,275
Sales related parties		819			819				819
Freight outside				70,001	70,001		130		70,131
Freight related parties				549	549				549
Intersegment transfers						988	48,141	(49,129)	
<b>Total Sales and Freight</b>	<b>\$ 244,547</b>	<b>\$ 425,698</b>	<b>\$ 92,438</b>	<b>\$ 191,219</b>	<b>\$ 953,902</b>	<b>\$ 63,700</b>	<b>\$ 90,301</b>	<b>\$ (49,129)</b>	<b>\$ 1,058,774</b>
Earnings (Loss) Before Income Taxes	\$ 21,379	\$ 58,615	\$ 2,789	\$ (57,018)	\$ 25,765	\$ 11,837	\$ (8,114)	\$ (23,564)	\$ 5,924(G)
Segment assets					\$ 3,043,109	\$ 548,084	\$ 210,384	\$ 547,098	\$ 4,348,675(H)
Depreciation, depletion and amortization					\$ 110,709	\$ 16,759	\$ 4,790		\$ 132,258
Capital expenditures					\$ 116,067	\$ 30,063	\$ 3,559		\$ 149,689

(G) Includes equity in earnings (loss) of unconsolidated equity affiliates of (\$1,258), (\$930) and (\$401) for Other Coal, Gas and All Other, respectively.

(H) Includes investments in unconsolidated equity affiliates of \$78,067, \$11,259 and \$29,933 for Coal, Gas and All Other, respectively. Also, included in the Coal segment is \$71,581 of receivables related to the Export Sales Excise Tax Resolution.

#### Reconciliation of Segment Information to Consolidated Amounts:

Earnings (Loss) Before Income Taxes:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2003	2002	2003	2002
Segment earnings before income taxes for total reportable business segments	\$ 29,728	\$ 19,661	\$ 33,213	\$ 37,602
Segment loss before income taxes for all other businesses	(5,060)	(6,975)	(11,220)	(8,114)

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Incentive compensation	(4,101)	(3,046)	(4,093)	(3,378)
Interest income (expense), net and other non-operating activity	(5,298)	(10,407)	(13,691)	(20,186)
Earnings (Loss) Before Income Taxes	<u>\$ 15,269</u>	<u>\$ (767)</u>	<u>\$ 4,209</u>	<u>\$ 5,924</u>

## Total Assets:

	<b>June 30,</b>	
	<b>2003</b>	<b>2002</b>
Segment assets for total reportable business segments	\$ 3,413,174	\$ 3,591,193
Segment assets for all other businesses	224,272	210,384
Items excluded from segment assets:		
Cash and other investments	14,291	10,611
Export sales excise tax resolution interest receivable		21,655
Deferred tax assets	531,681	421,063
Recoverable income taxes	14,542	90,407
Bond issuance costs	3,063	3,362
<b>Total Consolidated Assets</b>	<b>\$ 4,201,023</b>	<b>\$ 4,348,675</b>

**NOTE 11- GUARANTOR SUBSIDIARIES FINANCIAL INFORMATION:**

The payment obligations under the \$250,000 7.875 percent Notes due 2012 issued by CONSOL Energy in 2002 are fully and unconditionally guaranteed by several subsidiaries of CONSOL Energy. In accordance with positions established by the Securities and Exchange Commission, the following financial information sets forth separate financial information with respect to the parent, the guarantor subsidiaries and the non-guarantor subsidiaries. The principal elimination entries eliminate investments in subsidiaries and certain intercompany balances and transactions. CONSOL Energy, the parent, and a guarantor subsidiary manage several assets and liabilities of their subsidiaries. For example, these include deferred tax assets, cash and other post-employment liabilities. These assets and liabilities are reflected as parent company or guarantor company amounts for purposes of this presentation.



## Income Statement for the Three Months Ended June 30, 2003:

	<u>Parent</u>	<u>Guarantors</u>	<u>Non- Guarantors</u>	<u>Elimination</u>	<u>Consolidated</u>
Sales - Outside	\$	\$ 461,767	\$ 49,468	\$	\$ 511,235
Sales - Related Parties					
Freight - Outside		24,258	1,322		25,580
Freight - Related Parties					
Other Income (including equity earnings)	20,049	19,269	(20,135)	520	19,703
<b>Total Revenue and Other Income</b>	<b>20,049</b>	<b>505,294</b>	<b>30,655</b>	<b>520</b>	<b>556,518</b>
Cost of Goods Sold and Other Operating Charges	6,398	330,692	85,846	(39,245)	383,691
Intercompany Activity	41	31,960	(71,756)	39,755	
Freight Expense		24,258	1,322		25,580
Selling, General and Administrative Expense		15,977	3,412		19,389
Depreciation, Depletion and Amortization	841	58,442	3,010		62,293
Interest Expense	4,286	2,868	1,336		8,490
Taxes Other Than Income	911	36,144	5,365		42,420
Export Sales Excise Tax Resolution		(614)			(614)
<b>Total Costs</b>	<b>12,477</b>	<b>499,727</b>	<b>28,535</b>	<b>510</b>	<b>541,249</b>
Earnings (Loss) Before Income Taxes	7,572	5,567	2,120	10	15,269
Income Taxes (Benefit)	(2,987)	7,199	498		4,710
<b>Net Income (Loss)</b>	<b>\$ 10,559</b>	<b>\$ (1,632)</b>	<b>\$ 1,622</b>	<b>\$ 10</b>	<b>\$ 10,559</b>

## Balance Sheet for June 30, 2003:

	<u>Parent</u>	<u>Guarantors</u>	<u>Non- Guarantors</u>	<u>Elimination</u>	<u>Total</u>
<b>Assets:</b>					
<b>Current Assets:</b>					
Cash and Cash Equivalents	\$ 2,766	\$ 98	\$ 11,103	\$	\$ 13,967
<b>Accounts and Notes Receivable:</b>					
Trade		2,584	167,816		170,400
Other	5,651	63,751	12,551		81,953
Inventories	258	96,489	32,551		129,298
Deferred Income Taxes	89,077				89,077
Recoverable Income Taxes	14,542				14,542
Prepaid Expenses	12,979	13,991	3,004		29,974
<b>Total Current Assets</b>	<b>125,273</b>	<b>176,913</b>	<b>227,025</b>		<b>529,211</b>
<b>Property, Plant and Equipment:</b>					
Property, Plant and Equipment	94,441	4,756,917	513,849		5,365,207
Less-Accumulated Depreciation, Depletion and Amortization	43,270	2,565,318	105,781		2,714,369
<b>Property, Plant and Equipment - Net</b>	<b>51,171</b>	<b>2,191,599</b>	<b>408,068</b>		<b>2,650,838</b>
<b>Other Assets:</b>					
Deferred Income Taxes	442,604				442,604
Intangible Assets, Net		339,258	42,227		381,485
Investment in Affiliates	1,354,371	674,604	87,751	(2,035,153)	81,573
Other	2,562	93,149	19,601		115,312
<b>Total Other Assets</b>	<b>1,799,537</b>	<b>1,107,011</b>	<b>149,579</b>	<b>(2,035,153)</b>	<b>1,020,974</b>
<b>Total Assets</b>	<b>\$ 1,975,981</b>	<b>\$ 3,475,523</b>	<b>\$ 784,672</b>	<b>\$ (2,035,153)</b>	<b>\$ 4,201,023</b>
<b>Liabilities and Stockholders Equity:</b>					
<b>Current Liabilities:</b>					
Accounts Payable	\$ 44,437	\$ 39,945	\$ 25,591	\$	\$ 109,973
Accounts Payable(Recoverable)-Related Parties	1,255,847	(626,949)	(628,898)		
Short-Term Notes Payable	25,000		3,357		28,357
Current Portion of Long-Term Debt		52,220	484		52,704
Other Accrued Liabilities	74,022	401,848	64,593		540,463
<b>Total Current Liabilities</b>	<b>1,399,306</b>	<b>(132,936)</b>	<b>(534,873)</b>		<b>731,497</b>
<b>Long-Term Debt:</b>					
Long-Term Debt	248,211	173,726	20,900		442,837
Capital Lease Obligations		1,934			1,934
<b>Total Long-Term Debt</b>	<b>248,211</b>	<b>175,660</b>	<b>20,900</b>		<b>444,771</b>
<b>Deferred Credits and Other Liabilities:</b>					

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Postretirement Benefits Other Than Pensions		1,450,458			1,450,458
Pneumoconiosis Benefits		449,273			449,273
Mine Closing		233,090	130,960		364,050
Workers Compensation	1,441	219,002	34,682		255,125
Deferred Revenue		72,296	8,419		80,715
Salary Retirement	113,120	215			113,335
Reclamation		6,327	4,863		11,190
Other	63,333	78,338	8,368		150,039
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Deferred Credits and Other Liabilities	177,894	2,508,999	187,292		2,874,185
Stockholders Equity	150,570	923,800	1,111,353	(2,035,153)	150,570
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Liabilities and Stockholders Equity	\$ 1,975,981	\$ 3,475,523	\$ 784,672	\$ (2,035,153)	\$ 4,201,023
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

Condensed Statement of Cash Flows  
For the Three Months Ended June 30, 2003:

