

CONSOL ENERGY INC
Form 10-K/A
July 30, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

Amendment No. 2

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the fiscal year ended December 31, 2002; or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____

Commission file number: 001-14901

CONSOL ENERGY INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

51-0337383
(I.R.S. Employer Identification No.)

Consol Plaza

1800 Washington Road

Pittsburgh, Pennsylvania 15241

(Address of principal executive offices including zip code)

Registrant's telephone number including area code: 412-831-4000

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

<u>Name of exchange on which registered</u>	<u>Title of each Class</u>
New York Stock Exchange	Common Stock (\$.01 par value)

No securities are registered pursuant to Section 12(g) of the Act.

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 125-2) Yes No

The aggregate market value of voting stock held by nonaffiliates of the registrant as of June 28, 2002, the last business day of the registrant's most recently completed second fiscal quarter, based on the closing price of the common stock on the New York Stock Exchange on such date was \$440,597,224.

The number of shares outstanding of the registrant's common stock as of March 12, 2003 is 78,749,504 shares.

Documents Incorporated by Reference:

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Portions of the Company's Proxy Statement for the Annual Meeting of Shareholders held on April 30, 2003, are incorporated by reference in Items 10, 11 and 12 of Part III

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FORWARD-LOOKING STATEMENTS

We are including the following cautionary statement in this Report on Form 10-K to make applicable and take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 for any forward-looking statements made by, or on behalf of us. With the exception of historical matters, the matters discussed in this Report on Form 10-K are forward-looking statements (as defined in Section 21E of the Exchange Act) that involve risks and uncertainties that could cause actual results to differ materially from projected results. In addition to other factors and matters discussed elsewhere in this Report on Form 10-K, these risks, uncertainties and contingencies include, but are not limited to, the following:

a loss of our competitive position because of the competitive nature of the coal and gas markets;

a decline in prices we receive for our coal and gas affecting our operating results and cash flows;

the inability to produce a sufficient amount of coal to fulfill our customers' requirements which could result in our customers initiating claims against us;

overcapacity in the coal or gas industry impairing our profitability;

reliance on customers extending existing contracts or entering into new long-term contracts for coal;

reliance on major customers;

the credit worthiness of our customer base declining;

our ability to identify suitable acquisition candidates and to successfully finance, consummate the acquisition of, and integrate these candidates as part of our acquisition strategy;

disputes with customers concerning contracts resulting in litigation;

the risks inherent in coal mining being subject to unexpected disruptions, including geological conditions, equipment failure, fires, accidents and weather conditions which could cause our results to deteriorate;

uncertainties in estimating our economically recoverable coal and gas reserves;

risks in exploring for and producing gas;

the disruption of rail, barge and other systems which deliver our coal, or pipeline systems which deliver our gas;

the effects of government regulation;

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obtaining governmental permits and approvals for our operations;

coal users switching to other fuels in order to comply with various environmental standards related to coal combustion;

the effects of mine closing, reclamation and certain other liabilities;

results of litigation;

federal, state and local authorities regulating our gas production activities;

deregulation of the electric utility industry having unanticipated effects on our industry;

new legislation resulting in restrictions on coal use;

federal and state laws imposing treatment, monitoring and reporting obligations on us;

management's ability to correctly estimate and accrue for contingent liabilities;

increased exposure to workers' compensation and black lung benefit liabilities;

the outcome of various asbestos litigation cases; and

our ability to comply with laws or regulations requiring that we obtain surety bonds for workers' compensation and other statutory requirements.

PART I

Item 1. Business.

CONSOL ENERGY S HISTORY

CONSOL Energy Inc. (CONSOL Energy or the Company) is a multi-fuel energy producer and energy services provider which primarily serves the electric power generation industry in the United States. That industry generates two-thirds of its output by burning coal or gas, the two fuels CONSOL Energy produces. As of December 31, 2002, CONSOL Energy produced high-Btu bituminous coal from 22 mining complexes in the United States, Canada and Australia. Bituminous coal is the most common type of coal and has a moisture content less than 20% by weight and heating value of 10,500 to 14,000 Btu per pound. Btu is a measure of energy required to raise the temperature of one pound of water by one degree Fahrenheit. Our coal generally has a high Btu content which creates more energy per unit when burned than coals with lesser Btu content. As a result, coals with greater Btu content can be more efficient to use. CONSOL Energy also produces pipeline-quality coalbed methane gas primarily from our coal properties in Virginia. CONSOL Energy believes that the use of coal and gas to generate electricity will grow as demand for power increases. For the twelve months ended December 31, 2002, our coal operations accounted for 88% of our revenues, our gas operations accounted for 7% of our revenues and our other operations accounted for 5% of our revenues.

Historically, CONSOL Energy ranks among the largest coal producers in the United States based upon total production, revenue, net income and operating cash flow. Our total production, including our portion of production from equity affiliates for the twelve months ended December 31, 2002, was 66 million tons. Our United States production of 63 million tons of coal in the twelve months ended December 31, 2002, accounted for approximately 6% of the total tons produced in the United States and 13% of the total tons produced east of the Mississippi River during that year. CONSOL Energy is one of the premier coal producers in the United States by several measures:

CONSOL Energy mines more high-Btu bituminous coal than any other United States producer;

CONSOL Energy is the largest coal producer, in terms of tons produced, east of the Mississippi River;

CONSOL Energy exports more coal from the United States than any other coal producer or trading company;

CONSOL Energy has the second largest amount of recoverable coal reserves among United States coal producers; and

CONSOL Energy is the largest United States producer of coal from underground mines.

CONSOL Energy also operates a large coalbed methane gas company based on both its proved reserves and its current daily production. Our industry position is highlighted by several measures:

We possess a large coalbed methane reserve base with 1.1 trillion cubic feet of proved reserves of gas;

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We currently have 134 million cubic feet of average daily coalbed methane gas production;

CONSOL Energy operates more than 1,300 wells connected by approximately 740 miles of gathering lines and associated infrastructure; and

CONSOL Energy facilities have the capacity to transport 250 million cubic feet of gas per day.

CONSOL Energy was organized as a Delaware corporation in 1991 and is currently a holding company for 63 direct and indirect wholly owned subsidiaries, principally engaged in the mining and sale of bituminous coal and the production and sale of coalbed methane gas.

RECENT EVENTS

In July 2003, Standard and Poor's lowered its rating of CONSOL Energy's long-term debt to BB+. Standard and Poor's defines an obligation rated BB+ (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.

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 (9th lowest out of 21 rating categories). 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 February 2003, we sold our Canadian coal assets and port facilities to Fording Inc. for a note and cash. The note was exchanged for 3.2 million units in the Fording Canadian Coal Trust, a newly organized publicly traded trust which acquired the assets of Fording Inc. We subsequently sold the units. CONSOL Energy received total proceeds of \$71.7 million.

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 \$5 million, net of 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 will delay this installation.

In January 2003, an explosion occurred at an airshaft construction site at the McElroy Mine resulting in the deaths of three construction workers and the injury of three other construction workers. The workers were employees of the construction company installing the shaft. The airshaft is located in an area ahead of mining activity. The explosion did not affect the normal production schedule of the mine. We do not believe that this event will have a material adverse effect on our financial condition.

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, the conveyor belt and the steel framework on which the belt travels. Repairs took several weeks to complete and are estimated to cost approximately \$5 million, net of insurance recovery. Longwall coal production, which accounts for the majority of coal normally produced at the mine, was suspended while repairs were made. Lost coal production is estimated to be approximately 650 thousand tons. Longwall production resumed in February 2003.

In January 2003, we announced that we had entered into a 17-year, 76.5 million-ton coal supply agreement with FirstEnergy Generation Corp., a subsidiary of FirstEnergy Corp. The agreement provides for annual shipments of 4.5 million tons to FirstEnergy primarily from our McElroy Mine. The agreement includes a price re-opener provision every three years, beginning in 2005. If CONSOL Energy and FirstEnergy do not

agree on price at that time, the contract can be terminated by either party.

The new McElroy Mine preparation plant was put into service in September 2002. Capital expenditures of approximately \$57 million have been incurred to date. The plant was designed to improve coal quality from the McElroy Mine by increasing the Btu content of the final product. The plant is part of a larger expansion of the McElroy Mine. We expect the expansion of the mine to be completed in mid 2004, and future capital expenditures are expected to be \$104 million. The total expansion project will increase capacity at the McElroy Mine from about 7 million tons per year to about 11 million tons per year.

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 cost-effective 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, \$32 million of which has already been incurred.

INDUSTRY SEGMENTS

CONSOL Energy has two reportable business segments: Coal and Gas. The principal business of the Coal segment is mining, preparation and marketing of steam coal, sold primarily to electric utilities, and metallurgical coal, sold to steel and coke producers. The principal business of the Gas segment is to produce pipeline quality methane gas for sale primarily to gas wholesalers. Financial information concerning industry segments, as defined by generally accepted accounting principles, for the twelve months ended December 31, 2002, the six months ended December 31, 2001, and the fiscal years ended June 30, 2001 and 2000 is included in Note 27 of Notes to Consolidated Financial Statements included as Item 8 in Part II of this Annual Report on Form 10-K, as amended.

Coal Operations

Mining Complexes

At December 31, 2002, CONSOL Energy had 22 mining complexes located in the United States, Canada and Australia, including a 50% interest in the Cardinal River and the Line Creek mines located in Canada and a 50% interest in the Glennies Creek mine located in Australia.

The following map provides the location of CONSOL Energy's significant operations by region:

The following table provides the location of each of CONSOL Energy's mining complexes at December 31, 2002 and the amount of coal reserves and a summary of the characteristics of the assigned and accessible coal reserves associated with each of its mining complexes. In February 2003, we sold our Cardinal River and Line Creek mines.

CONSOL ENERGY MINING COMPLEXES

Average Quality and Reserves as of December 31, 2002

Mine/Reserve	Location	Reserve Class	Coal Seam	Average Seam Thickness (feet)	Reserves (12/31/02) (1)		Average Coal Quality (As Received) (2)				Reserves (000 Tons) 12/31/2001
					Owned (%)	Leased (%)	Tons (000)	Moisture (%)	Sulfur (%)	Heat Value (Btu/lb)	
ASSIGNED OPERATING											
Northern Appalachia											
Enlow Fork	Enon, PA	Assigned	Pittsburgh	4.94	60%	40%	68,215	6.0	1.63	13,267	77,759
		Accessible	Pittsburgh	5.40	81%	19%	165,484	6.0	1.92	13,219	169,932
Bailey	Enon, PA	Assigned	Pittsburgh	5.64	0%	100%	93,115	6.0	2.00	13,223	59,748
		Accessible	Pittsburgh	5.79	0%	100%	74,591	6.0	1.90	13,272	111,436
Mine 84	Eighty Four, PA	Assigned	Pittsburgh	5.61	64%	36%	53,294	6.0	1.49	13,394	57,289
		Accessible	Pittsburgh	5.38	88%	12%	58,516	6.0	1.94	13,324	58,516
McElroy	Glen Easton, WV	Assigned	Pittsburgh	5.83	100%	0%	176,959	5.7	3.03	13,166	181,599
Shoemaker	Moundsville, WV	Assigned	Pittsburgh	5.54	96%	4%	70,008	7.3	3.40	12,864	73,367
		Accessible	Pittsburgh	5.55	100%	0%	15,636	7.3	2.96	12,930	15,636
Loveridge	Fairview, WV	Assigned	Pittsburgh	7.91	100%	0%	13,322	5.4	2.27	13,215	13,322
		Accessible	Pittsburgh	7.39	100%	0%	107,033	5.5	2.81	13,347	107,033
Robinson Run	Shinnston, WV	Assigned	Pittsburgh	7.16	74%	26%	33,950	6.0	3.16	13,278	38,795
		Accessible	Pittsburgh	6.90	32%	68%	125,780	6.7	3.19	13,158	125,780
Blacksville 2	Wana, WV	Assigned	Pittsburgh	6.65	100%	0%	39,965	6.0	2.53	13,315	44,782
		Accessible	Pittsburgh	6.83	98%	2%	120,262	6.0	2.44	13,304	120,262
Mahoning Valley	Cadiz, OH	Assigned	Pittsburgh	4.60	100%	0%	1,374	6.0	2.14	11,656	162
Humphrey	Maidsville, WV		Pittsburgh		0%	0%	0				4,174
Dilworth	Rices Landing, PA		Pittsburgh		0%	0%	0				3,793
Windsor	West Liberty, WV		Pittsburgh		0%	0%	0				1,265
Meigs	Langsville, Ohio		Clarion		0%	0%	0				400
Central Appalachia											
Buchanan	Mavisdale, VA	Assigned	Pocahontas 3	6.25	2%	98%	42,467	6.3	0.73	14,008	46,530
		Accessible	Pocahontas 3	4.89	22%	78%	94,490	6.3	0.70	14,060	94,490
VP-3	Vansant, VA	Assigned	Pocahontas 3	4.60	0%	100%	7,890	6.6	0.65	14,183	7,890
VP-8	Rowe, VA	Assigned	Pocahontas 3	6.08	1%	99%	6,467	9.0	0.74	13,562	8,642
Mill Creek Complex	Deane, KY	Assigned	Multiple	3.2-4.5	96%	4%	8,534	6.5	1.41	13,305	11,530
		Accessible	Multiple	3.2-4.5	93%	7%	17,690	6.5	1.55	13,305	17,690
Jones Fork Complex	Mousie, KY	Assigned	Multiple	3.0-4.8	56%	44%	15,717	7.0	1.01	12,698	18,035
		Accessible	Multiple	3.0-4.8	41%	59%	26,681	7.2	1.05	12,426	26,681
Amonate Complex	Amonate, VA	Assigned	Multiple	3.0-4.0	59%	41%	7,756	6.8	0.65	13,114	8,118
Elk Creek Complex	Emmett, WV	Assigned	Multiple	3.0-5.2	50%	50%	10,836	5.8	0.74	10,836	10,836
Illinois Basin											
Rend Lake	Sesser, IL	Assigned	Illinois 6	8.00	12%	88%	21,348	11.8	0.90	12,117	21,543
		Accessible	Illinois 6	5.99	87%	13%	33,705	11.8	1.47	12,082	34,976