	<u>Parent</u>	<u>Guarantors</u>	<u>Non- Guarantors</u>	<u>Elimination</u>	<u>Consolidated</u>
Net Cash Provided by Operating Activities	\$ 137,673	\$ 46,119	\$ 11,950	\$	\$ 195,742
Cash Flows from Investing Activities:					
Capital Expenditures	\$ (2,728)	\$ (49,919)	\$ (11,427)	\$	\$ (64,074)
Investment in Equity Affiliates		(199)	(3,680)		(3,879)
Other Investing Activities	2	4,738	(1,440)		3,300
Net Cash (Used in) Provided by Investing Activities	\$ (2,726)	\$ (45,380)	\$ (16,547)	\$	\$ (64,653)
Cash Flows from Financing Activities:					
Payments on Short-Term Borrowings					
	\$ (125,673)	\$	\$	\$	\$ (125,673)
Proceeds from Long-Term Notes					
Dividends Paid	(11,016)				(11,016)
Other Financing Activities	328	(1,040)	335		(377)
Net Cash (Used in) Provided by Financing Activities	\$ (136,361)	\$ (1,040)	\$ 335	\$	\$ (137,066)

Income Statement for the Three Months Ended June 30, 2002:

	<u>Parent</u>	<u>Guarantors</u>	<u>Non- Guarantors</u>	<u>Elimination</u>	<u>Consolidated</u>
Sales - Outside	\$	\$ 431,506	\$ 50,567	\$	\$ 482,073
Sales - Related Parties		817	(2)		815
Freight - Outside		27,423	6,276		33,699
Freight - Related Parties		549			549
Other Income (including equity earnings)	18,039	6,050	11,197	(19,756)	15,530
Total Revenue and Other Income	18,039	466,345	68,038	(19,756)	532,666
Cost of Goods Sold and Other Operating Charges					
	5,882	309,177	87,766	(40,314)	362,511
Intercompany Activity	298	9,032	(51,339)	42,009	
Freight Expense		27,972	6,276		34,248
Selling, General and Administrative Expense		14,221	2,974		17,195
Depreciation, Depletion and Amortization	133	61,180	4,488		65,801
Interest Expense	6,527	4,579	742		11,848
Taxes Other Than Income	907	36,388	5,572		42,867
Export Sales Excise Tax Resolution		(1,037)			(1,037)

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Total Costs	13,747	461,512	56,479	1,695	533,433
Earnings (Loss) Before Income Taxes	4,292	4,833	11,559	(21,451)	(767)
Income Taxes (Benefit)	(4,735)	(5,439)	380		(9,794)
Net Income (Loss)	\$ 9,027	\$ 10,272	\$ 11,179	\$ (21,451)	\$ 9,027

## Balance Sheet for December 31, 2002:

	<u>Parent</u>	<u>Guarantors</u>	<u>Non- Guarantors</u>	<u>Elimination</u>	<u>Total</u>
<b>Assets:</b>					
<b>Current Assets:</b>					
Cash and Cash Equivalents	\$ 2,651	\$ 293	\$ 8,573	\$	\$ 11,517
<b>Accounts and Notes Receivable:</b>					
Trade		165,110	40,781		205,891
Other	6,481	110,524	10,221		127,226
Inventories	258	93,899	41,464		135,621
Deferred Income Taxes	92,236				92,236
Recoverable Income Taxes	21,935				21,935
Prepaid Expenses	4,770	19,106	4,535		28,411
<b>Total Current Assets</b>	<b>128,331</b>	<b>388,932</b>	<b>105,574</b>		<b>622,837</b>
<b>Property, Plant and Equipment:</b>					
Property, Plant and Equipment	87,689	4,652,501	517,266		5,257,456
Less-Accumulated Depreciation, Depletion and Amortization	41,620	2,477,798	131,815		2,651,233
<b>Property, Plant and Equipment - Net</b>	<b>46,069</b>	<b>2,174,703</b>	<b>385,451</b>		<b>2,606,223</b>
<b>Other Assets:</b>					
Deferred Income Taxes	420,718				420,718
Intangible Assets, Net		323,884	64,478		388,362
Investment in Affiliates	1,367,605	1,110,421	53,953	(2,396,617)	135,362
Other	2,509	96,503	20,646		119,658
<b>Total Other Assets</b>	<b>1,790,832</b>	<b>1,530,808</b>	<b>139,077</b>	<b>(2,396,617)</b>	<b>1,064,100</b>
<b>Total Assets</b>	<b>\$ 1,965,232</b>	<b>\$ 4,094,443</b>	<b>\$ 630,102</b>	<b>\$ (2,396,617)</b>	<b>\$ 4,293,160</b>
<b>Liabilities and Stockholders Equity:</b>					
<b>Current Liabilities:</b>					
Accounts Payable	\$ 110,120	\$ 19,762	\$ 21,489	\$	\$ 151,371
Accounts Payable (Recoverable)- Related Parties	1,023,380	(277,063)	(746,317)		
Short-Term Notes Payable	203,139		1,406		204,545
Current Portion of Long-Term Debt	100	8,032	483		8,615
Other Accrued Liabilities	62,606	328,602	58,694		449,902
<b>Total Current Liabilities</b>	<b>1,399,345</b>	<b>79,333</b>	<b>(664,245)</b>		<b>814,433</b>
<b>Long-Term Debt:</b>					
Long-Term Debt	248,107	217,535	19,893		485,535
Capital Lease Obligations		2,896			2,896
<b>Total Long-Term Debt</b>	<b>248,107</b>	<b>220,431</b>	<b>19,893</b>		<b>488,431</b>
<b>Deferred Credits and Other Liabilities:</b>					

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Postretirement Benefits Other Than					
Pensions		1,437,987			1,437,987
Pneumoconiosis Benefits		455,436			455,436
Mine Closing		200,813	132,107		332,920
Workers Compensation	1,827	222,311	37,112		261,250
Deferred Revenue		86,043	16,357		102,400
Salary Retirement	90,665	809			91,474
Reclamation		3,485	2,327		5,812
Other	63,241	70,340	7,389		140,970
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Deferred Credits and Other					
Liabilities	155,733	2,477,224	195,292		2,828,249
Stockholders Equity	162,047	1,317,455	1,079,162	(2,396,617)	162,047
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Liabilities and Stockholders Equity	\$ 1,965,232	\$ 4,094,443	\$ 630,102	\$ (2,396,617)	\$ 4,293,160
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

Condensed Statement of Cash Flows  
For the Three Months Ended June 30, 2002:

	<u>Parent</u>	<u>Guarantors</u>	<u>Non- Guarantors</u>	<u>Elimination</u>	<u>Consolidated</u>
Net Cash (Used in) Provided by Operating Activities	\$ (78,812)	\$ 86,842	\$ 36,786	\$	\$ 44,816
Cash Flows from Investing Activities:					
Capital Expenditures	\$ (4,019)	\$ (51,385)	\$ (23,979)	\$	\$ (79,383)
Investment in Equity Affiliates	(19,868)		(9,641)		(29,509)
Other Investing Activities		2,682	747		3,429
Net Cash Used in Investing Activities	\$ (23,887)	\$ (48,703)	\$ (32,873)	\$	\$ (105,463)
Cash Flows from Financing Activities:					
Payments on Short-Term Borrowings	\$ 112,672	\$	\$	\$	\$ 112,672
Proceeds from Long-Term Notes					
Payments on Long-Term Notes		(43,000)			(43,000)
Dividends Paid	(22,029)				(22,029)
Other Financing Activities	(94)	(986)			(1,080)
Net Cash Provided by (Used in) Financing Activities	\$ 90,549	\$ (43,986)	\$	\$	\$ 46,563



## Income Statement for the Six Months Ended June 30, 2003:

	<u>Parent</u>	<u>Guarantors</u>	<u>Non- Guarantors</u>	<u>Elimination</u>	<u>Consolidated</u>
Sales - Outside	\$	\$ 866,697	\$ 151,098	\$	\$ 1,017,795
Sales - Related Parties		1,369			1,369
Freight - Outside		49,801	7,807		57,608
Freight - Related Parties		562			562
Other Income (including equity earnings)	36,407	58,188	(30,156)	(25,446)	38,993
<b>Total Revenue and Other Income</b>	<b>36,407</b>	<b>976,617</b>	<b>128,749</b>	<b>(25,446)</b>	<b>1,116,327</b>
Cost of Goods Sold and Other Operating Charges	10,427	668,575	191,468	(78,908)	791,562
Intercompany Activity	278	19,867	(105,369)	85,224	
Freight Expense		50,363	7,807		58,170
Selling, General and Administrative Expense		29,476	6,997		36,473
Depreciation, Depletion and Amortization	1,535	113,078	10,240	(1,854)	122,999
Interest Expense	10,186	6,158	1,622		17,966
Taxes Other Than Income	2,134	70,438	12,990		85,562
Export Sales Excise Tax Resolution		(614)			(614)
<b>Total Costs</b>	<b>24,560</b>	<b>957,341</b>	<b>125,755</b>	<b>4,462</b>	<b>1,112,118</b>
Earnings (Loss) Before Income Taxes	11,847	19,276	2,994	(29,908)	4,209
Income Taxes (Benefit)	(6,869)	(3,430)	560		(9,739)
Earnings (Loss) before Cumulative Effect of Change in Accounting Principle	18,716	22,706	2,434	(29,908)	13,948
Cumulative Effect of Changes in Accounting for Mine Closing, Reclamation, and Gas Well Closing Costs, Net of Income Taxes of \$3,035		2,900	1,868		4,768
<b>Net Income (Loss)</b>	<b>\$ 18,716</b>	<b>\$ 25,606</b>	<b>\$ 4,302</b>	<b>\$ (29,908)</b>	<b>\$ 18,716</b>

Condensed Statement of Cash Flows  
For the Six Months Ended June 30, 2003:

	<u>Parent</u>	<u>Guarantors</u>	<u>Non- Guarantors</u>	<u>Elimination</u>	<u>Consolidated</u>
Net Cash Provided by (Used in) Operating Activities	\$ 205,173	\$ 77,829	\$ (43,900)	\$	\$ 239,102

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<b>Cash Flows from Investing Activities:</b>				
Capital Expenditures	\$ (5,303)	\$ (85,393)	\$ (20,024)	\$ (110,720)
Investment in Equity Affiliates		(214)	(4,496)	(4,710)
Other Investing Activities	3	9,520	67,990	77,513
<b>Net Cash (Used in) Provided by Investing Activities</b>	<b>\$ (5,300)</b>	<b>\$ (76,087)</b>	<b>\$ 43,470</b>	<b>\$ (37,917)</b>
<b>Cash Flows from Financing Activities:</b>				
Payments on Short-Term Borrowings	\$ (177,954)	\$	\$	\$ (177,954)
Proceeds from Long-Term Notes			1,007	1,007
Dividends Paid	(22,032)			(22,032)
Other Financing Activities	228	(1,937)	1,953	244
<b>Net Cash (Used in) Provided by Financing Activities</b>	<b>\$ (199,758)</b>	<b>\$ (1,937)</b>	<b>\$ 2,960</b>	<b>\$ (198,735)</b>

## Income Statement for the Six Months Ended June 30, 2002:

	<u>Parent</u>	<u>Guarantors</u>	<u>Non- Guarantors</u>	<u>Elimination</u>	<u>Consolidated</u>
Sales - Outside	\$	\$ 828,432	\$ 158,843	\$	\$ 987,275
Sales - Related Parties		819			819
Freight - Outside		55,435	14,696		70,131
Freight - Related Parties		549	1,265	(1,265)	549
Other Income (including equity earnings)	26,317	18,374	500	(21,290)	23,901
<b>Total Revenue and Other Income</b>	<b>26,317</b>	<b>903,609</b>	<b>175,304</b>	<b>(22,555)</b>	<b>1,082,675</b>
Cost of Goods Sold and Other Operating Charges	8,533	595,560	200,563	(79,235)	725,421
Intercompany Activity	(3,725)	6,777	(94,707)	91,655	
Freight Expense		55,984	15,961	(1,265)	70,680
Selling, General and Administrative Expense		27,595	6,257		33,852
Depreciation, Depletion and Amortization	841	120,757	12,515	(1,855)	132,258
Interest Expense	10,079	10,507	1,399		21,985
Taxes Other Than Income	2,023	75,438	16,131		93,592
Export Sales Excise Tax Resolution		(1,037)			(1,037)
<b>Total Costs</b>	<b>17,751</b>	<b>891,581</b>	<b>158,119</b>	<b>9,300</b>	<b>1,076,751</b>
Earnings (Loss) Before Income Taxes	8,566	12,028	17,185	(31,855)	5,924
Income Taxes (Benefit)	(5,962)	(4,747)	2,105		(8,604)
<b>Net Income (Loss)</b>	<b>\$ 14,528</b>	<b>\$ 16,775</b>	<b>\$ 15,080</b>	<b>\$ (31,855)</b>	<b>\$ 14,528</b>

Condensed Statement of Cash Flows  
For the Six Months Ended June 30, 2002:

	<u>Parent</u>	<u>Guarantors</u>	<u>Non- Guarantors</u>	<u>Elimination</u>	<u>Consolidated</u>
Net Cash (Used in) Provided by Operating Activities	\$ (144,297)	\$ 156,308	\$ 63,718	\$	\$ 75,729
Cash Flows from Investing Activities:					
Capital Expenditures	\$ (6,526)	\$ (90,002)	\$ (53,161)	\$	\$ (149,689)
Investment in Equity Affiliates	(20,177)	(50)	(14,693)		(34,920)
Other Investing Activities		1,561	(1,013)		548
<b>Net Cash Used in Investing Activities</b>	<b>\$ (26,703)</b>	<b>\$ (88,491)</b>	<b>\$ (68,867)</b>	<b>\$</b>	<b>\$ (184,061)</b>
Cash Flows from Financing Activities:					
Payments on Short-Term Borrowings	\$ (32,078)	\$	\$	\$	\$ (32,078)
Proceeds from Long-Term Notes	246,310				246,310

Payments on Long-Term Notes		(66,000)			(66,000)
Dividends Paid	(44,054)				(44,054)
Other Financing Activities	659	(1,873)			(1,214)
	<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>
Net Cash Provided by (Used in)					
Financing Activities	\$ 170,837	\$ (67,873)	\$	\$	\$ 102,964
	<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>

**NOTE 12 RECENT ACCOUNTING PRONOUNCEMENTS:**

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities, to expand upon and strengthen existing accounting guidance that addresses when a company should include in its financial statements the assets, liabilities and activities of another entity. In general, a variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. Interpretation No. 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entities activities, is entitled to receive a majority of the variable interest entities residual returns, or both. The interpretation also requires disclosures about variable interest entities that the company is not required to consolidate, but in which it has a significant variable interest. The consolidation requirements of Interpretation No. 46 apply immediately to variable interest entities created after January 31, 2003, or for the first fiscal year or interim period that begins after June 15, 2003 for variable interest entities in which an enterprise holds a variable interest in that it acquired before February 1, 2003. As of June 30, 2003, management believes that CONSOL Energy does not have any variable interest entities, therefore, there is no impact from the adoption of this standard.

In May 2003, Statement of Financial Accounting Standards No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity was issued and will be effective for CONSOL Energy for all financial instruments entered into or modified after May 31, 2003, and otherwise is effective for the Company for the third quarter of 2003. This statement affects the classification, measurement and

disclosure requirements of certain freestanding financial instruments including mandatory redeemable shares. As of June 30, 2003, CONSOL Energy does not hold any mandatory redeemable freestanding financial instruments.

In December 2002, Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based compensation Transition and Disclosure, was issued and the disclosure requirements were adopted beginning with the year ended December 31, 2002. CONSOL Energy is currently evaluating the alternative methods of transition to determine if the Company will change to the fair value based method of accounting for stock-based employee compensation.

Statement of Financial Accounting Standards No. 141, Business Combinations (SFAS 141) and Statement of Financial Accounting Standards No. 142, Goodwill and Intangible Assets (SFAS 142) were issued by the Financial Accounting Standards Board (FASB) in June 2001 and became effective for us on July 1, 2001 and January 1, 2002 respectively. The FASB, the Securities and Exchange Commission and others are engaged in deliberations on the issue of whether SFAS 141 and 142 require interests held under oil, gas and mineral leases or other contractual arrangements to be classified as intangible assets. If such interests were deemed to be intangible assets, mineral interest use rights for both undeveloped and developed leaseholds would be classified separate from gas properties as intangible assets on our balance sheets only, but these costs would continue to be disclosed in the aggregate with other costs of our oil and gas properties in the notes to our financial statements in accordance with Statement of Financial Accounting Standards No. 69, Disclosures about Oil and Gas Producing Activities (SFAS 69). Additional disclosures required by SFAS 141 and 142 would be included in the notes to financial statements. Historically, we and, to our knowledge, all other oil and gas companies have included these oil and gas leasehold interests as part of oil and gas properties, even after SFAS 141 and 142 became effective. We believe that few oil and gas companies have adopted this interpretation or changed their balance sheet presentation for oil and gas leaseholds since the implementation of SFAS 141 and 142. CONSOL Energy understands that this interpretation of SFAS 141 and 142 would only affect our balance sheet classification of oil and gas leaseholds acquired after June 30, 2001, and our results of operations would not be affected since these leasehold costs would continue to be amortized in accordance with accounting rules for oil and gas companies provided in Statement of Financial Accounting Standards No. 19, Financial Accounting and Reporting by Oil and Gas Producing Companies. At December 31, 2002 and June 30, 2003, approximately \$16,000 would be classified on our balance sheet as intangible leaseholds if we applied the interpretation currently being deliberated. This classification would require us to make the disclosures set forth under SFAS 142 related to these interests. We currently make the disclosures required by SFAS 69. We continue to classify oil and gas leaseholds as tangible oil and gas properties until further guidance is provided.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION**

### **General**

Total coal sales for the three months ended June 30, 2003 were 16.0 million tons, including a portion of sales by equity affiliates, of which 15.4 million tons were produced by CONSOL Energy operations, by our equity affiliates or sold from inventory of company produced coal. This compares with total coal sales of 16.3 million tons for the three months ended June 30, 2002, of which 15.8 million tons were produced by CONSOL Energy operations, by our equity affiliates or sold from inventory of company produced coal. The decrease in tons sold was due primarily to the closure of the Dilworth and Windsor mines as a result of economically depleted reserves. The decrease in tons sold was also attributable to the idling of the Rend Lake Mine and the sale of the assets at the Cardinal River Mine and Line Creek mines. Production from CONSOL Energy operations, including our percentage of the production for equity affiliates, was 15.5 million tons during the three months ended June 30, 2003 and 16.7 million tons during the three months ended June 30, 2002. Company produced inventory, including our portion of inventory at equity affiliates, was 2.5 million tons at June 30, 2003 and was 3.0 million tons at December 31, 2002. As of July 2003, CONSOL Energy has firm or committed coal sales for 98% of its projected remaining 2003 production of 31 to 32 million tons at an average sales price of \$27.53 per ton. However, in recent periods, as inventory levels at customers increased, we agreed to allow customers to defer accepting



delivery of tons that were contractually committed. Market conditions caused by decreasing demand for electricity could result in our agreeing to allow customers to defer accepting delivery.