Mine/Reserve	Location	Reserve Class	Coal Seam	Average Seam Thickness (feet)	Reserves (12/31/02) (1)		Average Coal Quality (As Received) (2)			Reserve (000 Tons) 12/31/2002	
					Owned (%)	Leased (%)	Tons (000)	Moisture (%)	Sulfur (%)		Heat Value (Btu/lb)
Ohio 11	Morganfield, KY	Assigned	Kentucky 11	4.46	0%	100%	8,310	11.6	2.77	11,934	8,310
		Accessible	Kentucky 11	4.44	0%	100%	2,198	11.5	2.88	11,878	2,198
Western U.S.											
Emery	Emery Co., UT	Assigned	Ferron I	7.50	80%	20%	21,712	7.0	0.73	11,803	14,600
		Accessible	Ferron A	8.82	47%	53%	12,303	7.0	0.93	11,683	13,900
Cardinal River	Hinton, AL	Assigned	Jewell	N/A	0%	100%	691	8.3	0.34	12,838	800
Emery Creek	Sparwood, BC	Assigned	Multiple	N/A	0%	100%	30,742	8.1	0.38	12,827	32,400
Australia (New South Wales)											
Emery Creek	Hunter Valley, NSW	Assigned	Middle Liddel	7.68	0%	100%	10,205	7.0	0.45	12,778	10,300
Total Assigned							1,597,246				1,654,700
Operating											

- (1) We calculate our proven and probable reserve tons by identifying the area in which mineable coal exists, the thickness of the coal seam or seams we control and average coal density as reported by our laboratory based on core samples we receive from our field drilling. We then adjust the reserve calculation to account for the amount of coal that our experience indicates will not be recovered during the mining process and for losses that occur if the coal is processed after it is mined. Our reserve calculations do not include an adjustment for any moisture that may be added to the coal during mining or processing commonly referred to as excess moisture nor do the calculations generally include adjustments for dilution from rock lying immediately above or below the coal seam referred to as out-of-seam dilution that may be extracted during the mining process. Where out-of-seam dilution is included, we adjust the expected recovery of coal from the processing plant to remove the effect of dilution from the reserve calculation.
- (2) We show coal quality as it is received by the customer, including our estimation of the amount of moisture in the coal when shipped. The coal quality we report may be based either on a processed, or washed, basis, or a non-processed, or raw, basis, depending upon the most generally intended market for the coal. Because out-of-seam dilution is not considered in our reserve calculation or because the diluting rock is assumed to be removed during processing, we do not include out-of-seam dilution adjustments to the quality values that we report.

Excluded from the table above are approximately 181 million tons of reserves that are assigned to projects that have not produced coal in the last two years. These assigned reserves are in the Northern Appalachia (Pennsylvania, Ohio and northern West Virginia) and Central Appalachia (Virginia, southern West Virginia and Eastern Kentucky) regions. These reserves are approximately 87% owned and 13% leased. Average quality on an as-received basis range from 5.8% to 7.0% moisture content, 0.50% to 4.05% sulfur content and 12,393 to 13,644 heat value (British thermal units per pound).

CONSOL Energy assigns coal reserves to each of its mining complexes. The amount of coal we assign to a mining complex generally is sufficient to support mining through the duration of its current mining permit. Under federal law, we must renew our mining permits every five years.

In addition, our mining complexes may have access to additional reserves that have not yet been assigned. We refer to these reserves as accessible. Accessible reserves are proven and probable unassigned reserves that can be accessed by an existing mining complex, utilizing the existing infrastructure of the complex to mine and to process the coal in this area. Mining an accessible reserve does not require additional capital spending beyond that required to extend or to continue the normal progression of the mine, such as the sinking of airshafts or the construction of portal facilities.

Some reserves may be accessible by more than one mining complex because of the proximity of many of our mining complexes to one another. In the table above, the accessible reserves indicated for a mining complex is based on our review of current mining plans and reflects our best judgment as to which mining complex is most likely to utilize the reserve.

Assigned and unassigned coal reserves are proven and probable reserves which are either owned in fee or leased. The leases have terms extending up to 30 years and generally provide for renewal through the anticipated life of the associated mine. These renewals are exercisable by the payment of minimum royalties. Under current mining plans all reported reserves will be mined out within the period of existing leases or within the time period of assured lease renewal periods.

At December 31, 2002, the Loveridge Mine was in development. At December 31, 2002, Rend Lake, Elk Creek, VP-3 and Ohio 11 complexes were idle. These mines are anticipated to remain idle until market conditions support reopening. Also during 2002, CONSOL Energy ceased production at the Dilworth, Humphrey, Meigs, Muskingum and Windsor Mines due to the depletion of economically recoverable reserves. In February 2003, we sold our Cardinal River and Line Creek Mines in western Canada.

Coal Reserves

CONSOL Energy had an estimated 4.3 billion tons of proven and probable reserves. Reserves are the portion of the proven and probable tonnage that meet CONSOL Energy's economic criteria regarding mining height, preparation plant recovery, depth of overburden and stripping ratio. Generally, these reserves would be commercially mineable at year-end price and cost levels.

Proven reserves are reserves for which:

(a) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; grade and/or quality are computed from the results of detailed sampling; and

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(b) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well-established.

Consol Energy's calculations of proven reserves generally do not rely on isolated points of observation. Small pods of measured reserves are not considered; continuity of observation points over a large area is necessary for proven status. Our estimates for proven reserves have the highest degree of geologic assurance. Estimates of rank, quality and quantity for these reserves have been computed from points of observation which are equal to or less than one half mile apart, except for our properties within the Pittsburgh 8 seam for which points of observation are 3,000 feet or less because of the well known continuity of that seam. The sites for measuring thickness of proven reserves are

so closely spaced, and the geologic character is so well defined, that the average thickness, area, extent, size, shape and depth of coalbeds are well established.

Probable reserves are reserves for which quantity and grade and/or quality are computed from information similar to that used for proven reserves, but for which the sites for inspection, sampling and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven reserves, is high enough to assume continuity between points of observation. Estimates for probable coal reserves have a moderate degree of geologic assurance and have been computed by us from points of observation which are between 0.5 and 1.5 miles apart.

Information with respect to proven and probable coal reserves has been determined by CONSOL Energy's geologists and mining engineers and has not been reviewed by independent experts.

Drill hole spacing for confidence levels in reserve calculations is based on guidelines in U.S. Geological Survey Circular 891 (Coal Resource Classification System of the U.S. Geological Survey).

All mining reserves have their required permits or governmental approvals, or there is a very high probability that these approvals will be secured.

CONSOL Energy's reserves are located in northern Appalachia (52%), central Appalachia (11%), the midwestern United States (21%), the western United States (11%), and in western Canada and Australia (5%) at December 31, 2002.

The following table sets forth our unassigned proven and probable reserves by region:

CONSOL Energy UNASSIGNED Coal Reserves as of 12/31/02

Coal Producing Region	Reserves 12/31/02 (1)		Range of Average Product Quality (As Received) (2)							Reserves (000 Tons) 12/31/2001
	Owned (%)	Leased (%)	Tons (000)	Moisture (%)		Sulfur (%)	Heat Value (Btu/lb)			
Northern Appalachia (Pennsylvania, Ohio, Northern West Virginia)	92%	8%	896,042	4.5	8.5	0.71	3.70	10,362	13,514	896,759
Central Appalachia (Virginia, Southern West Virginia, Eastern Kentucky)	55%	45%	175,968	6.3	9.0	0.47	0.91	11,888	14,024	173,230
Illinois Basin (Illinois, Western Kentucky, Indiana)	33%	67%	825,444	11.3	12.1	0.76	3.18	10,657	12,101	853,300
Western U.S. (Montana, Wyoming, Utah)	58%	42%	439,372	24.3	28.0	0.19	0.45	8,563	9,330	445,752
Western Canada (Alberta)	2%	98%	159,975	8.0	8.7	0.23	0.54	11,194	13,009	159,975
Total	58%	42%	2,496,801							2,529,016

- 1) We calculate our reserve tons by identifying the area in which mineable coal exists, the thickness of the coal seam or seams we control and average coal density as reported by our laboratory based on core samples it receives from our field drilling. We then adjust the reserve calculation to account for the amount of coal that our experience indicates will not be recovered during the mining process and for losses that occur if the coal is processed after it is mined. Our reserve calculations do not include an adjustment for any moisture that may be added to the coal during mining or processing commonly referred to as excess moisture nor do the calculations generally include adjustments for dilution from rock lying immediately above or below the coal seam referred to as out-of-seam dilution that may be extracted during the mining process. Where out-of-seam dilution is included, we adjust the expected recovery of coal from the processing plant to remove the effect of dilution from the reserve calculation.
- 2) We show coal quality as it is received by the customer, including our estimation of the amount of moisture in the coal when shipped. The coal quality we report may be based either on a processed, or washed, basis, or a non-processed, or raw, basis, depending upon the most generally intended market for the coal. Because out-of-seam dilution is not considered in our reserve calculation or because the diluting rock is assumed to be removed during processing, we do not include out-of-seam dilution adjustments to the quality values that we report.

The following table summarizes our proven and probable reserves as of December 31, 2002 by region, type of coal or sulfur content (sulfur content per million British thermal unit). Proven and probable reserves include both assigned and unassigned reserves. Amounts for unassigned reserves are net amounts based on various recovery rates reflecting CONSOL Energy's experience in recovering coal from seams. In reporting unassigned reserves, CONSOL Energy has assumed approximately 60% recovery of in-place coal for reserves that can be mined using the longwall method, approximately 50% recovery of in-place coal for reserves that will be mined using other underground methods and approximately 90% recovery for surface mines.

The table classifies bituminous coal as high volatile A, B and C. High volatile A, B and C bituminous coals are classified on the basis of heat value. The table also classifies bituminous coals as medium and low volatile which are classified on the basis of fixed carbon and volatile matter. Coal is ranked by the degree of alteration it has undergone since the initial deposition of the organic material. The lowest ranked coal, lignite, has undergone less transformation than the highest ranked coal, anthracite. From the lowest to the highest rank, the coals are: lignite; sub-bituminous; bituminous and anthracite. The ranking is determined by measuring the fixed carbon to volatile matter ratio and the heat content of the coal. As rank increases, the amount of fixed carbon increases, volatile matter decreases, and heat content increases. Bituminous coals are further characterized by the amount of volatile matter present. Bituminous coals with high volatile matter content are also ranked. High volatile A bituminous coals have a higher heat content than high volatile C bituminous coals. These characterizations of coal allow a user to predict the behavior of a coal when burned in a boiler to produce heat or when it is heated in the absence of oxygen to produce coke for steel production.

CONSOL ENERGY PROVEN AND PROBABLE COAL RESERVES

BY PRODUCING REGION AND PRODUCT (000 TONS) AS OF DECEMBER 31, 2002

By Region	≤ 1.20 lbs			> 1.20 < 2.50 lbs			> 2.50 lbs			Total	Percentage By Region
	S02/MMBtu			S02/MMBtu			S02/MMBtu				
	Low Btu	Med Btu	High Btu	Low Btu	Med Btu	High Btu	Low Btu	Med Btu	High Btu		
Northern Appalachia:											
Metallurgical:											
High Vol A											
Bituminous						187,205				187,205	4.4%
Steam:											
High Vol A											
Bituminous		49,359		10,038	121,509		48,231	119,283	1,699,121	2,047,541	47.9%
Low Vol Bituminous						15,911				15,911	0.3%
Region Total		49,359		10,038	324,625		48,231	119,283	1,699,121	2,250,657	52.6%
Central Appalachia:											
Metallurgical:											
High Vol A											
Bituminous	7,325		18,645			2,103				28,073	0.6%
Med Vol Bituminous		3,456	81,381		2,417	6,129				93,383	2.2%
Low Vol Bituminous			158,968			8,174				167,142	3.9%
Steam:											
High Vol A											
Bituminous	26,967	24,724	1,306	27,341	32,266	42,354			15,163	170,121	4.0%
Region Total	34,292	28,180	260,300	27,341	34,683	58,760			15,163	458,719	10.7%
Midwest Illinois Basin:											
Steam:											
High Vol B											
Bituminous					68,535	55,053	56,963	425,894	34,437	640,882	15.0%
High Vol C											
Bituminous					158,136			91,987		250,123	5.9%
Region Total					226,671	55,053	148,950	425,894	34,437	891,005	20.9%
Northern Powder River Basin:											
Steam:											
Subbituminous B											
Subbituminous C			248,609			4,126				252,735	5.9%
Subbituminous C		186,637								186,637	4.4%
Region Total		186,637	248,609			4,126				439,372	10.3%
Utah Emery Field:											
High Vol B											
Bituminous					34,015					34,015	0.8%

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Region Total										34,015		34,015	0.8%
Western Canada:													
Metallurgical:													
Med Vol Bituminous	102,407	31,684	26,575									160,666	3.7%
Low Vol Bituminous		28,588										28,588	0.7%
Steam:													
Low Vol Bituminous	2,154											2,154	0.1%
Region Total	104,561	60,272	26,575									191,408	4.5%
Hunter Valley, Australia													
Metallurgical:													
High Vol A Bituminous		10,205										10,205	0.2%
Region Total		10,205										10,205	0.2%
Total Company	138,853	334,653	535,484	27,341	305,407	442,564	197,181	545,177	1,748,721	4,275,381			100.0%

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By Region	≤ 1.20 lbs			> 1.20 < 2.50 lbs			> 2.50 lbs			Total	Percentage By Region
	S02/MMBtu			S02/MMBtu			S02/MMBtu				
	Low Btu	Med Btu	High Btu	Low Btu	Med Btu	High Btu	Low Btu	Med Btu	High Btu		
Percent of Total	3.3%	7.8%	12.5%	0.6%	7.1%	10.4%	4.6%	12.8%	40.9%	100.0%	

CONSOL ENERGY PROVEN AND PROBABLE COAL RESERVES

BY PRODUCT (000 TONS) AS OF DECEMBER 31, 2002

The following table classifies bituminous coal as high volatile A, B and C. High volatile A, B and C bituminous coals are classified on the basis of heat value. The table also classifies bituminous coals as medium and low volatile which are classified on the basis of fixed carbon and volatile matter.

By Product	≤ 1.20 lbs			> 1.20 - < 2.50 lbs			≥ 2.50 lbs			Total	Percentage By Product
	S02/MMBtu			S02/MMBtu			S02/MMBtu				
	Low Btu	Med Btu	High Btu	Low Btu	Med Btu	High Btu	Low Btu	Med Btu	High Btu		
Metallurgical:											
High Vol A Bituminous						189,308				225,483	5.3%
Med Vol Bituminous	102,407	35,140	107,956		2,417	6,129				254,049	5.9%
Low Vol Bituminous		28,588	158,968			8,174				195,730	4.6%
Total Metallurgical	109,732	73,933	285,569		2,417	203,611				675,262	15.8%
Steam:											
High Vol A Bituminous	26,967	74,083	1,306	27,341	42,304	163,863	48,231	119,283	1,714,284	2,217,662	51.8%
High Vol B Bituminous					102,550	55,053	56,963	425,894	34,437	674,897	15.8%
High Vol C Bituminous					158,136		91,987			250,123	5.9%
Low Vol Bituminous	2,154					15,911				18,065	0.4%
Subbituminous B			248,609			4,126				252,735	5.9%
Subbituminous C		186,637								186,637	4.4%
Total Steam	29,121	260,720	249,915	27,341	302,990	238,953	197,181	545,177	1,748,721	3,600,119	84.2%
Total	138,853	334,653	535,484	27,341	305,407	442,564	197,181	545,177	1,748,721	4,275,381	100.0%
Percent of Total	3.3%	7.8%	12.5%	0.6%	7.1%	10.4%	4.6%	12.8%	40.9%	100.00%	

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The following table categorizes the relative Btu values (low, medium and high) for each of CONSOL Energy's producing regions in Btus per pound of coal.

Region	Low	Medium		High
Northern, Central Appalachia, Canada and Australia	< 12,500	12,500	13,000	> 13,000
Midwest	< 11,600	11,600	12,000	> 12,000
Northern Powder River Basin	< 8,400	8,400	8,800	> 8,800
Colorado and Utah	< 11,000	11,000	12,000	> 12,000

CONSOL Energy's reserve estimates are based on geological, engineering and market data assembled and analyzed by our staff of geologists and engineers located at individual mines, operations offices and at its principal office. The reserve estimates and general economic criteria upon which they are based are reviewed and adjusted annually to reflect production of coal from the reserves, analysis of new engineering and geological data, changes in property control, modification of mining methods and other factors. Reserve information, including the quantity and quality of reserves, coal and surface ownership, lease payments and other information relating to CONSOL Energy's

coal reserve and land holdings, is maintained through a system of interrelated computerized databases developed by CONSOL Energy.

CONSOL Energy's reserve estimates are predicated on information obtained from its ongoing exploration drilling and in-mine channel sampling programs. Data including elevation, thickness, and where samples are available, the quality of the coal from individual drill holes and channel samples are input into a computerized geological database. The information derived from the geological database is then combined with data on ownership or control of the mineral and surface interests to determine the extent of the reserves in a given area. None of our coal reserves have been reviewed by independent experts.

Compliance Compared to Non-Compliance Coal

Coals are sometimes characterized as *compliance* or *non-compliance* coal. The phrase *compliance coal*, as it is commonly used in the coal industry, refers to compliance only with sulfur dioxide emissions standards. A coal considered a *compliance coal* for meeting sulfur dioxide standards may not meet an emission standard for a different pollutant such as mercury. Moreover, the term *compliance coal* is always with reference to the then current regulatory limit. If the regulatory limit for sulfur dioxide is made more restrictive, it is likely to reduce significantly the amount of coal that can be labeled *compliance*. Currently, a *compliance coal* will meet the power plant emission standard of 1.2 lb of sulphur dioxide per million British thermal units of fuel consumed. It is possible that no coal would be considered *compliance* if emission standards were restricted to a level that requires emissions-control technology to be used regardless of the sulfur content of the coal.

Production

In the twelve months ended December 31, 2002, 92% of CONSOL Energy's production came from underground mines and 8% from surface mines. Where the geology is favorable and where reserves are sufficient, CONSOL Energy employs longwall mining systems in its underground mines. For the twelve months ended December 31, 2002, 82% of its production came from mines equipped with longwall mining systems. Underground longwall systems are highly mechanized, capital intensive operations. Mines using longwall systems have a low variable cost structure compared with other types of mines and can achieve high productivity levels compared with those of other underground mining methods. Because CONSOL Energy has substantial reserves readily suitable to these operations, CONSOL Energy believes that these longwall mines can increase capacity at low incremental cost.

The following table shows the production, in millions of tons, for CONSOL Energy's mines in the twelve months ended December 31, 2002, 2001 and 2000, the location of each mine, the type of mine, the type of equipment used at each mine and the year each mine was established or acquired by us. The table includes information for five mines, Dilworth, Humphrey, Meigs, Muskingum and Windsor, that closed during the year because of reserve depletion. In February 2003, we sold our Cardinal River and Line Creek Mines in western Canada.

Mine	Location	Mine Type	Mining		Tons Produced			Year Established or Acquired
			Equipment	Transportation	2002	2001	2000	
(in millions)								
Northern Appalachia								
Enlow Fork	Enon, Pennsylvania	U	LW/CM	R R/B	9.6	10.3	9.5	1990
Bailey	Enon, Pennsylvania	U	LW/CM	R R/B	9.7	10.3	9.9	1984
McElroy	Glen Easton, West Virginia	U	LW/CM	B	4.7	6.6	6.8	1968

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Robinson Run	Shinnston, West Virginia	U	LW/CM	R CB	5.0	4.9	6.0	1966
Mine No. 84	Eighty Four, Pennsylvania	U	LW/CM	R R/B T	4.0	1.4	4.2	1998
Blacksville 2	Wana, West Virginia	U	LW/CM	R R/B T	4.8	5.0	5.2	1970
Dilworth (2)	Rices Landing, Pennsylvania	U	LW/CM	B	3.6	4.7	4.8	1984
Shoemaker	Moundsville, West Virginia	U	LW/CM	B	3.4	4.1	3.6	1966
Loveridge (3)	Fairview, West Virginia	U	LW/CM	R T		1.1		1956
Humphrey (2)	Maidsville, West Virginia	U	CM	R	0.5	0.7	0.7	1956
Mahoning Valley	Cadiz, Ohio	S	S/L	R T	0.3	0.5	0.4	1974
Meigs (2)	Point Rock, Ohio	U	LW/CM	R	0.4	1.9		2001
Muskingum (2)	Cumberland, Ohio	S	D	R		0.5		2001

Mine	Location	Mine Type	Mining Equipment	Transportation	Tons Produced			Year Established or Acquired
					2002	2001	2000	
Windsor (2)	West Liberty, West Virginia	U	LW/CM	R	1.3	0.7		2001
Central Appalachia								
Buchanan	Mavisdale, Virginia	U	LW/CM	R	4.1	4.5	4.5	1983
VP-3 (3)	Vansant, Virginia	U	LW/CM	R				1993
VP-8	Rowe, Virginia	U	LW/CM	R	2.2	2.3	2.3	1993
Mill Creek (1)	Deane, Kentucky	U/S	CM	R	3.5	3.6	3.7	1994
Jones Fork (1)	Mousie, Kentucky	U/S	CM	R T	4.0	4.9	3.1	1992
Amonate (1)	Amonate, Virginia	U	CM	R	0.5	0.5	0.5	1925
Illinois Basin								
Rend Lake (3)	Sesser, Illinois	U	LW/CM	R T	1.7	2.0	2.7	1986
Ohio No. 11 (3)	Morganfield, Kentucky	U	CM	R				1993
Western U.S.								
Emery (4)	Emery County, Utah	U	LW/CM	T				1945
Western Canada								
Cardinal River (5)	Hinton, Alberta, Canada	S	S/L	R	1.2	1.7	1.5	1969
Line Creek (5)	Sparwood, British Columbia, Canada	S	S/L	R	1.7	1.5		2000
Australia								
Glennies Creek	Hunter Valley, New South Wales, Australia	U	LW/CM	R	0.1			2001

S = Surface

U = Underground

LW = Longwall

CM = Continuous Miner

S/L = Stripping Shovel and Front End Loaders

D = Dragline and Dozers

R = Rail

B = Barge

R/B = Rail to Barge

T = Truck

CB = Conveyor Belt

(1) Amonate, Mill Creek and Jones Fork complexes include operations by independent mining contractors.

(2) Production at the complex ceased during the twelve months ended December 31, 2002, due to the depletion of economically recoverable reserves.

(3) Loveridge, VP-3, Rend Lake and Ohio No. 11 were idled for all or part of the year ended December 31, 2002 due to market conditions.

(4) Complex was in development at December 31, 2002.

(5) Sold in February 2003.

The amounts shown for tons produced for all periods presented by Cardinal River, 1.2 million tons, Line Creek, 1.7 million tons and Glennies Creek, 0.1 million tons, actually represents 50% of the production of each mine, reflecting our 50% interest in each mine at December 31, 2002.

Our sales of bituminous coal were at an average sales price per ton produced of \$26.76, \$25.02, \$23.93 and \$23.66 for the twelve month period ended December 31, 2002, the six month period ended December 31, 2001 and the twelve month periods ended June 30, 2001 and 2000, respectively.

Expansion projects are planned at several of our mining complexes. These projects include the expansion of McElroy Mine that is intended to increase capacity from about seven million tons per year to about 11 million tons per year. The new preparation plant at McElroy, put into service in September 2002, was the first phase of the project. The remaining expansion currently is expected to be completed in mid 2004. A project also has been approved to complete a preparation plant expansion at the shared Bailey and Enlow facility. The expansion of the preparation plant facilities will allow production at these two mines to be increased. This expansion currently is expected to be completed in late 2004. In late 2002, the Buchanan mine installed a new longwall system which currently is expected to increase productive capacity to over 4.5 million tons per year.

In 2001, Mine 84 encountered in the coal seam a sandstone intrusion that ran across several longwall coal panels. Because sandstone is harder than coal, mining advance rates were slowed for both longwall and continuous mining machines. In 2002, Mine 84 production continued to be lower than anticipated because of several factors including a one month idled period taken because of market conditions, mechanical problems encountered throughout the year, and adverse geological conditions experienced periodically.

Our Loveridge mine, which was on long-term idle status in 2002 due to market conditions, experienced a mine fire in early 2003. The fire is currently being extinguished and plans are being made to re-enter the mine to prepare for production during the first-half of 2004.

In July 2003, we agreed to sell the physical assets, inventory, mineral reserves and operation of the Emery Mine in Utah. The sale is subject to final due diligence and receipt of various approvals and currently is expected to close in the fourth quarter of 2003.

Title to coal properties that we lease or purchase and the boundaries of such properties are verified, at the time we lease or acquire the properties, by law firms retained by us. Consistent with industry practice, abstracts and title reports are reviewed and updated approximately five years prior to planned development or mining of the property. If defects in title or boundaries of undeveloped reserves are discovered in the future, control of and the right to mine such reserves could be adversely affected.

The following table sets forth, with respect to properties that we lease to other coal operators, the total annual royalty tonnage mined from our properties, the total acreage leased and the amount of income (net of related expenses) we received from royalty payments from other operators for the twelve months ended December 31, 2002, 2001 and 2000.

Year	Total Royalty Tonnage	Total Coal Acreage	Total Royalty Income
	(in thousands)	Leased	(in thousands)
2002	17,680	202,033	\$ 7,451
2001	18,050	182,203	\$ 5,723
2000	10,167	181,142	\$ 4,300

Royalty tonnage is not included in the amounts of produced tons that we report. Proven and probable reserves do not include reserves attributable to properties that we lease.

CONSOL Energy operates approximately 23% of the United States longwall mining systems.

The following table ranks the 20 largest underground mines in the United States by tons of coal produced in calendar year 2001, the latest information available at the time of filing.

MAJOR U.S. UNDERGROUND COAL MINES 2001

In millions of tons

<u>Mine Name</u>	<u>Operating Company</u>	<u>Production</u>
Bailey	CONSOL Energy	10.3
Enlow Fork	CONSOL Energy	10.3
Twentymile	Twentymile Coal Company	7.7
SUFCO	Canyon Fuel Company	7.0
Galatia	The American Coal Co.	6.8
Cumberland	RAG Cumberland Resources Corp.	6.7
Emerald	RAG Emerald Resources Corp.	6.7
McElroy	CONSOL Energy	6.6
Baker	Lodestar Energy, Inc.	6.3
Bowie	Bowie Resources, LTD	5.4
Mountaineer	Arch Coal, Inc.	5.3
Blacksville 2	CONSOL Energy	5.0
Federal No. 2	Eastern Associated Coal Corp.	5.0
West Elk	Arch Coal Inc.	5.0
Robinson Run	CONSOL Energy	4.9
Dilworth	CONSOL Energy	4.7
Dotiki	Webster County Coal LLC	4.6
Powhatan No. 6	Ohio Valley Coal Co.	4.6
Buchanan	CONSOL Energy	4.4
Deer Creek	Energy West Mining Co.	4.3

Source: National Mining Association

Marketing and Sales

We sell coal produced by our mining complexes and additional coal that is purchased by us for resale from other producers. We maintain United States sales offices in Atlanta, Norfolk, Philadelphia and Pittsburgh and an overseas office in Brussels, Belgium. In addition, we sell coal through agents, brokers and unaffiliated trading companies. In the twelve months ended December 31, 2002, we sold 67 million tons of coal, including our percentage of sales in equity affiliates, 89% of which was sold in domestic markets. Our direct sales to domestic electricity generators represented 78% of our total tons sold in the twelve months ended December 31, 2002. Including equity affiliate sales, we had approximately 170 customers in the twelve months ended December 31, 2002. During the twelve months ended December 31, 2002, Allegheny Energy accounted for 15% of our total revenue and American Electric Power accounted for approximately 11% of our total revenue.

Coal Contracts

We sell coal to customers under arrangements that are the result of both bidding procedures and extensive negotiations. We sell coal for terms that range from a single shipment to multi-year agreements for millions of tons. During the twelve months ended December 31, 2002, approximately 82% of the coal we produced was sold under contracts with terms of one year or more. The pricing mechanisms under our multiple-year agreements typically consist of contracts with one or more of the following pricing mechanisms:

Fixed price contracts; or

Annually negotiated prices that reflect market conditions at the time; or

Base-price-plus-escalation methods which allow for periodic price adjustments based on inflation indices or, in some cases, pass-through of actual cost changes.