Sales volumes of coalbed methane gas, including a percentage of the sales of equity affiliates equal to our interest in these affiliates, increased 4.9% to 12.4 billion cubic feet for the three months ended June 30, 2003 compared with 11.8 billion cubic feet in the three months ended June 30, 2002. The increased sales volumes are primarily due to higher production as a result of additional wells coming on line from the ongoing drilling program. Our average sales price for coalbed methane gas, including sales of equity affiliates, but excluding the effects of derivative transactions, increased 44.1% to \$4.38 per million British thermal units in the three months ended June 30, 2003 compared with \$3.04 per million British thermal units in the three months ended June 30, 2002. Gas prices for the second quarter of 2003 were higher than levels during the second quarter of 2002 primarily due to decreasing gas inventory levels throughout the industry. CONSOL Energy enters into various physical gas supply transactions with our gas marketers (selling gas under short-term multi-month contract nominations generally not exceeding one year.) CONSOL Energy has five float-for-fixed gas swap transactions and two float-for-collar gas swap transactions that qualify as financial cash flow hedges. These transactions have resulted in a \$2.7 million reduction of revenue and a \$0.4 million increase in other comprehensive loss (net of a \$0.2 million increase in deferred tax assets) in the three months ended June 30, 2003. The average sales price, including sales of equity affiliates and including the effects of derivative transactions, was \$4.15 per million British thermal unit for the 2003 period, a 36.8%, or \$1.12 increase compared to the average sales price of \$3.04 per million British thermal unit for the 2002 period. CONSOL Energy sold 88% of sales volumes in the 2003 period at an average price of \$3.92 per million British thermal unit compared to 86% of sales volumes in the 2002 period at \$2.96 per million British thermal unit under contracts agreed to in prior periods. As of July 2003, CONSOL Energy has fixed gas prices for 44.8 billion cubic feet, or approximately 90%, of its projected 2003 production at \$4.04 per million British thermal unit subject to the effects of mark to market adjustments that will be determined at the end of each period.

In July 2003, Standard and Poor's lowered its rating of our long-term debt to BB+. Standard and Poor's defines an obligation rated BB+ (5<sup>th</sup> lowest out of 10 rating categories) as less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions, which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation. The plus sign shows relative standing within the rating category. As a result of the lower debt rating, CONSOL Energy is no longer able to participate as a seller in the commercial paper market. Alternate sources of short-term borrowing, including the Senior Revolving Credit facility and the Accounts Receivable Securitization, are available and sufficient to service CONSOL's current liquidity and capital requirements. Also, CONSOL Energy is currently exploring options to refinance its \$218 million short-term facility that expires in September 2003. If the facility cannot be extended or replaced, our ability to secure letters of credit to meet regulatory obligations may be affected.

Also, in July 2003, Moody's Investor Service placed CONSOL Energy under review for possible downgrade. In August 2002, Moody's Investor Service lowered the senior unsecured debt ratings of CONSOL Energy from Baa1 to Baa2 (9<sup>th</sup> lowest out of 21 rating categories). At that time, Moody's Investor Service also changed our rating outlook from stable to negative. Bonds which are rated Baa are considered as medium-grade obligations (i.e., they are neither highly protected nor poorly secured). The rating means that interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well. The modifier 2 indicates that the obligation ranks in the mid-range of its generic rating category.

A security rating is not a recommendation by a rating agency to buy, sell or hold securities. The security rating may be subject to change.



In July 2003, CONSOL Energy entered into agreements with Triana Energy Inc. to explore for and produce natural gas on CONSOL Energy's existing properties located in southwestern Virginia. The agreement calls for CONSOL Energy and Triana Energy Inc. to develop jointly natural gas on approximately 138,000 acres leased or owned by CONSOL Energy through June 2008. Triana Energy Inc. will be responsible for geological evaluation, drilling, and completion of all wells. CONSOL Energy will be the operator of the wells, and will be responsible for construction and operation of all gathering systems. Triana Energy Inc. and CONSOL Energy will share as 50% partners on a well by well basis at CONSOL Energy's option. The project is considered an exploration of an undeveloped area. No reserve estimates for conventional gas are available for this property. It is anticipated that drilling will start in the third quarter of 2003 and CONSOL Energy expects to incur approximately \$1 million of capital expenditures in the remainder of 2003 related to this project.

In July 2003, CONSOL Energy entered an agreement with C&P Coal Corporation, a Salt Lake City-based corporation, to sell the physical assets, inventory, mine reserves and operations of its Emery Mine in Utah. The sale is subject to final due diligence and receipt of various business approvals, and is expected to close in the fourth quarter of 2003. This transaction is not expected to have a material impact on the financial position or results of operations of CONSOL Energy.

In June 2003, RWE AG, the owner of 74% of the common stock of CONSOL Energy, announced in amendment to its Schedule 13D filing that it was considering the disposition of some or all of its shares. The disposition, if it occurs, could take various forms. RWE stated that it reserves the right not to dispose of any shares.

In May 2003, CONSOL Energy filed an \$800 million universal shelf registration statement with the Securities and Exchange Commission. This filing is currently under review by the staff of the Securities and Exchange Commission and to date has not become effective.

In April 2003, CONSOL Energy entered into an agreement to establish an Accounts Receivable Securitization facility that will provide, on a revolving basis, up to \$125 million of short term funding. Costs for drawing against this facility are based on commercial paper interest rates. This facility had approximately \$66 million available at June 30, 2003.

In February 2003, our Loveridge Mine experienced a fire near the bottom of the slope entry that is used to carry coal from the mine to the surface. The cost of extinguishing the fire is estimated to be approximately \$8 million, net of expected insurance recovery. The Loveridge Mine was idle during 2002. In late December 2002, the mine began the process of developing a new underground area that would be mined with longwall mining equipment that was expected to be installed later in 2003. The fire is currently being extinguished and preparations are being made to begin production during the first-half of 2004.

In January 2003, Mine 84, near Washington, Pennsylvania experienced a fire along several hundred feet of the conveyor belt entry servicing the longwall section of the mine. The fire was extinguished approximately two weeks later. On January 20, 2003, the mine resumed production on a limited basis with continuous mining machines, while repairs continued on the belt entry. The fire caused damage to the roof support system, conveyor belt and steel framework on which the belt travels. Repairs took several weeks to complete and are estimated to cost approximately \$7 million, net of expected insurance recovery. Longwall coal production, which accounts for the majority of coal normally produced at the mine, resumed on February 10, 2003.

CONSOL Energy continues to convert to a new integrated information technology system provided by SAP AG to support business processes. The new technology is expected to provide strategic software alternatives to meet future core business needs. The system will continue to be implemented in stages throughout 2003 at an estimated total cost of \$53 million, of which \$42 million has already been incurred.

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## Results of Operations

### *Three Months Ended June 30, 2003 Compared with Three Months Ended June 30, 2002*

#### *Net Income*

CONSOL Energy's net income was \$11 million for the three months ended June 30, 2003 compared to \$9 million for the three months ended June 30, 2002. The increase primarily was due to a \$28 million increase in sales revenue, offset, in part, by a \$21 million increase in costs of goods sold and other charges and a \$15 million reduction in income tax benefits. Higher sales revenue was due mainly to higher average sales prices for coal and gas in the 2003 period compared to the 2002 period. Higher cost of goods sold and other charges primarily was due to increased costs related to long-term employee benefits such as Other Post Employment Benefits and Salaried Pension costs and increased gas royalty expenses related to the higher average sales prices received. The change in income taxes was due mainly to pre-tax income in the 2003 period compared to pre-tax loss in the 2002 period with little loss of percentage depletion tax benefits. Changes in net income for the three months ended June 30, 2003 compared to the three months ended June 30, 2002 were also due to a \$4 million increase in Other Income, a \$4 million reduction in depreciation, depletion and amortization, and a \$4 million reduction in Interest Expense, offset, in part, by a \$2 million increase in selling, general and administrative costs. The increase in Other Income was primarily due to the expiration of a nonrefundable option granted to a third party to purchase property and the sale of surplus equipment. The reduction in depreciation, depletion and amortization was primarily due to equipment at the Dilworth mine and the related preparation plant becoming fully depreciated prior to the 2003 period that coincided with the closure of the mine due to economically depleted reserves. The reduction in interest expense was primarily due to the implementation of Statement of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations and lower average commercial paper balances outstanding during the 2003 period. General and administrative costs increased primarily due to increased training and other costs related to the implementation of the new integrated information technology system provided by SAP AG, higher salaried pension expenses and higher medical expenses for retired employees.

#### *Revenue*

Sales increased \$28 million, or 5.9%, to \$511 million for the 2003 period from \$483 million for the 2002 period.

Revenues from the sale of gas increased 44.6%, or \$16 million, to \$51 million in the 2003 period compared to \$35 million in the 2002 period. The increase was primarily due to a higher average sales price in the 2003 period compared to the 2002 period. The average sales price, including the effects of derivative transactions, was \$4.15 per million British thermal unit for the 2003 period, a 36.5%, or \$1.11 increase compared to the average sales price of \$3.04 per million British thermal unit for the 2002 period. The increase in average sales price was primarily due to decreasing gas inventory levels throughout the industry. CONSOL Energy enters into various physical gas supply transactions with our gas marketers, selling gas under short-term multi-month contract nominations generally not exceeding one year. CONSOL Energy has also entered into five float-for-fixed gas swap transactions and two float-for-collar gas swap transactions that qualify as financial cash flow hedges, which exist parallel to the underlying physical transactions. CONSOL Energy sold 88% of sales volumes in the 2003 period at an average price of \$3.92 per million British thermal unit compared to 86% of sales volumes in the 2002 period at \$2.96 per million British thermal unit under contracts agreed to in prior periods. The increase in gas sales revenue was also due to higher volumes of gas sold. Sales volumes were 12.4 billion cubic feet, a 5.7%, or 0.7 billion cubic feet increase from the 2002 period. Higher sales volumes were a result of wells coming on line from the ongoing drilling program.