A few contracts have features of several contract types, such as provisions that allow for renegotiation of prices on a limited basis within a base-price-plus-escalation agreement. Such reopener provisions allow both the customer and us an opportunity to adjust prices to a level close to then current market conditions. Each contract is negotiated separately, and the triggers for reopener provisions differ from contract to contract. Many contracts provide for a periodic resetting of prices if market prices fall outside negotiated parameters. Most of our existing contracts with reopener provisions adjust the contract price to market price at the time the reopener provision is triggered. Market price generally is based on recent published transactions for similar quantities and quality of coal. Reopener provisions could result in early termination of a contract or in requirements that certain volumes be purchased if the parties were to fail to agree on price and other terms that may be subject to renegotiation.

The following table sets forth, as of February 1, 2003, the total tons of coal CONSOL Energy is committed to deliver at predetermined prices, including prices that are adjusted as often as quarterly based upon indices which are prenegotiated, under existing contracts during calendar years 2003 through 2007.

	Tons of Coal to be Delivered				
	(in millions of nominal tons)				
	2003	2004	2005	2006	2007
Volume under existing contracts:	52.4	32.7	13.8	6.8	4.9

The foregoing table does not include an aggregate of 12.1 million tons that we may be required to deliver in 2003 at predetermined prices:

under tentative agreements reached by February 1, 2003, for which no binding contracts have been negotiated or executed;

upon exercise of rights by customers under existing contracts to buy more coal at previously agreed prices; and

under agreements which call for the price to be determined by mutual agreement of the parties.

We routinely engage in efforts to renew or extend contracts scheduled to expire. Although there are no guarantees that contracts will be renewed, we have been successful in the past in renewing or extending contracts.

Contracts also typically contain force majeure provisions allowing for the suspension of performance by the customer or us for the duration of specified events beyond the control of the affected party, including labor disputes. Some contracts may terminate upon continuance of an event of force majeure for an extended period, which is generally three to twelve months. Contracts also typically specify minimum and maximum quality specifications regarding the coal to be delivered. Failure to meet these conditions could result in substantial price reductions or termination of the contract, at the election of the customer. Although the volume to be delivered under a long-term contract is stipulated, we or the buyer may vary the volume or timing of delivery within specified limits.

Many of our recently negotiated contracts have had shorter terms, generally no longer than three to five years. Many contracts provide the opportunity to adjust the contract prices. Contract prices may be adjusted as often as quarterly based upon indices which are prenegotiated, to reflect changing markets. One exception to this is a seventeen year, 76.5 million ton coal agreement entered into in January 2003. This agreement provides for annual shipments of 4.5 million tons to FirstEnergy Generation Corp., a subsidiary of FirstEnergy Corp., primarily from McElroy Mine. Most of the supply is expected to be used at FirstEnergy's Bruce Mansfield Plant. The agreement includes a price re-opener

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provision every three years, beginning in 2005. If CONSOL Energy and FirstEnergy do not agree on price at that time, the contract can be terminated by either party.

Distribution

Coal is transported from CONSOL Energy's mining complexes to customers by means of railroad cars, river barges, trucks, conveyor belts or a combination of these means of transportation. The Robinson Run Mine transports coal to customers by conveyor belt. The McElroy, Shoemaker, and Ohio No. 11 complexes ship coal to customers by means of river barges. Trucks are used to transport coal from the Loveridge, Mine 84, Jones Fork,

Blacksville, Rend Lake, Mahoning Valley and Emery complexes. The Enlow Fork, Bailey, Mine No. 84, Robinson Run, Loveridge, Line Creek, Blacksville, Buchanan, Mill Creek, VP-3, Jones Fork, VP-8, Amonate, Elk Creek, Rend Lake and Cardinal River complexes primarily transport coal to customers by rail.

We employ transportation specialists who negotiate freight and equipment agreements with various transportation suppliers, including railroads, barge lines, terminal operators, ocean vessel brokers and trucking companies.

We own five towboats and six harbor boats and a fleet of nearly 300 barges to serve customers along the Ohio and Monongahela Rivers. The barge operation allows us to control delivery schedules and serves as temporary floating storage for coal where land storage is unavailable. Approximately 40% of the coal that we produced was shipped on the inland waterways in the twelve months ended December 31, 2002.

Competition

The United States coal industry is highly competitive, with numerous producers in all coal producing regions. CONSOL Energy competes against other large producers and hundreds of small producers in the United States and overseas. The largest producer is estimated by the 2002 National Mining Association Survey to have produced less than 18% (based on tonnage produced) of the total United States production in 2001. The U.S. Department of Energy reported 1,512 active coal mines in the United States in 2001, the latest year for which government statistics are available. Demand for our coal by our principal customers is affected by:

the price of competing coal and alternative fuel supplies, including nuclear, natural gas, oil and renewable energy sources, such as hydroelectric power;

coal quality;

transportation costs from the mine to the customer; and

the reliability of supply.

Continued demand for CONSOL Energy's coal and the prices that CONSOL Energy obtains are affected by demand for electricity, environmental and government regulation, technological developments and the availability and price of competing coal and alternative fuel supplies. We sell coal to foreign electricity generators and to the more specialized metallurgical coal market, both of which are significantly affected by international demand and competition.

Gas Operations

CONSOL Energy produces coalbed methane, which is pipeline quality gas that resides in coal seams. In the eastern United States, conventional natural gas fields typically are located in various types of sedimentary formations at depths ranging from 2,000 to 15,000 feet. Exploration companies often put their capital at risk by searching for gas in commercially exploitable quantities at these depths. By contrast, gas in the coal seams that CONSOL Energy drills or anticipates drilling is typically in formations less than 2,500 feet deep which are usually better defined

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than deeper formations. CONSOL Energy believes that this contributes to lower exploration costs than those incurred by producers that operate in deeper, less defined formations.

Nearly all of our gas production currently is from operations in southwestern Virginia. In this region, we operate 1,235 wells, 708 miles of gathering lines and various compression stations. Our southwestern Virginia operations control approximately 210,000 acres of gas rights. At December 31, 2002, we reported 1.1 trillion cubic feet of proved reserves of gas, of which approximately 33.2% is developed. Our December 2002 average daily production in this region is approximately 131 million cubic feet per day.

We have been developing gas production in southwestern Pennsylvania and northern West Virginia by gathering gas currently being vented to the atmosphere by our mines in the area. In this region, our December 2002 average daily production was approximately 2.5 million cubic feet per day. At December 31, 2002, we reported

15.8 billion cubic feet of proved reserves of gas, of which approximately 78% is developed. We expect to expand production of gas in this area by drilling additional production wells into the coal seams that we own or control.

We have also been developing gas production in the Tennessee area through a 50% joint venture. In this area, our 50% portion of December 2002 average daily production was approximately 0.3 thousand cubic feet per day. At December 31, 2002, our portion of proved gas reserves for this area was 0.6 billion cubic feet, all of which were developed.

CONSOL Energy has not filed reserve estimates with any federal agency.

Drilling

The total average daily rate of production controlled by CONSOL Energy during the twelve months ended December 31, 2002, was 129.2 million cubic feet. During the twelve months ended December 31, 2002, the six months ended December 31, 2001, and the twelve months ended June 30, 2001, and 2000, we drilled in the aggregate, 197, 141, 203, and 130 coalbed methane development wells, respectively, all of which were productive. The net number of wells for those periods were approximately 194, 141, 157, and 82 wells, respectively. Ten coalbed methane and nineteen conventional exploratory wells were being drilled and evaluated at December 31, 2002, 17 exploratory wells were being drilled at December 31, 2001, and two exploratory wells were being drilled at June 30, 2001.

Production

The following table sets forth CONSOL Energy's working interest production for the periods indicated.

	For the Twelve Months Ended December 31,	For the Six Months Ended December 31,	For the Twelve Months Ended June 30,	
	2002	2001	2001	2000
Coalbed methane (in millions of cubic feet)	47,164	19,885	34,004	16,235

Water produced from our Virginia operations, which represents 95% of the total water produced, is injected into injection wells. Water from our Northern West Virginia/Southwest Pennsylvania operations is hauled to an independent treatment facility where it is treated and discharged.

Average Sales Prices and Lifting Costs

The following table sets forth the average sales price and the average lifting cost for all of our gas production for the periods indicated. Lifting cost is the cost of raising gas to the gathering system and does not include depreciation, depletion or amortization. See Note 30 of Notes to Consolidated Financial Statements.

Average Gas Sales Price, Lifting Cost, and Royalty for the

	Twelve Months Ended December 31,	Six Months Ended December 31,	Twelve Months Ended June 30,	
	2002	2001	2001	2000
Average gas sales price (per million Btu)	\$ 3.22	\$ 2.67	\$ 5.27	\$ 3.06
Average lifting cost (per million Btu)	\$ 0.36	\$ 0.47	\$ 0.37	\$ 0.48
Average royalty (per million Btu)	\$ 0.27	\$ 0.18	\$ 0.54	\$ 0.20

Productive Wells and Acreage

The following table sets forth, at December 31, 2002, the number of CONSOL Energy's producing wells, developed acreage and undeveloped acreage.

	<u>Gross</u>	<u>Net</u>
Producing Wells	1,317	1,313
Developed Acreage	105,881	105,631
Undeveloped Acreage	360,267	243,681

We drilled 197 development wells in the twelve months ended December 31, 2002, of which eight wells were in process at December 31, 2002. Nearly all of our development wells and acreage are located in southwestern Virginia. Some leases are beyond their primary term, but such leases are extended in accordance with their terms as long as certain drilling commitments are satisfied.

We currently plan to drill approximately 269 wells in the twelve month period ending December 31, 2003. 161 of these wells are proposed to be conventional coalbed methane wells drilled into coal seams not yet mined. 68 of the remaining wells are to be drilled into mine areas to produce gob gas, which is methane gas that has collected in abandoned areas of underground coal mines. 40 of the projected wells are conventional gas wells. Compared to coalbed methane wells, conventional gas wells put capital at a higher risk due to the potential for unsuccessful drilling. As such, the success rate of conventional gas wells may not reflect that of our coalbed methane drilling program.

Sales

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 contracts generally not exceeding one year. Within the terms of the individual sales confirmations executed under the master marketing contracts, at December 31, 2002, we were obligated to deliver 44.8 billion cubic feet during the twelve month period ending December 31, 2003. Generally, we have not entered into such arrangements in the past. Reserves and production estimates are believed to be sufficient to cover these commitments. A shortfall of commitments has not been an issue historically. We also have a gas-balancing agreement with TCO Interstate Pipeline. This agreement is in accordance with the Council of Petroleum Accountants Societies (COPAS) definition of producer imbalances, whereby the operator controls the physical production and delivery of gas to a transporter. Contracted quantities of gas rarely equal physical deliveries. As the operator, CONSOL Energy is responsible for monitoring this imbalance and requesting adjustments to contracted volumes as circumstances warrant. The imbalance agreement is managed internally using the sales method of accounting. The sales method recognizes revenue when the gas is taken and paid for by the purchaser. The imbalance amounts, for both volumes and dollars, were insignificant at December 31, 2002.

The hedging strategy and information regarding derivative instruments used are outlined in item 7A, Qualitative and Quantitative Disclosures About Market Risk, and in Note 25 to the audited financial statements.

Distribution

Our gas operations in Virginia have built separate gathering systems in their gas fields to deliver gas to market. While each gathering system begins at the individual wellhead, gas from wells is transported to market in each case by the Cardinal States Gathering Company's major gathering system. Cardinal States Gathering Company is a wholly owned subsidiary which operates two major gathering systems. The first gathering system is a 50-mile, 16-inch gathering system that is capable of transporting 100 million cubic feet of gas per day. This gathering system has processing and compression facilities and connects with a Columbia Transmission pipeline located in Mingo County, West Virginia. The second gathering system is a 30-mile, 20-inch gathering system capable of transporting 150 million cubic feet of gas per day. This gathering system also connects with a Columbia Transmission gathering system in Wyoming County, West Virginia.

Gas Reserves

CONSOL Energy's gas reserves are either owned or leased. The following table shows our estimated proven developed and proven undeveloped reserves. Reserve information is gross, and includes 100% of the reserves for Pocahontas Gas Partnership as of December 31, 2002, and December 31, 2001, and 50% of the reserves for Pocahontas Gas Partnership as of June 30, 2001, and June 30, 2000. CONSOL Energy owned a 50% interest in Pocahontas until August 2001, when CONSOL Energy acquired the remaining 50% interest. Gross reserves are

100% of gas volumes, not net of ¹/₈ royalty ownership. Proven developed and proven undeveloped gas reserves are reserves that could be commercially recovered under current economic conditions, operating methods and government regulations.

Proved developed and undeveloped gas reserves are defined by the Securities and Exchange Commission Rule 4.10(a) of Regulation 5-X.

GAS Reserves				
(millions of cubic feet)				
	As of December 31,		As of June 30,	
	2002	2001	2001	2000
Estimated proven developed reserves	374,098	413,234	261,426	178,690
Estimated proven undeveloped reserves	729,115	762,998	519,081	568,123
Total estimated proven developed and undeveloped reserves	1,103,213	1,176,232	780,507	746,813

Discounted Future Net Cash Flows

The following table shows, for CONSOL Energy's gross estimated proven developed and undeveloped reserves, its estimated future net cash flows and total standardized measure of discounted, at 10%, future net cash flows (net of income taxes). Information as of December 31, 2001, has been restated from \$433,224 for future net cash flows and \$218,365 for total standardized measure of discounted future net cash flows previously included in our reports due to revisions in development costs for that period.

Discounted Future Net Cash Flows				
(\$ in thousands)				
	As of December 31,		As of June 30,	
	2002	2001	2001	2000
Future net cash flows	\$ 2,037,696	\$ 901,343	\$ 551,607	\$ 1,150,826
Total standardized measure of discounted future net cash flows	\$ 735,181	\$ 345,826	\$ 189,156	\$ 494,581

Competition

CONSOL Energy's gas operations primarily compete regionally in the northeastern United States. Competition throughout the country is regionalized. CONSOL Energy believes that the gas market is highly fragmented and not dominated by any single producer. CONSOL Energy believes that several of its competitors have devoted far greater resources than it has to gas exploration and development. CONSOL Energy believes that competition within its market is based primarily on price and the proximity of gas fields to customers.

Other

CONSOL Energy provides other services both to its own operations and to others. These include terminal services (including break bulk, general cargo and warehouse services), river and dock services, industrial supply services, coal waste disposal services, land resource services, research and development services and power generation.