Company produced coal sales revenue increased \$11 million, or 2.7%, to \$423 million in the 2003 period from \$412 million in the 2002 period. The increase in company produced coal revenue was due mainly to higher average sales prices per ton. Average sales price per ton of company produced coal increased 4.0% to \$27.67 per ton for the 2003 period from \$26.60 per ton for the 2002 period. The increase in average sales price reflects higher prices negotiated in the second half of 2002. Company produced tons sold were 15.3 million tons in the 2003 period, a 0.2 million ton, or 1.3%, decrease from the 2002 period. The decrease in tons sold was primarily due to the closure of the Dilworth and Windsor mines because economically mineable reserves were depleted. The decrease in tons sold was also attributable to the idling of the Rend Lake Mine and the sale of the assets at the Cardinal River Mine. These closed and idled mines reduced overall company production. The decreases in tons sold at these closed and idled mines were offset, in part, by increased sales of coal produced at the McElroy Mine and several other mines. The increases at McElroy Mine were due primarily to the mine running for the full three month period in 2003 compared to being idled for two months of the 2002 period. The increase at McElroy is also attributable to the preparation plant expansion that was completed in the last quarter of 2002.

Revenues from the sale of purchased coal increased by \$3 million, or 21.4%, to \$18 million in the 2003 period from \$15 million in the 2002 period. The increase in purchased coal revenue was due mainly to an increase in the tons sold. Purchased coal tons sold were 0.6 million tons in the 2003 period, a 0.2 million ton, or 35.2%, increase from the 2002 period. The increase in sales volumes of purchased coal was offset, in part, by a decrease in the average sales price per ton of purchased coal. Average sales price per ton of purchased coal decreased \$3.54 per ton, or 10.2%, to \$31.00 in the 2003 period compared to \$34.54 per ton in the 2002 period.

Revenues from the sale of industrial supplies were \$16 million for both the 2003 period and the 2002 period.

Freight revenue, outside and related party, decreased 25.3% to \$26 million for the 2003 period from \$34 million in the 2002 period. Freight revenue is based on weight of coal shipped, negotiated freight rates and method of transportation (i.e., rail, barge, truck, etc.) used for the customers to which CONSOL Energy contractually provides transportation services. Freight revenue is the amount billed to customers for transportation costs incurred.

Other income, which consists of interest income, gain or loss on the disposition of assets, equity in earnings of affiliates, service income, royalty income, rental income and miscellaneous income, was \$20 million in the 2003 period compared to \$16 million in the 2002 period. The increase of \$4 million, or 26.9% was primarily due to \$7 million of additional gain on sale of assets in the 2003 period. The gain on sale of assets in the 2003 period principally relates to an option granted to a third party to purchase property, which expired, for which CONSOL Energy received nonrefundable proceeds of \$5 million. Gain on sale of assets also includes gain from the sale of surplus equipment. The increase in Other Income was also due to a \$2 million gain on a foreign currency derivative. We entered into foreign currency hedge contracts on July 10, 2002 to permit CONSOL Energy Australia Pty (CEA) to purchase Australian dollars at a fixed exchange rate. CEA entered into these hedges in order to minimize exposure to foreign exchange rate fluctuations. Future hedge contracts will be made in order to satisfy the requirement in CEA's credit agreement to provide protection for the forecasted currency exposure for a rolling two-year period. Other income also includes a \$3 million refund received from the federal government for prior claims related to harbor maintenance fees imposed by Federal statute that was subsequently declared unconstitutional. These claims have been pursued since 1991, and we do not expect other refunds related to these claims. These changes in Other Income were reduced, in part, by \$7 million of income related to a contract settlement which occurred in the 2002 period. Reductions of \$1 million were due to various transactions that occurred throughout both periods, none of which were individually material.

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*Costs*

Cost of Goods Sold and Other Operating Charges increased \$21 million, or 5.8%, to \$384 million in the 2003 period compared to \$363 million in the 2002 period.

Gas operations cost of goods sold increased 34.2% to \$21 million in the 2003 period from \$16 million in the 2002 period. The increase of \$5 million was due mainly to a 26.5% increase in the average cost per million British thermal unit sold. The average cost per million British thermal unit was \$1.72 in the 2003 period compared to \$1.36 in the 2002 period. Average cost per million British thermal unit increased in the 2003 period primarily due to an increase of \$0.30 per million British thermal unit in royalty expense. Royalty expense increased primarily due to a 44.1% increase in average sales price per British thermal unit in the 2003 period compared to the 2002 period. The increase in cost was also due to a 5.7% increase in the volume sold. Volumes in the 2003 period were 12.4 million cubic feet compared to 11.7 million cubic feet in the 2002 period. The increased volumes sold were due mainly to additional production from wells coming on line.

Cost of goods sold and other charges for company produced coal was \$297 million in the 2003 period, an increase of \$11 million, or 4.1%, from \$286 million in the 2002 period. The increase in cost of goods sold and other charges for company produced coal was due to a \$1.02, or 5.5%, increase in the cost per ton sold. Costs per ton of coal sold were higher primarily due to increased medical expense for retired employees and increased salaried pension expenses. Retiree medical and salaried pension expenses are actuarially determined based on several assumptions as discussed in *Critical Accounting Policies* and in the notes to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2002. These increases in cost per ton of company produced coal were offset, in part, by a decrease in the volume of company produced coal sold. Company produced sales tons decreased 0.2 million tons, or 1.3%, to 15.3 million tons in the 2003 period compared to 15.5 million tons in the 2002 period.

Purchased coal cost of goods sold and other charges increased 19.7% to \$18 million in the 2003 period from \$15 million in the 2002 period. The \$3 million increase was due mainly to a 0.2 million ton, or 35.2%, increase in the volume of purchased coal sold. This increase in costs due to volume was offset, in part, by a \$3.87, or 11.5%, decrease in the cost per ton of purchased coal. The average cost per purchased ton was \$29.78 in the 2003 period compared to \$33.65 in the 2002 period. The average cost per purchased ton decreased as a result of general market conditions during the period.

Miscellaneous cost of goods sold and other operating charges increased \$7 million to \$16 million in the 2003 period from \$9 million in the 2002 period. An increase of approximately \$1 million is due to severance cost accruals for the Cardinal River Mine, for which CONSOL Energy remains responsible following the sale of the mine's assets. The termination plan for the Cardinal River Mine was communicated to employees of the mine during the 2003 period. Accordingly, CONSOL Energy recognized the cost estimate of the plan for which it is responsible. An increase of approximately \$1 million was due to additional salary incentive compensation accruals under a company plan for employees in the 2003 period compared to the 2002 period. The remaining \$5 million increase in miscellaneous cost of goods sold and other operating charges was due to various miscellaneous transactions that occurred throughout both periods, none of which were individually material.

These increases in the cost of goods sold and other charges were offset, in part, by decreases in cost of goods sold and other charges for closed and idle mines. Cost of goods sold and other charges for closed and idle mines have decreased \$4 million, or 21.8%, to \$15 million in the 2003 period from \$19 million in the 2002 period. The decrease is primarily due to approximately \$10 million of expenses related to mines that were idled for all or part of the 2002 period that were operating in the 2003 period, including the Loveridge, Humphrey and McElroy mines, or that were closed in the 2002 period. The decreases in costs associated with closed and idle mines were offset, in part, by approximately \$5 million of additional mine closing and reclamation expenses related to changes in the method of accounting for these liabilities. In January 2003, CONSOL Energy adopted Statement of Financial



Accounting Standards No. 143, *Accounting for Asset Retirement Obligations*. Under this statement, the interest accretion related to the discounted portions of mine closing, reclamation and gas well closing liabilities, previously reported as interest expense, are now reported as operating expenses. Under the previous method of accounting for mine closing, reclamation and gas well closing obligations, the estimated obligations for closed mines were fully accrued and adjusted annually as the estimates were updated by engineers. The decrease in costs was also offset, in part, by approximately \$2 million of costs attributable to several mines that were idled or closed shortly before the 2003 period that were operating during the 2002 period. These mines include Dilworth, Rend Lake and Meigs Mines.

Industrial supplies cost of goods sold also decreased \$1 million, or 3.7%, to \$18 million in the 2003 period compared to \$19 million in the 2002 period. The decrease was due to reduced sales volumes.

Freight expense decreased 25.3% to \$26 million in the 2003 period from \$34 million in the 2002 period. Freight expense is based on weight of coal shipped, negotiated freight rates and method of transportation (i.e., rail, barge, truck, etc.) used for the customers to whom CONSOL Energy contractually provides transportation. Freight expense is billed to customers and the revenue from such billings equals the transportation expense.

Selling, general and administrative expenses increased \$2 million, or 12.8%, to \$19 million in the 2003 period from \$17 million in the 2002 period. The increase is due to increased training costs and other costs related to the implemented modules of the new integrated information technology system provided by SAP AG. We continue to convert various portions of our computer systems into this new technology. Selling, general and administrative expenses have also increased due to higher medical costs for active and retired employees and increased salaried pension costs. These increases in costs were offset, in part, by lower use of professional consulting services in the 2003 period.

Depreciation, depletion and amortization expense decreased \$4 million, or 5.3%, to \$62 million in the 2003 period compared to \$66 million in the 2002 period. The decrease of \$4 million is primarily due to equipment at the Dilworth mine and the related preparation plant becoming fully depreciated prior to the 2003 period to coincide with the closure of the mine due to economically depleted reserves. This decrease was offset, in part, by increased amortization expense related to the gas segment primarily due to additional production in the 2003 period. The decrease was also offset, in part, by a \$1 million increase due to the depreciation of the assets recorded in relation to the adoption of Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations* (SFAS No. 143). SFAS No. 143 requires depreciation of the capitalized asset retirement cost. The depreciation of these assets is generally determined on a units-of-production basis over the life of the producing assets.

Interest expense decreased \$4 million, or 28.3%, to \$8 million for the 2003 period compared to \$12 million for the 2002 period. Interest expense decreased \$2 million due to the implementation of Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations*. Under this statement, the interest accretion related to the discounted portions of mine closing, reclamation and gas well closing liabilities, previously reported as interest expense, are now reported as operating expenses. Interest expense on commercial paper decreased \$1 million in the 2003 period compared to the 2002 period. This was due primarily to a \$182 million reduction in the average principal amount of commercial paper outstanding and a 0.6% per annum reduction in the weighted average interest rate in the 2003 period from the 2002 period.

Taxes other than income decreased 1.0% to \$42 million for the 2003 period compared to \$43 million for the 2002 period. The decrease of \$1 million was due to slightly reduced property taxes, offset in part, by increased severance taxes. Property taxes decreased due to an adjustment in the 2003 period to prior year estimated accruals to reflect actual amounts paid. Severance taxes increased due to increased volume and market price of gas sold in the 2003 period compared to the 2002 period.

CONSOL Energy is no longer required to pay certain excise taxes on export sales. We have received refunds in the 2003 period for our claims and related interest for the years 1994-1999. Upon receipt of these items, we have adjusted our estimate of interest receivable to the actual amount received. This adjustment resulted in an additional \$0.6 million of income due mainly to interest income related to these claims. A \$26 million receivable for the claims for the years 1991-1993 is still outstanding. There is no interest receivable related to these claims.

#### *Income Taxes*

Income taxes were an expense of \$5 million in the 2003 period compared to a benefit of \$10 million in the 2002 period. The change of \$15 million was due mainly to pre-tax income in the 2003 period compared to pre-tax loss in the 2002 period with little loss of percentage depletion tax benefits. Our effective tax rate for the 2003 period was determined using an annual effective rate method compared to the discrete method used in the quarter ended March 31, 2003. The effective tax rate is sensitive to changes in annual profitability and percentage depletion. The provision for income taxes is adjusted at the time the returns are filed to reflect changes in previously estimated amounts. Income taxes were reduced in the 2003 period by \$1 million related to these adjustments. Income taxes were reduced by \$3 million in the 2002 period.

#### ***Six Months Ended June 30, 2003 Compared with Six Months Ended June 30, 2002***

#### *Net Income*

CONSOL Energy's net income was \$19 million for the six months ended June 30, 2003 compared to \$15 million for the six months ended June 30, 2002. The increase of \$4 million primarily was due to \$5 million of income, net of \$3 million of deferred tax expense, recognized as a result of the cumulative effect of change in accounting principle related to the adoption of the Statement of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations (SFAS No. 143). This statement requires the fair value of an asset retirement obligation to be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The present value of the estimated asset retirement costs is capitalized as part of the carrying amount of the long-lived asset. Asset retirement obligations primarily relate to the closure of mines and gas wells and the reclamation of land upon exhaustion of coal and gas reserves. Under previous accounting standards, such obligations were recognized ratably over the life of the producing assets, primarily on a units-of-production basis. Income before the cumulative effect of change in accounting for mine closing, reclamation and gas well closing costs for the six months ended June 30, 2003 was \$14 million compared to \$15 million in the six months ended June 30, 2002. This decline is primarily due to increased costs related to long-term employee benefits including costs related to Other Post Employment Benefits and Salaried Pension and costs of approximately \$15 million associated with two mine fires experienced in the year to date 2003 period. The decline was offset, in part, by higher average sales prices for gas and coal in the year to date 2003 period compared to the 2002 period, as well as an increase in Other Income primarily due to an increase in gains on sales of assets. The decline was also offset, in part, by reduced costs for depreciation, depletion and amortization and taxes other than income related to reduced production in the period-to-period comparison. Net income also reflects an income tax benefit of \$10 million for the 2003 year to date period and a benefit of \$9 million for the 2002 year to date period.

#### *Revenue*

Sales increased \$31 million, or 3.1%, to \$1,019 million for the year to date 2003 period from \$988 million for the year to date 2002 period.

Revenues from the sale of gas increased 63.2%, or \$39 million, to \$102 million in the year to date 2003 period compared to \$63 million in the year to date 2002 period. The increase was primarily due to a higher average sales

price in the year to date 2003 period compared to the year to date 2002 period. The average sales price,



including the effects of derivative transactions, was \$4.31 per million British thermal unit for the year to date 2003 period, a 52.3%, or \$1.48 increase compared to the average sales price of \$2.83 per million British thermal unit for the year to date 2002 period. The increase in average sales price was primarily due to decreasing gas inventory levels throughout the industry from year to year. CONSOL Energy enters into various physical gas supply transactions with our gas marketers, selling gas under short-term multi-month contract nominations generally not exceeding one year. CONSOL Energy has also entered into five float-for-fixed gas swap transactions and two float-for-collar gas swap transactions that qualify as financial cash flow hedges, which exist parallel to the underlying physical transactions. CONSOL Energy sold 88% of sales volumes in the year to date 2003 period at an average price of \$4.09 per million British thermal unit compared to 77% of sales volumes locked in for the year to date 2002 period at an average price of \$2.91 per British thermal unit under contracts agreed to in prior periods. The increase in gas sales revenue was also due to higher volumes of gas sold. Sales volumes were 24.1 billion cubic feet, a 7.4%, or 1.6 billion cubic feet increase from the year to date 2002 period. Higher sales volumes were a result of wells coming on line from the ongoing drilling program.

Company produced coal sales revenue remained constant at \$841 million for both the year to date 2003 period and the year to date 2002 period. Company produced coal revenue remained constant due to an increase in average sales price, offset by a decrease in the volume sold. Average sales price per ton of company produced coal increased 3.3% to \$27.40 per ton for the year to date 2003 period from \$26.52 per ton for the year to date 2002 period. The increase in average sales price for the year to date 2003 period reflects higher prices negotiated in the second half of 2002. Company produced tons sold were 30.7 million tons in the year to date 2003 period, a 1.0 million ton, or 3.3%, decrease from the year to date 2002 period. The decrease in tons sold was due primarily to the closure of the Dilworth, Humphrey, Meigs and Windsor mines because economically mineable reserves were depleted. The decrease in tons sold was also attributable to the idling of the Rend Lake Mine and the sale of the assets at the Cardinal River Mine. These closed and idled mines reduced overall company production. The decreases in tons sold at these closed and idled mines were offset, in part, by increased sales of company produced coal at the McElroy Mine and several other locations. The increases at McElroy Mine were due primarily to the mine running for the full 2003 period in the year to date 2003 compared to being idled for two months of the year to date 2002 period. The increase in tons produced at McElroy is also attributable to the preparation plant expansion that was completed in the last quarter of 2002.

Revenues from the sale of purchased coal decreased by \$4 million, or 10.3%, to \$38 million in the year to date 2003 period from \$42 million in the year to date 2002 period. Average sales price per ton of purchased coal decreased \$1.67 per ton, or 4.9%, to \$32.36 in the year to date 2003 period compared to \$34.03 per ton in the year to date 2002 period. Purchased coal tons sold were 1.2 million tons in the year to date 2003 and the year to date 2002 periods.

Revenues from the sale of industrial supplies decreased by \$3 million, or 7.9%, to \$31 million in the year to date 2003 period from \$34 million in the year to date 2002 period primarily due to reduced sales volumes.

Freight revenue, outside and related party, decreased 17.7% to \$58 million for the year to date 2003 period from \$71 million in the year to date 2002 period. Freight revenue is based on weight of coal shipped, negotiated freight rates and method of transportation (i.e., rail, barge, truck, etc.) used for the customers to which CONSOL Energy contractually provides transportation services. Freight revenue is the amount billed to customers for transportation costs incurred.

Other income, which consists of interest income, gain or loss on the disposition of assets, equity in earnings of affiliates, service income, royalty income, rental income, derivative gains or loss and miscellaneous income, was \$39 million in the year to date 2003 period compared to \$24 million in the year to date 2002 period. The increase of \$15 million, or 63.1% was primarily due to additional gain on sale of assets in the year to date 2003 period. The gain on sale of assets was \$17 million in the year to date 2003 period compared to \$2 million in the year to date 2002 period. The increase principally relates to the expiration in the year to date 2003 period of an



option granted to a third party to purchase property for which CONSOL Energy received nonrefundable proceeds of \$5 million. Gain on sale of assets also includes gain from the sale of surplus equipment. Increased Other Income was also due to \$4 million gain on a foreign currency derivative. We entered into foreign currency hedge contracts on July 10, 2002 to permit CONSOL Energy Australia Pty (CEA) to purchase Australian dollars at a fixed exchange rate. CEA entered into these hedges in order to minimize exposure to foreign exchange rate fluctuations. Future hedge contracts will be made in order to satisfy the requirement in CEA's credit agreement to provide protection for the forecasted currency exposure for a rolling two-year period. Other income also includes a \$3 million refund received from the federal government for prior claims related to harbor maintenance fees imposed by Federal statute that was subsequently declared unconstitutional. These claims have been pursued since 1991, and we do not expect other refunds related to these claims. These changes in Other Income were reduced, in part, by \$7 million of income related to a contract settlement which occurred in the year to date 2002 period.