Terminal Services

More than 131 million tons of coal have been shipped through CONSOL Energy's exporting terminal in the Port of Baltimore during the terminal's 20 years of operation. The terminal can either store coal or load coal directly into vessels from rail cars. It is also one of the few terminals in the United States served by two railroads, Norfolk Southern and CSX Transportation. In the twelve months ended December 31, 2002, 3.8 million tons of coal were shipped through the terminal. Approximately 75% of the tonnage shipped was produced by our coal mines.

On August 14, 2002, CONSOL Energy, through its subsidiary CNX Marine Terminals Inc., began operations as a break bulk, general cargo and warehouse provider in Baltimore for shipments of metal, forest products and other bulk cargo.

River and Dock Services

CONSOL Energy's river operation, located in Elizabeth, Pennsylvania, transports coal from our mines with river loadout facilities along the Monongahela and Ohio Rivers in northern West Virginia and southwestern Pennsylvania to customers along these rivers. The river operation employs five company-owned towboats, six harbor boats and nearly 300 barges. In the twelve months ended December 31, 2002, our river vessels transported 15.1 million tons of our coal.

CONSOL Energy provides dock services at Kellogg Dock, located on the Mississippi River in southern Illinois, and Alicia Dock, located on the Monongahela River in Fayette County, Pennsylvania, north of the Dilworth mine. CONSOL Energy transfers coal from rail cars to barges for customers that receive coal on the river system.

Coal Waste Disposal Services

CONSOL Energy operates an ash disposal facility on a 61-acre site in northern West Virginia to handle ash residues for coal customers that are unable to dispose of ash on-site at their generating facilities. This facility became operational in early 1994. The ash disposal facility can process 200 tons of material per hour. CONSOL Energy has a long-term contract with a cogeneration facility to supply coal and take the residual fly ash and bottom ash. Bottom ash is sold locally for road construction and other purposes.

Industrial Supply Services

Fairmont Supply Company, a CONSOL Energy subsidiary, is a general-line distributor of mining and industrial supplies in the United States. Fairmont Supply has 12 customer service centers nationwide. Fairmont Supply also provides integrated supply procurement and management services. Integrated supply procurement is a materials management strategy that utilizes a single, full-line distributor to minimize total cost in the maintenance, repair and operating supply chain. Fairmont Supply offers value-added services including on-site stores management and procurement strategies.

Fairmont Supply provides mine supplies to CONSOL Energy's mining operations. Approximately 53% of Fairmont Supply's sales in the twelve months ended December 31, 2002, were made to CONSOL Energy's mines.

Land Resources

CONSOL Energy is developing property assets previously used primarily to support its coal operations or which currently are not utilized. CONSOL Energy expects to increase the value of its property assets by:

developing surface properties for commercial uses other than coal mining or gas development when the location of the property is suitable;

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deriving royalty income from coal, oil and gas reserves CONSOL Energy owns but does not intend to develop;

deriving income from the sustainable harvesting of timber on land CONSOL Energy owns; and

deriving income from the rental of surface property for agricultural and non-agricultural uses.

CONSOL Energy's objective is to improve the return on these assets without detracting from its core businesses and without significant additional capital investment.

Research and Development

We maintain a research and development department which provides technical support to coal, gas, land and administrative functions. In addition to the research and technical support work done for us, the department has engaged in a number of partnerships with federal and state government agencies, and other private companies, that provide additional funding to advance our technology agenda. Costs related to research and development are

expensed as incurred. These costs were \$5.6 million for the twelve months ended December 31, 2002, \$2.3 million for the six months ended December 31, 2001, and \$5.3 million and \$8.0 million for the twelve months ended June 30, 2001 and 2000, respectively.

Power Generation

In March 2002, we entered into a joint venture with Allegheny Energy Supply Company, LLC, an affiliate of one of our largest coal customers, to build an 88-megawatt, gas-fired electric generating facility. This facility was completed in June 2002 at a total cost of approximately \$56 million, of which CONSOL Energy paid approximately \$28 million, and is used for meeting peak load demands. The facility is in southwest Virginia and uses coalbed methane gas that we produce. In the twelve months ended December 31, 2002, the facility operated for a total of 34,540 megawatt hours and did not have a significant effect on earnings in 2002.

Employee and Labor Relations

At December 31, 2002, CONSOL Energy had 6,074 employees, 2,175 of whom were represented by the United Mine Workers of America and covered by the terms of the National Bituminous Coal Wage Agreement of 2002 which will expire on December 31, 2006. This agreement was negotiated with the United Mine Workers of America by the Bituminous Coal Operators Association on behalf of its members, which include several of CONSOL Energy's subsidiaries.

Regulations

The coal mining and gas industries are subject to regulation by federal, state and local authorities on matters such as employee health and safety, permitting and licensing requirements, air quality standards, water pollution, plant and wildlife protection, the reclamation and restoration of properties after mining or gas operations are completed, the discharge of materials into the environment, surface subsidence from underground mining and the effects of mining and gas operations on groundwater quality and availability. In addition, the utility industry is subject to extensive regulation regarding the environmental impact of its power generation activities, which could affect demand for CONSOL Energy's coal. The possibility exists that new legislation or regulations may be adopted which would have a significant impact on CONSOL Energy's mining or gas operations or its customers' ability to use coal or gas and may require CONSOL Energy or its customers to change their operations significantly or incur substantial costs.

Numerous governmental permits and approvals are required for mining and gas operations. CONSOL Energy is, or may be, required to prepare and present to federal, state or local authorities data pertaining to the effect or impact that any proposed exploration for or production of coal or gas may have upon the environment and public and employee health and safety. All requirements imposed by such authorities may be costly and time-consuming and may delay commencement or continuation of exploration or production operations. Future legislation and administrative regulations may emphasize the protection of the environment, health and safety and, as a consequence, the activities of CONSOL Energy may be more closely regulated. Such legislation and regulations, as well as future interpretations of existing laws, may require substantial increases in equipment and operating costs to CONSOL Energy and delays, interruptions or a termination of operations, the extent of which cannot be predicted.

While it is not possible to quantify the costs of compliance with all applicable federal and state laws, those costs have been and are expected to continue to be significant. CONSOL Energy made capital expenditures for environmental control facilities of approximately \$1.4 million for the twelve months ended December 31, 2002, \$3.5 million for the six months ended December 31, 2001, \$2.9 million for the twelve months ended June 30, 2001, and \$1.6 million for the twelve months ended June 30, 2000. CONSOL Energy expects to have capital expenditures of \$1.8

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million for 2003 for environmental control facilities. These costs are in addition to reclamation and mine closing costs. Compliance with these laws has substantially increased the cost of coal mining and gas production, but is, in general, a cost common to all domestic coal and gas producers.

Mine Health and Safety Laws

Stringent health and safety standards were imposed by federal legislation when the federal Coal Mine Safety and Health Act of 1969 was adopted. The federal Coal Mine Safety and Health Act of 1977, which

significantly expanded the enforcement of safety and health standards of the Mine Safety and Health Act of 1969, imposes safety and health standards on all mining operations. Regulations are comprehensive and affect numerous aspects of mining operations, including training of mine personnel, mining procedures, blasting, the equipment used in mining operations and other matters. The federal Coal Mine Safety and Health Administration monitors compliance with these federal laws and regulations. In addition, as part of the Mine Safety and Health Act of 1969 and the Mine Safety and Health Act of 1977, the Black Lung Benefits Act requires payments of benefits to disabled coal miners with black lung and to certain survivors of miners who die from black lung.

The states in which CONSOL Energy operates have programs for mine safety and health regulation and enforcement. The combination of federal and state safety and health regulations in the coal mining industry is, perhaps, the most comprehensive system for protection of employee safety and health affecting any industry. Most aspects of mine operations, particularly underground mine operations, are subject to extensive regulation. This regulation has a significant effect on CONSOL Energy's operating costs. However, CONSOL Energy's competitors in all of the areas in which it operates are subject to the same regulation.

Black Lung Legislation

Under federal black lung benefits legislation, each coal mine operator is required to make payments of black lung benefits or contributions to:

current and former coal miners totally disabled from black lung disease;

certain survivors of a miner who dies from black lung disease or pneumoconiosis; and

a trust fund for the payment of benefits and medical expenses to claimants whose last mine employment was before January 1, 1970, where no responsible coal mine operator has been identified for claims (where a miner's last coal employment was after December 31, 1969), or where the responsible coal mine operator has defaulted on the payment of such benefits.

In addition to the federal legislation, we are also liable under various state statutes for black lung claims. Our black lung benefit liabilities, including the current portions, totaled approximately \$462 million at December 31, 2002. These obligations are partially funded.

In recent years, legislation on black lung reform has been introduced in, but not enacted by, Congress. It is possible that this legislation will be reintroduced for consideration by Congress. If any of the proposals included in this or similar legislation is passed, the number of claimants who are awarded benefits could significantly increase. Any such changes in black lung legislation, if approved, may adversely affect our business, financial condition and results of operations.

The United States Department of Labor issued a final rule, effective January 19, 2001, amending the regulations implementing the federal black lung laws. The amendments give greater weight to the opinion of the claimant's treating physician, expand the definition of black lung disease and limit the amount of medical evidence that can be submitted by claimants and respondents. The amendments also alter administrative procedures for the adjudication of claims, which, according to the Department of Labor, results in streamlined procedures that are less formal, less adversarial and easier for participants to understand. These and other changes to the black lung regulations could significantly increase our exposure to black lung benefits liabilities. Experience to date related to these changes is not sufficient to determine the impact of these changes. The National Mining Association, an industry association of which CONSOL Energy is a member, challenged the amendments in the United States District Court for the District of Columbia. On August 9, 2001, the Court issued an opinion upholding the United States Department of Labor's rules in their entirety. The National Mining Association appealed this decision to the United States Court of Appeals. On June 14, 2002, the Court of Appeals issued a decision that, with minor exception, affirmed the rules. However, the decision left many contested issues open for

interpretation. Consequently, we anticipate increased litigation over the next two to three years until the various federal District Courts have had an opportunity to rule on these issues.

Workers Compensation

CONSOL Energy is required to compensate employees for work-related injuries. Our workers compensation liabilities, including the current portion, were \$317 million at December 31, 2002. These obligations are unfunded. The amount we expensed in the twelve months ended December 31, 2002, was \$61 million, while the related cash payment for this liability was \$79 million. This includes a one-time payment of \$22 million for West Virginia State Administration Fees which was primarily related to contractors who defaulted on contributions. In addition, several states in which we operate consider changes in workers compensation laws from time to time. Such changes, if enacted, could adversely affect CONSOL Energy.

Retiree Health Benefits Legislation

The Coal Industry Retiree Health Benefit Act of 1992 requires CONSOL Energy to make payments to fund the cost of health benefits for our and other coal industry retirees. Based on available information, at December 31, 2002, CONSOL Energy's obligation is estimated at approximately \$658 million. We made payments and expensed such health benefits of \$35 million in the twelve months ended December 31, 2002.

Environmental Laws

CONSOL Energy is subject to various federal environmental laws, including

the Surface Mining Control and Reclamation Act of 1977,

the Clean Air Act,

the Clean Water Act,

the Toxic Substance Control Act,

the Comprehensive Environmental Response, Compensation and Liability Act, and

the Resource Conservation and Recovery Act, as well as state laws of similar scope in each state in which CONSOL Energy operates.

These environmental laws require reporting, permitting and/or approval of many aspects of coal mining and gas operations. Both federal and state inspectors regularly visit mines and other facilities to ensure compliance. CONSOL Energy has ongoing compliance and permitting programs to ensure compliance with such environmental laws.

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Given the retroactive nature of certain environmental laws, CONSOL Energy has incurred and may in the future incur liabilities in connection with properties and facilities currently or previously owned or operated as well as sites to which CONSOL Energy or its subsidiaries sent waste materials.

Surface Mining Control and Reclamation Act

The Surface Mining Control and Reclamation Act establishes operational, reclamation and closure standards for all aspects of surface mining as well as most aspects of deep mining. The Act requires that comprehensive environmental protection and reclamation standards be met during the course of and following completion of mining activities. Permits for all mining operations must be obtained from the Federal Office of Surface Mining Reclamation and Enforcement or, where state regulatory agencies have adopted federally approved state programs under the Act, the appropriate state regulatory authority. All states in which CONSOL Energy's active mining operations are located have achieved primary jurisdiction for enforcement of the Act through approved state programs.

The Surface Mining Control and Reclamation Act and similar state statutes, among other things, require that mined property be restored in accordance with specified standards and approved reclamation plans. The mine

operator must submit a bond or otherwise secure the performance of these reclamation obligations. The earliest a reclamation bond can be released is five years after reclamation has been achieved. All states impose on mine operators the responsibility for repairing or compensating for damage occurring on the surface as a result of mine subsidence, a possible consequence of longwall mining. In addition, the Abandoned Mine Reclamation Fund, which is part of the Surface Mining Control and Reclamation Act, imposes a tax on all current mining operations, the proceeds of which are used to restore unreclaimed mines closed before 1977. The maximum tax is \$.35 per ton on surface-mined coal and \$.15 per ton on underground-mined coal.

Through December 31, 2002, CONSOL Energy accrued for the costs of reclaiming the mine disturbance and of final mine closure, including the cost of treating mine water discharge where necessary, over the estimated recoverable tons of the property. The establishment of liability for the current disturbance and final mine closure reclamation is based upon permit requirements and requires various estimates and assumptions, principally associated with costs and production levels. Our reclamation and mine-closing liabilities, including the current portion, were \$391 million at December 31, 2002. Our future operating results would be adversely affected if these accruals are determined to be insufficient. These obligations are unfunded. The amount that was expensed for the twelve months ended December 31, 2002 was \$16 million, while the related cash payment for such liability during the same period was \$24 million.

In January 2003, CONSOL Energy will adopt Statement of Financial Accounting Standards No. 143 (SFAS 143) to account for the costs related to the closure of mines and gas wells and the reclamation of the land upon exhaustion of coal and gas reserves. This statement requires the fair value of an asset retirement obligation 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 estimate asset retirement costs are 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 the land upon exhaustion of coal and gas reserves. We are anticipating the effect of this change to be a gain of \$5 million, net of a tax cost of \$3 million. At the time of adoption, total assets, net of accumulated depreciation, will increase approximately \$59 million, and total liabilities will increase approximately \$51 million. The amounts recorded upon adoption are dependent upon a number of variables, including the estimated future retirement costs, estimated proven reserves, assumptions involving profit margins, inflation rates, and the assumed credit-adjusted risk-free interest rate.