### *Costs*

Cost of Goods Sold and Other Operating Charges increased \$67 million, or 9.1%, to \$792 million in the year to date 2003 period compared to \$725 million in the year to date 2002 period.

Gas operations cost of goods sold increased \$10 million, or 33.2%, to \$40 million in the year to date 2003 period from \$30 million in the year to date 2002 period. The increase was due mainly to a 23.8% increase in the average cost per million British thermal unit sold. The average cost per million British thermal unit was \$1.65 in the year to date 2003 period compared to \$1.33 in the year to date 2002 period. Average cost per million British thermal unit increased in the year to date 2003 period primarily due to an increase of \$0.29 per million British thermal unit in royalty expense. Royalty expense increased primarily due to a 59.4% increase in average sales price per British thermal unit in the year to date 2003 period compared to the year to date 2002 period. The increase was also due to an increase of 7.4% in the volume sold. Volumes in the year to date 2003 period were 24.1 million cubic feet compared to 22.5 million cubic feet in the year to date 2002 period. The increased volumes sold were due mainly to additional production from wells coming on line.

Cost of goods sold and other charges for company produced coal was \$601 million in the year to date 2003 period, an increase of \$31 million, or 5.4%, from \$570 million in the year to date 2002 period. The increase in cost of goods sold and other charges for company produced coal was due to a \$1.62, or 9.0%, increase in the cost per ton sold. Costs per ton of coal sold are higher primarily due to increased medical expense for retired employees and increased salaried pension expenses. Retiree medical and salaried pension expenses are actuarially determined based on several assumptions as discussed in *Critical Accounting Policies* and in the notes to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2002. These increases in cost per ton of company produced coal were offset, in part, by a decrease in the volume of company produced coal sold. Company produced sales tons decreased 1.0 million tons, or 3.3%, to 30.7 million tons in the year to date 2003 period compared to 31.7 million tons in the year to date 2002 period.

Miscellaneous cost of goods sold and other operating charges increased \$32 million to \$49 million in the year to date 2003 period from \$17 million in the year to date 2002 period. An increase of \$15 million was primarily due to two mine fires in the year to date 2003 period. In January 2003, Mine 84 experienced a fire along several hundred feet of the conveyor belt entry servicing the longwall section of the mine. The fire was extinguished approximately two weeks later. On January 20, 2003, the mine resumed production on a limited basis with continuous mining machines, while repairs continued on the belt entry. The fire caused damage to the roof support system, the conveyor belt and the steel framework on which the belt travels. Repairs took several weeks to complete and are estimated to cost approximately \$7 million, net of expected insurance recovery. Longwall coal production, which accounts for the majority of coal normally produced at the mine resumed on February 10, 2003. In February 2003, our Loveridge Mine experienced a fire near the bottom of the slope entry



that is used to carry coal from the mine to the surface. The cost of extinguishing the fire is estimated to be approximately \$8 million, net of expected insurance recovery. The Loveridge Mine was idle during 2002 due to market conditions. In late December 2002, the mine began the process of developing a new underground area that would be mined with longwall mining equipment that was expected to be installed later in 2003. The fire has delayed this installation until sometime in 2004. Miscellaneous cost of goods sold and other operating charges also increased \$6 million due to the payment of gas royalties in connection with a dispute between a subsidiary of CONSOL Energy and certain lessors of gas producing properties. An increase of approximately \$1 million is due to severance cost accruals for the Cardinal River Mine for which CONSOL Energy remains responsible following the sale of the mine's assets. The termination plan was communicated to employees of the mine during the 2003 period. Accordingly, CONSOL Energy recognized the cost estimate of the plan for which it is responsible. An increase of approximately \$1 million was due to additional salary incentive compensation accruals under a company plan for employees in the year to date 2003 period compared to the year to date 2002 period. The remaining \$9 million increase in miscellaneous cost of goods sold and other operating charges was due to various miscellaneous transactions that occurred throughout both periods, none of which were individually material.

These increases in the cost of goods sold and other charges were offset, in part, by decreases in cost of goods sold and other charges related to purchased coal. Purchased coal cost of goods sold and other charges decreased \$3 million, or 8.8%, to \$37 million in the year to date 2003 period from \$40 million in the year to date 2002 period. Decreased costs related to purchased coal were primarily due to a decrease in the cost per ton of purchased coal sold. The average cost per purchased ton was \$31.50 in the year to date 2003 period compared to \$32.55 in the year to date 2002 period due to general market conditions. Purchased coal volumes remained steady at 1.2 million in both the year to date 2003 and year to date 2002 period.

Industrial supplies cost of goods sold also decreased \$2 million, or 5.9%, to \$35 million in the year to date 2003 period compared to \$37 million in the year to date 2002 period. The decrease was due to reduced sales volumes.

Cost of goods sold and other charges for closed and idle mines decreased \$1 million, or 2.0%, to \$30 million in the year to date 2003 period from \$31 million in the year to date 2002 period. The decrease is primarily due to approximately \$13 million of expenses related to mines that were idled for all or part of the year to date 2002 period that were operating in the 2003 period, or that were closed in the year to date 2002 period. These mines include Loveridge, Humphrey and McElroy. Cost of goods sold and other charges for closed and idle mines also decreased \$2 million due to various miscellaneous transactions that occurred throughout both periods, none of which were individually material. The decreases in costs associated with closed and idle mines were offset, in part, by approximately \$7 million of additional mine closing and reclamation expenses related to changes in the method of accounting for these liabilities. In January 2003, CONSOL Energy adopted the Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations*. Under this statement, the interest accretion related to the discounted portions of mine closing, reclamation and gas well closing liabilities, previously reported as interest expense, are now reported as operating expenses. Under the previous method of accounting for mine closing, reclamation and gas well closing obligations, the estimated obligations for closed mines were fully accrued and adjusted annually as the estimates were updated by engineers. The decrease in costs was also offset, in part, by approximately \$7 million due to mines that were idled or closed shortly before the 2003 period that were operating during the 2002 period. These mines include Dilworth, Rend Lake and Meigs Mines.

Freight expense decreased 17.7% to \$58 million in the year to date 2003 period from \$71 million in the year to date 2002 period. Freight expense is based on weight of coal shipped, negotiated freight rates and method of transportation (i.e., rail, barge, truck, etc.) used for the customers to whom CONSOL Energy contractually provides transportation. Freight expense is billed to customers and the revenue from such billings equals the transportation expense.

Selling, general and administrative expenses increased \$2 million, or 7.7%, to \$36 million in the year to date 2003 period from \$34 million in the year to date 2002 period. The increase is due to increased training costs and other costs related to the implemented modules of the new integrated information technology system provided by SAP AG. We continue to convert various portions of our computer systems into this new technology. Selling, general and administrative expenses have also increased due to higher medical costs for active and retired employees and increased salaried pension costs. These increases in costs were offset, in part, by lower usage of professional consulting services in the period to period comparison.

Depreciation, depletion and amortization expense decreased \$9 million, or 7.0%, to \$123 million in the year to date 2003 period compared to \$132 million in the year to date 2002 period. The decrease is primarily due to equipment at the Dilworth Mine and the related preparation plant becoming fully depreciated prior to the year to date 2003 period to coincide with the closure of the mine due to economically depleted reserves. This decrease was offset, in part, by increased amortization expense related to the gas segment. The increase was primarily due to the additional production in the 2003 period. The decrease was also offset, in part, by a \$2 million increase due to the depreciation of the assets recorded in relation to the adoption of Statement of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations (SFAS No. 143). SFAS No. 143 requires depreciation of the capitalized asset retirement cost. The depreciation of these assets is generally determined on a units-of-production basis over the life of the producing assets.

Interest expense decreased \$4 million, or 18.3%, to \$18 million for the year to date 2003 period compared to \$22 million for the year to date 2002 period. Interest expense decreased \$4 million due to the implementation of Statement of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations. Under this statement, the interest accretion related to the discounted portions of mine closing, reclamation and gas well closing liabilities, previously reported as interest expense, are now reported as operating expenses. Interest expense on commercial paper decreased \$2 million in the year to date 2003 period compared to the year to date 2002 period. This was due primarily to a \$139 million reduction in the average principal amount of commercial paper outstanding and a 0.7% per annum reduction in the weighted average interest rate in the year to date 2003 period from the year to date 2002 period. Interest expense also decreased \$2 million due to the reduction of long-term debt through scheduled payments. These decreases in interest expense were offset, in part, by a \$3 million increase in interest expense related to the \$250 million principal amount of 7.875% Notes due in 2012, which was issued in March 2002, and was not outstanding for the entire year to date 2002 period.

Taxes other than income decreased \$8 million, or 8.6%, to \$86 million for the year to date 2003 period compared to \$94 million for the year to date 2002 period. The decrease was primarily due to a \$3 million reduction in production taxes related to lower production volumes in the year to date 2003 period compared to the year to date 2002 period. Coal production was 31 million tons in the year to date 2003 period compared to 36 million tons in the year to date 2002 period. Payroll taxes were reduced by \$2 million primarily due to the closure or idling of several mines in the period-to-period comparison. Dilworth, Rend Lake and Humphrey Mines were not operating in the year to date 2003 period and, therefore, the number of employees was lower in the 2003 period compared to the 2002 period. Property taxes were reduced \$2 million due to the adjustment of prior year estimated accruals to the actual amounts paid in the year to date 2003 period.