Under the Surface Mining Control and Reclamation Act, responsibility for unabated violations, unpaid civil penalties and unpaid reclamation fees of independent contract mine operators can be imputed to other companies which are deemed, according to the regulations, to have owned or controlled the contract mine operator. Sanctions against the owner or controller are quite severe and can include being blocked from receiving new permits and revocation of any permits that have been issued since the time of the violations or, in the case of civil penalties and reclamation fees, since the time such amounts became due.

Clear Air Act

The federal Clean Air Act and similar state laws and regulations, which regulate emissions into the air, affect coal mining, gas and processing operations primarily through permitting and/or emissions control requirements. In addition, the United States Environmental Protection Agency has issued certain, and is considering further, regulations relating to fugitive dust and coal combustion emissions which could restrict CONSOL Energy's ability to develop new mines or require CONSOL Energy to modify its operations. In July 1997, the United States Environmental Protection Agency adopted new, more stringent National Ambient Air Quality Standards for particulate matter which may require some states to change existing implementation plans. Because coal mining operations and plants burning coal emit particulate matter, CONSOL Energy's mining operations and utility customers are likely to be directly affected when the revisions to the National Ambient Air Quality Standards are implemented by the states. Regulations may restrict CONSOL Energy's ability to develop new mines or could require CONSOL Energy to modify its existing operations, and may have a material adverse effect on CONSOL Energy's financial condition and results of operations.

The Clean Air Act also indirectly affects coal mining operations by extensively regulating the air emissions of coal fueled electric power generating plants. Coal contains impurities, such as sulfur, mercury, chlorine and other regulated constituents, many of which are released into the air when coal is burned. New environmental regulations governing emissions from coal-fired electric generating plants could reduce demand for coal as a fuel source and

affect the volume of our sales. For example, the federal Clean Air Act places limits on sulfur dioxide emissions from electric power plants. In order to meet the federal Clean Air Act limits for sulfur dioxide emissions from electric power plants, coal users need to install scrubbers, use sulfur dioxide emission allowances (some of which they may purchase), blend high sulfur coal with low sulfur coal or switch to low sulfur coal or other fuels. The cost of installing scrubbers is significant and emission allowances may become more expensive as their availability declines. Switching to other fuels may require expensive modification of existing plants. Because higher sulfur coal currently accounts for a significant portion of our sales, the extent to which power generators switch to lower sulfur coal or other low-sulfur fuel could materially affect us if we cannot offset the cost of sulfur removal by lowering the costs of delivery of our higher sulfur coals on an energy equivalent basis.

Other new and proposed reductions in emissions of mercury, nitrogen oxides, particulate matter or various greenhouse gases may require the installation of additional costly control technology or the implementation of other measures, including switching to other fuels. These new and proposed reductions will make it more costly to operate coal-fired plants and could make coal a less attractive fuel alternative in the planning and building of utility power plants in the future. For example, the United States Environmental Protection Agency (EPA) is requiring reduction of nitrogen oxide emissions in 22 eastern states and the District of Columbia and will require reduction of particulate matter emissions over the next several years for areas that do not meet air quality standards for fine particulates. EPA is also working on an implementation plan for the 8-hour ozone standard and this may require some customers to further reduce NO_x emissions, a precursor of ozone. In addition, Congress and several states are now considering legislation to further control air emissions of multiple pollutants from electric generating facilities and other large emitters. To the extent that any new requirements affect our customers, this could adversely affect our operations and results.

A regional haze program initiated by the EPA to protect and to improve visibility at and around national parks, national wilderness areas and international parks may restrict the construction of new coal-fired power plants whose operation may impair visibility at and around federally protected areas and may require some existing coal-fired power plants to install additional control measures designed to limit haze-causing emissions. These requirements could limit the demand for coal in some locations.

The Clean Air Act also imposes standards on sources of hazardous air pollutants. Although these standards have not yet been extended to coal mining operations, the EPA has announced that it will regulate hazardous air pollutants from coal-fired power plants. Under the Clean Air Act, coal-fired power plants will be required to control hazardous air pollution emissions by no later than 2009, which likely will require significant new investment in controls by power plant operators. These standards and future standards could have the effect of decreasing demand for coal.

The United States Department of Justice, on behalf of the EPA, has filed lawsuits against several investor-owned electric utilities and brought an administrative action against one government-owned utility for alleged violations of the Clean Air Act. These lawsuits could require the utilities to pay penalties, install pollution control equipment or undertake other emission reduction measures which could adversely impact their demand for coal.

Any reduction in coal's share of the capacity for power generation could have a material adverse effect on CONSOL Energy's business, financial condition and results of operations. The effect such regulations, or other requirements that may be imposed in the future, could have on the coal industry in general and on CONSOL Energy in particular cannot be predicted with certainty.

CONSOL Energy has obtained all necessary permits under the Clean Air Act. The expiration dates of these permits range from April 21, 2004 through June 30, 2008. Permitting costs with respect to the Clean Air Act were less than \$19 thousand for the twelve months ended December 31, 2002, the six months ended December 31, 2001, and the twelve months ended June 30, 2002. CONSOL Energy's permitting costs were \$0.2 million for the twelve months ended June 30, 2000.

Framework Convention On Global Climate Change

The United States and more than 160 other nations are signatories to the 1992 Framework Convention on Global Climate Change which is intended to limit or capture emissions of greenhouse gases such as carbon dioxide. In December 1997, in Kyoto, Japan, the signatories to the convention established a binding set of emissions targets

for developed nations. Although the specific emissions targets vary from country to country, the United States would be required to reduce emissions to 93% of 1990 levels over a five-year budget period from 2008 through 2012. The United States Senate is not expected to ratify the emissions targets. President Bush has stated that he does not support the Kyoto Protocol and has proposed an alternative to reduce United States omissions of greenhouses gases. If the Kyoto Protocol or other comprehensive regulations focusing on greenhouse gas emissions are implemented by the United States, it could have the effect of restricting the use of coal. Other efforts to reduce emissions of greenhouse gases and federal initiatives to encourage the use of coalbed methane gas also may affect the use of coal as an energy source.

Clean Water Act

The federal Clean Water Act and corresponding state laws affect coal mining and gas operations by imposing restrictions on discharges into regulated effluent waters. Permits requiring regular monitoring and compliance with effluent limitations and reporting requirements govern the discharge of pollutants into regulated waters. CONSOL Energy believes it has obtained all permits required under the Clean Water Act and corresponding state laws and is in substantial compliance with such permits. However, new requirements under the Clean Water Act and corresponding state laws may cause CONSOL Energy to incur significant additional costs that could adversely affect its operating results.

Comprehensive Environmental Response, Compensation and Liability Act (Superfund)

The Comprehensive Environmental Response, Compensation and Liability Act (Superfund) and similar state laws create liabilities for the investigation and remediation of releases of hazardous substances into the environment and for damages to natural resources. Our current and former coal mining operations incur, and will continue to incur, expenditures associated with the investigation and remediation of facilities and environmental conditions, including underground storage tanks, solid and hazardous waste disposal and other matters under the Comprehensive Environmental Response, Compensation and Liability Act and similar state environmental laws. We also must comply with reporting requirements under the Emergency Planning and Community Right-to-Know Act and the Toxic Substances Control Act.

From time to time, we have been the subject of administrative proceedings, litigation and investigations relating to environmental matters. We have been named as a potentially responsible party at Superfund sites in the past. We may become involved in future proceedings, litigation or investigations and incur liabilities that could be materially adverse to us. 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 potentially responsible parties is approximately \$15 million at December 31, 2002. CONSOL Energy's portion of this claim is approximately 20%. CONSOL Energy has a liability for the remaining remediation costs of approximately \$2.9 million at December 31, 2002. To date, CONSOL Energy has paid \$2.1 million for remediation of this waste disposal site and related expenses.

The magnitude of the liability and the cost of complying with environmental laws cannot be predicted with certainty due to the lack of specific information available with respect to many sites, the potential for new or changed laws and regulations and for the development of new remediation technologies and the uncertainty regarding the timing of work with respect to particular sites. As a result, we may incur material liabilities or costs related to environmental matters in the future and such environmental liabilities or costs could adversely affect our results and financial condition. In addition, there can be no assurance that changes in laws or regulations would not affect the manner in which we are required to conduct our operations.

Resource Conservation and Recovery Act

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The federal Resource Conservation and Recovery Act and corresponding state laws and regulations affect coal mining and gas operations by imposing requirements for the treatment, storage and disposal of hazardous wastes.

Federal Coal Leasing Amendments Act

Mining operations on federal lands in the Western United States are affected by regulations of the United States Department of the Interior. The Federal Coal Leasing Amendments Act of 1976 amended the Mineral Lands Leasing Act of 1920 which authorized the leasing of federal lands for coal mining. The Federal Coal Leasing Amendments Act increased the royalties payable to the United States Government for federal coal leases and required diligent development and continuous operations of leased reserves within a specified period of time. Regulations adopted by the United States Department of the Interior to implement such legislation could affect coal

mining by CONSOL Energy from federal leases for operations developed on such leases. CONSOL Energy's only operation with a Federal mineral lease is Emery Mine. Emery Mine is not currently mining on the Federal mineral lease and incurred no lease expense in the year ended December 31, 2002. Emery Mine's asset for advance mining royalty related to the Federal lease was \$0.9 million at December 31, 2002. These advance royalties will be amortized on a units-of-production method as the tons related to the lease are mined. In July 2003, we agreed to sell the physical assets, inventory, mineral reserves and operation of the Emery Mine in Utah. The sale is subject to final due diligence and receipt of various approvals and is expected to close in the fourth quarter of 2003.

Federal Regulation of the Sale and Transportation of Gas

Various aspects of CONSOL Energy's gas operations are regulated by agencies of the Federal government. The Federal Energy Regulatory Commission regulates the transportation and sale of natural gas in interstate commerce pursuant to the Natural Gas Act of 1938 and the Natural Gas Policy Act of 1978. In the past, the Federal government has regulated the prices at which gas could be sold. While first sales by producers of natural gas, and all sales of condensate and natural gas liquids can currently be made at uncontrolled market prices, Congress could reenact price controls in the future. Deregulation of wellhead sales in the natural gas industry began with the enactment of the Natural Gas Policy Act in 1978. In 1989, Congress enacted the Natural Gas Wellhead Decontrol Act, which removed all Natural Gas Act and Natural Gas Policy Act price and nonprice controls affecting wellhead sales of natural gas effective January 1, 1993.

Commencing in April 1992, the Federal Energy Regulatory Commission issued Order Nos. 636, 636-A, 636-B, 636-C and 636-D, which require interstate pipelines to provide transportation services separate, or unbundled, from the pipelines' sales of gas. Also, Order No. 636 requires pipeline operators to provide open access transportation on a nondiscriminatory basis that is equal for all natural gas shippers. Although Order No. 636 does not directly regulate CONSOL Energy's production activities, the Federal Energy Regulatory Commission has stated that it intends for Order No. 636 to foster increased competition within all phases of the natural gas industry.

The courts have largely affirmed the significant features of Order No. 636 and numerous related orders pertaining to the individual pipelines, although certain appeals remain pending and the Federal Energy Regulatory Commission continues to review and modify its open access regulations. In particular, the Federal Energy Regulatory Commission has reviewed its transportation regulations, including how they operate in conjunction with state proposals for retail gas marketing restructuring, whether to eliminate cost-of-service rates for short-term transportation, whether to allocate all short-term capacity on the basis of competitive auctions, and whether changes to its long-term transportation policies may also be appropriate to avoid a market bias toward short-term contracts. In February 2000, the Federal Energy Regulatory Commission issued Order No. 637 amending certain regulations governing interstate natural gas pipeline companies in response to the development of more competitive markets for natural gas and natural gas transportation. The goal of Order No. 637 is to fine tune the open access regulations implemented by Order No. 636 to accommodate subsequent changes in the market. Key provisions of Order No. 637 include:

- (1) waiving the price ceiling for short-term capacity release transactions until September 30, 2002, and, subject to review, a possible extension of the program at that time;
- (2) permitting value-oriented peak/off-peak rates to better allocate revenue responsibility between short-term and long-term markets;
- (3) permitting term-differentiated rates, in order to better allocate risks between shippers and the pipeline;
- (4) revising the regulations related to scheduling procedures, capacity, segmentation, imbalance management, and penalties;
- (5) retaining the right of first refusal and the five year matching cap for long-term shippers at maximum rates, but significantly narrowing the right of first refusal for customers that the Federal Energy Regulatory Commission does not deem to be captive; and

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- (6) adopting new web site reporting requirements that include daily transactional data on all firm and interruptible contracts and daily reporting of scheduled quantities at points or segments.

The new reporting requirements became effective September 1, 2000. CONSOL Energy cannot predict what action the Federal Energy Regulatory Commission will take on these matters, nor can it accurately predict whether the Federal Energy Regulatory Commission's actions will, over the long-term, achieve the goal of increasing competition in markets in which CONSOL Energy's gas is sold.

The Federal Energy Regulatory Commission has also issued numerous orders confirming the sale and abandonment of natural gas gathering facilities previously owned by interstate pipelines and acknowledging that if the Federal Energy Regulatory Commission does not have jurisdiction over services provided by these facilities, then such facilities and services may be subject to regulation by state authorities in accordance with state law. A number of states have either enacted new laws or are considering the adequacy of existing laws affecting gathering rates and/or services. Other state regulation of gathering facilities generally includes various safety, environmental, and in some circumstances, nondiscriminatory take requirements, but does not generally entail rate regulation. Thus, natural gas gathering may receive greater regulatory scrutiny of state agencies in the future. CONSOL Energy's gathering operations could be adversely affected should they be subject in the future to increased state regulation of rates or services, although CONSOL Energy does not believe that it would be affected by such regulation any differently than other natural gas producers or gatherers. In addition, the Federal Energy Regulatory Commission's approval of transfers of previously-regulated gathering systems to independent or pipeline affiliated gathering companies that are not subject to Federal Energy Regulatory Commission regulation may affect competition for gathering or natural gas marketing services in areas served by those systems and thus may affect both the costs and the nature of gathering services that will be available to interested producers or shippers in the future.

CONSOL Energy owns certain natural gas pipeline facilities that it believes meet the traditional tests which the Federal Energy Regulatory Commission has used to establish a pipeline's status as a gatherer not subject to the Federal Energy Regulatory Commission jurisdiction. Whether on state or federal land, natural gas gathering may receive greater regulatory scrutiny in the post-Order No. 636 environment.