CONSOL Energy is no longer required to pay certain excise taxes on export sales. We have received refunds in the year to date 2003 period for our claims and related interest for the years 1994-1999. Upon receipt of these items, we have adjusted our estimate of interest receivable to the amount received. This adjustment resulted in an additional \$0.6 million due mainly to interest income related to these claims. A receivable for the claims for the years 1991-1993 is still outstanding. There is no interest receivable related to these claims.

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*Income Taxes*

Income taxes were a benefit of \$10 million in the year to date 2003 period compared to a benefit of \$9 million in the year to date 2002 period. Our effective tax rate for the year to date 2003 period was 231.4% (see note 4 to the consolidated financial statements in the June 30, 2003 Form 10-Q for additional information). The effective rate for the period was calculated using an annual effective rate method versus the discrete method used in the quarter ended March 31, 2003 which was determined using an annual effective rate method. The effective tax rate is sensitive to changes in annual profitability and percentage depletion. The provision for income taxes is adjusted at the time the returns are filed to reflect changes in previously estimated amounts. Income taxes were reduced in the year to date 2003 period by \$1 million related to these adjustments. Income taxes were reduced by \$3 million in the year to date 2002 period.

*Cumulative Effect of Changes in Accounting for Mine Closing, Reclamation and Gas Well Closing Costs*

Effective January 1, 2003, CONSOL Energy adopted SFAS No. 143, *Accounting for Asset Retirement Obligations*, as required. CONSOL Energy reflected a gain of approximately \$5 million, net of a tax cost of approximately \$3 million. At the time of adoption, total assets, net of accumulated depreciation, increased approximately \$59 million and total liabilities increased approximately \$51 million. The amounts recorded upon adoption are dependent upon a number of variables, including the estimated future retirement costs, estimated proved reserves, assumptions involving profit margins, inflation rates and the assumed credit-adjusted risk-free interest rate.

Previous accounting standards generally used the units-of-production method to match estimated retirement costs with the revenues generated by the producing assets. In contrast, SFAS No. 143 requires depreciation of the capitalized asset retirement cost and accretion of the asset retirement obligation over time. The depreciation will generally be determined on a units-of-production basis, whereas the accretion to be recognized will escalate over the life of the producing assets, typically as production declines. Because of the long lives of the underlying producing assets, the impact on net income in the near term is not expected to be material.

**Liquidity and Capital Resources**

CONSOL Energy generally has satisfied its working capital requirements and funded its capital expenditures and debt service obligations from cash generated from operations and proceeds from borrowings. A principal source of borrowing has been the issuance of commercial paper. In July 2003, Standard and Poor's lowered its rating of our long-term debt to BB+ and Moody's Investor Service placed CONSOL Energy under review for possible downgrade. As a result, CONSOL Energy is no longer able to participate as a seller in the commercial paper market. Alternate sources of short-term borrowing, including the Senior Revolving Credit facility, are available and sufficient to service CONSOL's current working capital requirements previously financed by commercial paper issuances. At June 30, 2003, CONSOL Energy had an aggregate principal amount outstanding of \$25 million of commercial paper.

In September 2002, CONSOL Energy entered into a new senior credit facility that provides for an aggregate \$485 million that may be used for commercial paper maturities, letters of credit and borrowings for other corporate purposes. We provide letters of credit required by law to assure payment of certain long-term liabilities. The senior credit facility consists of a 364-day \$218 million credit facility which expires in September 2003, and a three year \$267 million credit facility which expires in September 2005. Interest is based at our option, upon the Prime (Base) Rate or London Interbank Offered Rates (LIBOR) plus a spread, which is dependent on our credit rating. The senior credit facility has various covenants, including covenants that limit our ability to dispose of assets and merge with another corporation. We are also required to maintain a ratio of total consolidated indebtedness to twelve month trailing earnings before interest, taxes, depreciation, depletion and amortization (EBITDA) of not more than 3.0 to 1.0, measured quarterly. This ratio was 2.01 to 1.0 at June 30, 2003. In addition, we are required to maintain a ratio of twelve months trailing EBITDA to interest expense and amortization of debt of no less than 4.5 to 1.0 measured

quarterly. This ratio was 5.87 to 1.0 at June 30, 2003.



At June 30, 2003, this facility had \$386 million of additional capacity. At July 31, 2003, this facility has \$405 million of additional capacity. CONSOL Energy is currently exploring options to refinance the short term facility that expires in September 2003. If the facility cannot be replaced, our ability to secure letters of credit to meet regulatory obligations may be affected.

In April 2003, CONSOL Energy and certain of its U.S. subsidiaries entered into a receivables facility with financial institutions for the sale on a continuous basis of eligible trade accounts receivable that will provide, on a revolving basis, up to \$125 million of short-term funding. CONSOL Energy formed CNX Funding Corporation, a wholly owned, special purpose, bankruptcy-remote subsidiary for the sole purpose of buying and selling eligible trade receivables generated by certain subsidiaries of CONSOL Energy. Under the receivables facility, CONSOL Energy and certain subsidiaries, irrevocably and without recourse, sell all of their eligible trade accounts receivable to CNX Funding Corporation. CNX Funding Corporation then sells, on a revolving basis, an undivided percentage interest in the pool of eligible trade accounts receivable to financial institutions and their affiliates, while maintaining a subordinated interest in a portion of the trade receivables. CONSOL Energy has agreed to continue servicing the sold receivables for the financial institutions for a fee based upon market rates for similar services. The cost of funds are consistent with commercial paper rates plus a charge for administrative services paid to the financial institution. The receivables facility expires in 2006. At June 30, 2003, eligible accounts receivable total approximately \$116 million, of which the subordinated retained interest was approximately \$66 million. Accordingly, \$50 million of accounts receivable were removed from the consolidated balance sheet at June 30, 2003. The proceeds are included in cash flows from operating activities in the consolidated statement of cash flows.

CONSOL Energy believes that cash generated from operations and its borrowing capacity will be sufficient to meet its working capital requirements, anticipated capital expenditures (other than major acquisitions), scheduled debt payments, anticipated dividend payments in 2003 and to provide letters of credit required by law to assure payment of certain long-term liabilities. Nevertheless, the ability of CONSOL Energy to satisfy its debt service obligations, to fund planned capital expenditures or pay dividends will depend upon its future operating performance, which will be affected by prevailing economic conditions in the coal and gas industries and other financial and business factors, some of which are beyond CONSOL Energy's control.

In order to manage the market risk exposure of volatile natural gas prices in the future, CONSOL Energy enters into various physical gas supply transactions with our gas marketers (selling gas under short-term multi-month contract nominations generally not exceeding one year.) CONSOL Energy has also entered into five float-for-fixed gas swap transactions and two float-for-collar gas swap transactions that qualify as financial cash flow hedges, which exist parallel to the underlying physical transactions. These transactions resulted in other comprehensive loss of \$2.4 million (net of \$1.5 million of deferred tax) in the six months ended June 30, 2003.

CONSOL Energy frequently evaluates potential acquisitions. CONSOL Energy has funded acquisitions primarily with cash generated from operations and a variety of other sources, depending on the size of the transaction, including debt financing. There can be no assurance that additional capital resources, including debt financing, will be available to CONSOL Energy on terms which CONSOL Energy finds acceptable, or at all.

#### *Stockholders' Equity and Dividends*

CONSOL Energy had stockholders' equity of \$151 million at June 30, 2003 and \$162 million at December 31, 2002. Stockholders' equity was reduced by \$8 million in the six months ended June 30, 2003 due to Other Comprehensive Losses. Stockholders' equity was reduced by \$56 million in the twelve months ended December 31, 2002 due to Other Comprehensive Losses. These losses relate primarily to minimum pension liability as a result of the negative return on plan assets for non-contributory defined benefit retirement plans. Comprehensive losses are generally calculated annually and reflect a number of factors including conditions in



the stock markets and interest rates. Due to changes in our salaried pension plan that were communicated to employees in June 2003, our pension plan liabilities were remeasured as of July 1, 2003. As a result, our comprehensive loss amounts were adjusted during the three months ended June 30, 2003. Changes in our salaried pension plan include early retirement reduction factors dependent on a combination of the age of the employee and the employee's years of service. See Consolidated Statements of Stockholders' Equity and Note 20 of the notes to consolidated financial statements included in our Annual Report on 2002 Form 10-K for the year ended December 31, 2002, as amended.

Dividend information for the current fiscal year, to date, is as follows:

<b>Declaration Date</b>	<b>Amount Per Share</b>	<b>Record Date</b>	<b>Payment Date</b>
July 25, 2003	\$ 0.14	August 8, 2003	September 2, 2003
April 25, 2003	\$ 0.14	May 9, 2003	May 30, 2003
January 27, 2003	\$ 0.14	February 10, 2003	February 28, 2003

Under our \$485 million Senior Revolving Credit facility, payment of dividends must be suspended in the event of a default under the facility.

#### *Cash Flows*

Net cash provided by operating activities was \$239 million for the six months ended June 30, 2003 compared to \$76 million for the six months ended June 30, 2002. The change in net cash provided by operating activities is primarily due to the following items:

Coal inventories decreased 0.2 million tons in the six month period ended June 30, 2003 compared to an increase of 4.1 million tons in the six month period ended June 30, 2002.

The decrease in inventories also resulted in a decrease