Additional proposals and proceedings that might affect the gas industry are pending before Congress, the Federal Energy Regulatory Commission, the Minerals Management Service, state commissions and the courts. CONSOL Energy cannot predict when or whether any such proposals may become effective. In the past, the natural gas industry has been heavily regulated. There is no assurance that the regulatory approach currently pursued by various agencies will continue indefinitely. Notwithstanding the foregoing, CONSOL Energy does not anticipate that compliance with existing federal, state and local laws, rules and regulations will have a material or significantly adverse effect upon the capital expenditures, earnings or competitive position of CONSOL Energy or its subsidiaries. No material portion of CONSOL Energy's business is subject to renegotiation of profits or termination of contracts or subcontracts at the election of the Federal government.

State Regulation of Gas Operations - United States

CONSOL Energy's operations are also subject to regulation at the state and in some cases, county, municipal and local governmental levels. Such regulation includes requiring permits for the drilling of wells, maintaining bonding requirements in order to drill or operate wells and regulating the location of wells, the method of drilling and casing wells, the surface use and restoration of properties upon which wells are drilled, the plugging and abandoning of wells and the disposal of fluids used in connection with operations. CONSOL Energy's operations are also subject to various conservation laws and regulations. These include regulations that affect the size of drilling and spacing units or proration units and the density of wells which may be drilled and the unitization or pooling of gas properties. In addition, state conservation laws establish maximum rates of production from gas wells, generally prohibit the venting or flaring of gas and impose certain requirements regarding the ratable production. State regulation of gathering facilities generally includes various safety, environmental and, in some circumstances, nondiscriminatory take requirements, but does not generally entail rate regulation. These regulatory burdens may affect profitability, and CONSOL Energy is unable to predict the future cost or impact of complying with such regulations.

Available Information

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CONSOL Energy maintains a website on the World Wide Web at www.consolenergy.com. CONSOL Energy makes available, free of charge, on its website its annual report on the Form 10-K, quarterly reports on Form

10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "1934 Act"), as soon as reasonably practicable after such reports are electronically filed with, or furnished to the SEC, and are also available at the SEC's website at www.sec.gov.

Item 2. Properties.

See "Coal Operations" and "Gas Operations" in Item 1 of this 10-K for a description of CONSOL Energy's properties.

Item 3. Legal Proceedings.

CONSOL Energy is subject to various lawsuits and claims with respect to matters such as personal injury, wrongful death, damage to property, exposure to hazardous substances, environmental remediation, employment and contract disputes, and other claims and actions arising out of the normal course of business.

One of CONSOL Energy's subsidiaries, Fairmont Supply Company, which distributes industrial supplies, currently is defending against approximately 21,000 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.

In the opinion of management, the ultimate liabilities resulting from pending lawsuits and claims will not materially affect its financial position, results of operations or cash flows.

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

None.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

Common Stock Market Prices and Dividends

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Our common stock is listed on the New York Stock Exchange. The following table sets forth for the periods indicated the range of high and low sales prices per share of our common stock as reported on the New York Stock Exchange and the cash dividends declared on the common stock for the periods indicated.

	<u>High</u>	<u>Low</u>	<u>Dividends</u>
Fiscal Year 2001			
Quarter Ended September 30, 2000	21.06	15.00	.28
Quarter Ended December 31, 2000	28.00	16.13	.28
Quarter Ended March 31, 2001	37.70	24.88	.28
Quarter Ended June 30, 2001	42.48	25.00	.28
Six Month Transition Period Ended December 31, 2001			
Quarter Ended September 30, 2001	28.50	18.30	.28
Quarter Ended December 31, 2001	28.45	21.41	.28
Twelve Month Period Ended December 31, 2002			
Quarter Ended March 31, 2002	27.49	21.19	.28
Quarter Ended June 30, 2002	28.32	21.25	.14
Quarter Ended September 30, 2002	21.54	9.80	.14
Quarter Ended December 31, 2002	17.90	10.65	.14

On March 12, 2003, there were approximately 11,000 holders of record of our common stock.

Our Board of Directors intends to continue its policy of paying quarterly dividends. However, the future declaration and payment of dividends and the amount of dividends will depend upon, among other things, general business conditions, our financial results, contractual and legal restrictions on our payment of dividends, our credit rating, our planned investments and such other factors as our Board of Directors deems relevant. Our credit facilities currently do not contain covenants restricting our ability to declare and pay dividends, except in the event of default.

EXECUTIVE OFFICERS

The following is a list of CONSOL Energy's executive officers, their ages as of February 1, 2003 and their positions and offices held with CONSOL Energy.

<u>Name</u>	<u>Age</u>	<u>Position</u>
J. Brett Harvey	52	President and Chief Executive Officer and Director
Christoph Koether	44	Executive Vice President Administration and Director
Peter B. Lilly	54	Chief Operating Officer Coal
Ronald E. Smith	54	Executive Vice President Engineering Services, Environmental Affairs & Exploration
William J. Lyons	54	Senior Vice President and Chief Financial Officer
Daniel L. Fassio	55	Vice President General Counsel and Secretary

J. Brett Harvey has been President and Chief Executive Officer and a Director of CONSOL Energy since January 1998. Prior to joining CONSOL Energy, Mr. Harvey served as the President and Chief Executive Officer of PacifiCorp Energy Inc., a subsidiary of PacifiCorp, from March 1995 until January 1998. Mr. Harvey also was President and Chief Executive Officer of Interwest Mining Company from January 1993 until January 1998 and Vice President of PacifiCorp Fuels from November 1994 until January 1998. Mr. Harvey is a member of the Board of Directors of the National Mining Association, the National Coal Council and the Utah Mining Association.

Christoph Koether has been Executive Vice President Administration since July 2001 and a Director of CONSOL Energy since February 2001. From 1998 until 2001, he held various positions within RWE Rheinbraun AG, including Vice President and Division Head-Corporate Planning

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and Controlling, and from 1996 to 1997, he was Vice President and Head of the Finance Department and Treasury. He has also been a board member and managing director of various subsidiaries of RWE Rheinbraun AG.

Peter B. Lilly has been Chief Operating Officer-Coal of CONSOL Energy since October 2002. Prior to joining CONSOL Energy, Mr. Lilly served as President and Chief Executive Officer of Triton Coal Company LLC and Vulcan Coal Holdings LLC from 1998 to 2002. Between 1991 and 1998, he served in various positions with Peabody Holding Company, Inc. President and Chief Operating Officer from 1995 to 1998, Executive Vice

President from 1994 to 1995, and as president of Eastern Associated Coal Corporation from 1991 to 1994. He is a former board member of both the National Coal Association and the American Mining Congress.

Ronald E. Smith has been Executive Vice President Engineering Services, Environmental Affairs & Exploration of CONSOL Energy since April 1, 1992.

William J. Lyons has been Senior Vice President and Chief Financial Officer of CONSOL Energy since February 1, 2001. From January 1, 1995 to February 1, 2001, Mr. Lyons held the position of Vice President Controller for CONSOL Energy.

Daniel L. Fassio has been Vice President, General Counsel and Secretary of CONSOL Energy since March 1994.

Item 6. Selected Financial Data.

The following table presents our selected consolidated financial and operating data for, and as of the end of, each of the periods indicated. The selected consolidated financial data for, and as of the end of, each of the twelve months ended December 31, 2002, June 30, 2001, June 30, 2000 and December 31, 1998, and the six months ended December 31, 2001 and June 30, 1999 are derived from our audited consolidated financial statements. The selected consolidated financial data for, and as of the end of, the twelve months ended December 31, 2001 and the six months ended December 31, 2000, are derived from our unaudited consolidated financial statements, and in the opinion of management include all adjustments, consisting only of normal recurring accruals, that are necessary for a fair presentation of our financial position and operating results for these periods. The selected consolidated financial and operating data are not necessarily indicative of the results that may be expected for any future period. The selected consolidated financial and operating data should be read in conjunction with Management's Discussion and Analysis of Results of Operations and Financial Condition and the financial statements and related notes included in this report. In 1999, we changed our fiscal year from a calendar year to a fiscal year ended June 30. In 2001, we changed our fiscal year from a fiscal year ended June 30 to a fiscal year ended December 31 in order to coordinate reporting periods with our majority shareholder commencing with the fiscal year started January 1, 2002.

STATEMENT OF INCOME DATA (In thousands except per share data)	Twelve Months Ended		Six Months Ended		Twelve Months Ended		Twelve Months	
	December 31,		December 31,		June 30,		Six Months	Ended
	2002	2001	2001	2000	2001	2000	Ended June 30,	December 31,
							1999	1998
		(Unaudited)		(Unaudited)				
Revenue:								
Sales (1)	\$ 2,003,345	\$ 2,095,463	\$ 964,460	\$ 992,201	\$ 2,123,202	\$ 2,094,850	\$ 1,081,922	\$ 2,295,430
Freight (1)	134,416	159,029	70,314	72,225	160,940	165,934	80,487	230,041
Other income	45,837	64,526	31,223	37,154	70,457	64,359	28,560	54,562
Total Revenue	2,183,598	2,319,018	1,065,997	1,101,580	2,354,599	2,325,143	1,190,969	2,580,033
Costs:								
Cost of goods sold and other operating charges	1,543,189	1,585,686	761,146	730,329	1,554,867	1,498,982	790,119	1,590,176
Freight expense	134,416	159,029	70,314	72,225	160,940	165,934	80,487	230,041
Selling, general and administrative expense	65,888	61,155	31,493	33,381	63,043	62,164	30,218	59,475
Depreciation, depletion and amortization	262,873	243,588	120,039	119,723	243,272	249,877	121,237	238,584
Interest Expense	46,213	43,356	16,564	30,806	57,598	55,289	30,504	48,138
Taxes other than income	172,479	160,954	80,659	77,771	158,066	174,272	98,244	201,137
Export sales excise tax resolution	(1,037)	(118,120)	5,402		(123,522)			
Restructuring costs						12,078		
Total Costs	2,224,021	2,135,648	1,085,617	1,064,235	2,114,264	2,218,596	1,150,809	2,367,551
Earnings (Loss) before income taxes	(40,423)	183,370	(19,620)	37,345	240,335	106,547	40,160	212,482
Income taxes (benefits)	(52,099)	32,164	(20,679)	3,842	56,685	(493)	121	37,845
Net income	\$ 11,676	\$ 151,206	\$ 1,059	\$ 33,503	\$ 183,650	\$ 107,040	\$ 40,039	\$ 174,637
Earnings per share:								
Basic (2)	\$ 0.15	\$ 1.92	\$ 0.01	\$ 0.43	\$ 2.34	\$ 1.35	\$ 0.62	\$ 1.73
Dilutive (2)	\$ 0.15	\$ 1.91	\$ 0.01	\$ 0.43	\$ 2.33	\$ 1.35	\$ 0.62	\$ 1.73

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Weighted average number of common shares outstanding:								
Basic	78,728,560	78,671,821	78,699,732	78,584,204	78,613,580	79,499,576	64,784,685	100,820,599
Dilutive	78,834,023	78,964,557	78,920,046	78,666,391	78,817,935	79,501,326	64,784,685	100,820,599
Dividend per share	\$ 0.84	\$ 1.12	\$ 0.56	\$ 0.56	\$ 1.12	\$ 1.12	\$ 0.39	\$ 0.90

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Capital expenditures	\$ 295,235	\$ 267,698	\$ 162,862	\$ 109,163	\$ 213,999	\$ 142,598	\$ 105,099	\$ 254,515
EBIT (7)	(1,230)	194,330	(2,132)	65,590	262,052	156,165	68,438	250,089
EBITDA (7)	261,643	437,918	117,907	185,313	505,324	406,042	189,675	488,673
Ratio of earnings to fixed charges (8)		4.59		1.85	4.54	2.70	2.19	4.93

(A) See Note 27 of Notes to Consolidated Financial Statements for sales and freight by operating segment.

(B) Basic earnings per share are computed using weighted average shares outstanding. Differences in the weighted average number of shares outstanding for purposes of computing dilutive earnings per share are due to the inclusion of the weighted average dilutive effect of employee and non-employee director stock options granted, totaling 105,463 and 292,736 for the twelve months ended December 31, 2002 and 2001; 220,314 and 82,187 for the six months ended December 31, 2001 and 2000; and 204,335 and 1,750 for twelve months ended June 30, 2001 and 2000. There

- were no dilutive employee or non-employee director stock options for any of the previous periods presented.
- (C) Includes sales of coal produced by CONSOL Energy and purchased from third parties. Of the tons sold, CONSOL Energy purchased the following amount from third parties: 2.5 million tons in the twelve months ended December 31, 2002, 2.8 million tons in the twelve months ended December 31, 2001, 1.3 million tons in the six months ended December 31, 2001, 1.5 million tons in the six months ended December 31, 2000, 2.7 million tons in the twelve months ended June 30, 2001, 3.5 million tons in the twelve months ended June 30, 2000, 3.9 million tons in the twelve months ended June 30, 1999, 2.2 million tons in the six months ended June 30, 1999, and 3.2 million tons for the twelve months ended December 31, 1998. Sales of coal produced by equity affiliates were 1.6 million tons in the twelve months ended December 31, 2002, 1.6 million tons in the twelve months ended December 31, 2001, 0.9 million tons in the six months ended December 31, 2001 and 0.7 million tons in the twelve months ended June 30, 2001 that were produced by equity affiliates. No sales from equity affiliates occurred in previous periods presented.
- (D) For entities that are not wholly owned but in which CONSOL Energy owns at least 50% equity interest, includes a percentage of their production, sales or reserves equal to CONSOL Energy's percentage equity ownership. For coal, Line Creek Mine and Glennies Creek Mine are reported as equity affiliates for the December 31, 2002 period. Line Creek Mine was also reported as an equity affiliate for the December 31, 2001 and June 30, 2001 periods. No other periods have coal equity affiliates. For gas, Pocahontas Gas Partnership accounts for the majority of the information reported as an equity affiliate for approximately eight months in the December 31, 2001 period and for the entire year of the previous periods presented.
- (E) Represents proven and probable reserves at period end.
- (F) Represents proved developed and undeveloped gas reserves at period end.
- (G) EBIT is defined as earnings before deducting net interest expense (interest expense less interest income) and income taxes. EBITDA is defined as earnings before deducting net interest expense (interest expense less interest income), income taxes and depreciation, depletion and amortization. Although EBIT and EBITDA are not measures of performance calculated in accordance with generally accepted accounting principles, management believes that they are useful to an investor in evaluating CONSOL Energy because they are widely used in the coal industry as measures to evaluate a company's operating performance before debt expense and cash flow. Financial covenants in our credit facility include ratios based on EBITDA. EBIT and EBITDA do not purport to represent cash generated by operating activities and should not be considered in isolation or as substitute for measures of performance in accordance with generally accepted accounting principles. In addition, because EBIT and EBITDA are not calculated identically by all companies, the presentation here may not be comparable to other similarly titled measures of other companies. Management's discretionary use of funds depicted by EBIT and EBITDA may be limited by working capital, debt service and capital expenditure requirements, and by restrictions related to legal requirements, commitments and uncertainties. A reconciliation of EBIT and EBITDA to financial net income is as follows:

(In thousands)	Twelve Months Ended		Six Months Ended		Twelve Months Ended		Six Months	Twelve Months
	December 31,		December 31,		June 30,		Ended June 30,	Ended
	2002	2001	2001	2000	2001	2000	1999	December 31,
								1998
Net Income	\$ 11,676	\$ 151,206	\$ 1,059	\$ 33,503	\$ 183,650	\$ 107,040	\$ 40,039	\$ 174,637
Add: Interest Expense	46,213	43,356	16,564	30,806	57,598	55,289	30,504	48,138
Less: Interest Income	(5,738)	(5,990)	(3,734)	(2,561)	(4,817)	(5,671)	(2,226)	(10,531)
Less: Interest Income included in Export Sales								
Excise Tax Resolution	(1,282)	(26,406)	(4,658)		(31,064)			
Add: Income Taxes	(52,099)	32,164	(20,679)	3,842	56,685	(493)	121	37,845
Earnings Before Interest and Taxes (EBIT)	(1,230)	194,330	(2,132)	65,590	262,052	156,165	68,438	250,089

(In thousands)	Twelve Months Ended December 31,		Six Months Ended December 31,		Twelve Months Ended June 30,		Six Months Ended June 30,	Twelve Months Ended December 31,
	2002	2001	2001	2000	2001	2000	1999	1998
Add: Depreciation, Depletion and Amortization	262,873	243,588	120,039	119,723	243,272	249,877	121,237	238,584
Earnings Before Interest, Taxes and Depreciation, Depletion and Amortization	\$ 261,643	\$ 437,918	\$ 117,907	\$ 185,313	\$ 505,324	\$ 406,042	\$ 189,675	\$ 488,673

- (H) For purposes of computing the ratio of earnings to fixed charges, earnings represent income from continuing operations before income taxes plus fixed charges. Fixed charges include (a) interest on indebtedness (whether expensed or capitalized), (b) amortization of debt discounts and premiums and capitalized expenses related to indebtedness and (c) the portion of rent expense we believe to be representative of interest. For the twelve months ended December 31, 2002, fixed charges exceeded earnings by \$30.6 million. For the six months ended December 31, 2001, fixed charges exceeded earnings by \$20.4 million.

Item 7. Management's Discussion and Analysis of Results of Operations and Financial Condition.**General**

CONSOL Energy incurred a loss before income tax of \$40.4 million and realized income tax benefits of \$52.1 million, resulting in net income for 2002. CONSOL Energy's net income was \$12 million for the twelve month period ended December 31, 2002. This was a 92.3% decline from the net income of \$151 million for the twelve month period ended December 31, 2001.

Total coal sales for the twelve months ended December 31, 2002 were 67.3 million tons, including our portion of sales by equity affiliates, of which 64.8 million tons were produced by CONSOL Energy operations, by our equity affiliates or sold from inventory of company produced coal, including coal sold from inventories and produced by equity affiliates. This compares with total coal sales of 76.5 million tons for the twelve months ended December 31, 2001, of which 73.7 million tons were produced by CONSOL Energy operations or sold from inventory of company produced coal including coal sold from inventories and produced by equity affiliates. Demand for coal was weak due to the continued sluggish United States economy and the lingering effect of higher than normal customer inventory levels. The decrease in tons sold was also due to the deferral of shipments by our customers during the year to later periods and reduced volumes from requirements contracts.

Production from CONSOL Energy operations, including our percentage of the production from equity affiliates, was 66.2 million tons during the twelve months ended December 31, 2002 and 73.7 million tons for the twelve months ended December 31, 2001. Lower production levels were the result of the announced plan to reduce production by seven to eight million tons from planned output for 2002 in order to match anticipated demand. The following mines were idled during the period to implement reduction:

<u>Mine</u>	<u>Date Idled</u>	<u>Date Production Resumed</u>
McElroy	May 1, 2002	August 5, 2002
Blacksville #2	June 17, 2002	July 17, 2002
Robinson Run	June 17, 2002	July 18, 2002
Mine 84	June 17, 2002	July 22, 2002
Mahoning Valley	June 17, 2002	November 1, 2002
Humphrey	June 17, 2002	August 13, 2002
VP#8	June 17, 2002	July 15, 2002
Shoemaker	June 24, 2002	August 26, 2002
Rend Lake	July 8, 2002	Anticipated to remain idle until

market conditions support reopening

In addition, the Humphrey, Meigs, Windsor, Muskingum and Dilworth Mines closed permanently in the year ended December 31, 2002. The Loveridge Mine was idled on May 28, 2001 and development work began in the fourth quarter 2002.

Sales of coalbed methane gas, including our share of the sales from equity affiliates, increased 21.8% to 47.2 billion cubic feet in the 2002 period from 38.8 billion cubic feet in the 2001 period. The increased sales volume is primarily due to higher production and sales volumes as a result of the purchase of the remaining 50% interest in the Pocahontas Gas Partnership on August 22, 2001. Our average sales price for coalbed methane gas, including our portion of sales from equity affiliates, was \$3.22 per million British thermal units in the 2002 period compared with \$4.10 per million British thermal units in the 2001 period. The decrease in average sales price was primarily due to reduced demand for gas in the industrial sector and lower demand for gas during the winter heating season that resulted in higher levels of gas in storage in the beginning of the 2002 period compared to the 2001 period. Approximately 85% of our anticipated 2003 production of 52-54 billion cubic feet has been sold at a price of \$4.01 per million British thermal unit.

In March 2002, our 50% joint venture with Allegheny Energy Supply Company, LLC, an affiliate of one of our largest coal customers, completed an 88-megawatt, gas-fired electricity generating facility which was placed into commercial service on June 25, 2002. The facility has operated for 34,540 megawatt hours and did not have a significant effect on earnings in the 2002 period.

Effective June 5, 2002, CONSOL Energy's Board of Directors appointed PricewaterhouseCoopers LLP to serve as the Company's independent accountant. PricewaterhouseCoopers LLP serves as the independent accountant for RWE AG, a multi-utility holding group headquartered in Essen, Germany, which owns approximately 74 percent of CONSOL Energy's common stock. PricewaterhouseCoopers LLP replaced Ernst & Young LLP as the Company's independent accountant.

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 cost-effective strategic software alternatives to meet future core business needs. The system will continue to be implemented in stages through 2003 at an estimated total cost of \$53 million, \$32 million of which has already incurred.

Change in Fiscal Year

CONSOL Energy changed its fiscal year from a fiscal year ending June 30 to a calendar year ending December 31. CONSOL Energy had a transitional fiscal period ending December 31, 2001. CONSOL Energy's first full fiscal year ending December 31 was the year that started January 1, 2002 and ended December 31, 2002. CONSOL Energy undertook this change in order to align its fiscal year with that of RWE AG, its majority shareholder.

Results of Operations

Twelve Months Ended December 31, 2002 compared with Twelve Months Ended December 31, 2001 (unaudited)

Net Income

CONSOL Energy's net income for the twelve months ended December 31, 2002 was \$12 million compared with \$151 million for the twelve months ended December 31, 2001. Pre-tax income for the 2001 period was \$183.4 million including \$118.1 million related to the recognition of the export sales excise tax resolution. CONSOL Energy had a pre-tax loss of \$40.4 million in the 2002 period. Lower net income for 2002 was also the result of a 9 million ton reduction in volumes of company produced coal sold. The decrease in tons sold was due primarily to lower demand for coal in the 2002 period. Demand was weak primarily due to the continued sluggish United States economy and the lingering effect of higher than normal customer inventory levels. The decrease in tons sold was also due to the deferral of shipments by our customers during the year to later periods and reduced volumes from requirements contracts. Decreases in net income also resulted from lower average sales prices per million British thermal unit of coalbed methane gas sold in the 2002 period compared to the 2001 period. The average sales price was \$3.22 per million British thermal units for the year to date 2002 period, a \$0.66, or 17.0% decrease compared to the \$3.88 per million British thermal unit in the 2001 period. The decrease in average sales price was primarily due to reduced demand for gas in the industrial sector and lower demand for gas during the winter heating season that resulted in high levels of gas in storage. Net income also decreased due to increased cost of goods sold related to the increase in gas volumes sold. Costs also increased due to additional closed and idle mine costs, additional purchased coal costs and increases in miscellaneous cost of goods sold and other operating charges. These decreases were offset, in part, by income tax benefits recognized in the 2002 period compared to tax expense recognized in the 2001 period. The income tax benefit was due mainly to a pre-tax loss for the 2002 period compared to pre-tax income in the 2001 period without a comparable reduction in percentage depletion tax benefits. Decreases in net income were also offset, in part, by higher volumes of gas sold as a result of the August 22, 2001 acquisition of the remaining 50% interest in Pocahontas Gas Partnership. Gas sales volumes were 46.9 billion cubic feet in the 2002 period, a 44.5%, or 14.5 billion cubic feet increase from the 2001 period. Average sales price per ton of company produced coal sold also increased which offset, in part, the reduction to net income. The average sales price for company produced coal was \$26.80 in the 2002 period compared to \$24.88 in the 2001 period. The increase of \$1.92, or 7.7%, reflects the higher prices negotiated in 2001's more favorable coal market.

Revenue

Sales decreased \$92 million, or 4.4% to \$2,003 million for the twelve months ended December 31, 2002 from \$2,095 million for the twelve months ended December 31, 2001.

Revenues from the sale of company produced coal decreased \$101 million, or 5.6%, to \$1,694 million in the 2002 period from \$1,795 million in the 2001 period. The decrease in company produced coal sales revenues was due mainly to a decrease in the volume of company produced coal sold. Produced coal sales volumes were 63 million tons in the 2002 period, a 9 million ton, or 12.4%, decline from the 72 million tons sold in the 2001 period. The decrease in tons sold was due primarily to lower demand for coal in the 2002 period. Demand was weak primarily due to the continued sluggish United States economy and the lingering effect of higher than normal customer inventory levels. The decrease in tons sold was also due to the deferral of shipments by our customers during the year to later periods and reduced volumes from requirements contracts. The decrease in tons sold was offset, in part, by increases in the average sales price per ton of company produced coal sold. The average sales price for company produced coal was \$26.80 in the 2002 period compared to \$24.88 in the 2001 period. The increase of \$1.92, or 7.7%, reflects the higher prices negotiated in 2001's more favorable coal market.

Revenues from the sale of industrial supplies decreased \$22 million, or 25.0%, to \$64 million in the 2002 period from \$86 million in the 2001 period primarily due to reduced sales volumes. During the fiscal year ended June 30, 2001, the physical assets and operations associated with 18 industrial and store management sites were sold. The sale did not have a material impact on CONSOL Energy's financial position, results of operations or cash flow. Fairmont Supply continues to operate 12 service centers.

These decreases in revenues were partially offset by increased revenues from the sale of coalbed methane gas. Revenues from the sale of gas increased \$25 million, or 20.2% to \$147 million in the 2002 period from \$122 million in the 2001 period. The increase was due mainly to higher volumes of gas sold as a result of the August 22, 2001 acquisition of the remaining 50% interest in Pocahontas Gas Partnership. Sales volumes were 46.9 billion cubic feet in the 2002 period, a 44.5%, or 14.5 billion cubic feet increase from the 2001 period. The increase in sales volumes were offset, in part, by lower average sales prices in the 2002 period compared to the 2001 period. The average sales price was \$3.22 per million British thermal units for the year to date 2002 period, a \$0.66, or 17.0% decrease compared to the \$3.88 per million British thermal unit in the 2001 period. The decrease in average sales price was primarily due to reduced demand for gas in the industrial sector and lower demand for gas during the winter heating season that resulted in higher levels of gas in storage in the beginning of the 2002 period compared to the 2001 period.

Revenues from the sale of purchased coal increased \$5 million, or 6.9%, to \$83 million in the 2002 period from \$78 million in the 2001 period primarily due to increased average sales prices. The average sales price per ton of purchased coal increased \$5.39, or 19.2%, to \$33.50 in the 2002 period compared to \$28.12 in the 2001 period. The increase in price per ton reflects the higher prices negotiated in 2001's more favorable coal market. This increase was offset, in part, by reduced sales volumes. Sales volumes decreased 0.3 million tons, or 10.3%, to 2.5 million tons in the 2002 period compared to 2.8 million tons in the 2001 period. The decrease in tons sold was due primarily to lower demand for coal in the 2002 period. Demand was weak primarily due to the continued sluggish United States economy and the lingering effect of higher than normal customer inventory levels.

Freight revenue, outside and related party, decreased \$25 million, or 15.5%, to \$134 million in the 2002 period from \$159 million in the 2001 period. Freight revenue is based on weight of coal shipped, negotiated freight rates and method of transportation (e.g., rail, barge or truck) 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 \$46 million in the 2002 period compared to \$65 million in the 2001 period. The decrease of \$19 million, or 29.0%, was primarily due to the \$21 million reduction in equity in earnings of affiliates. This was mainly due to the August 22, 2001 purchase of the remaining 50% interest in Pocahontas Gas Partnership and the remaining 25% interest in the Cardinal States Gathering Company. As a result of the acquisition, CONSOL Energy owns 100% of these entities and began to account for them as fully consolidated subsidiaries. Before the acquisition, CONSOL Energy accounted for these companies using the equity method. Other income also decreased by \$5 million as a result of various transactions that occurred throughout both periods, none of which was individually material. These decreases in other income was offset, in part, by a \$7 million income adjustment related to a coal contract settlement CONSOL Energy received in the 2002 period.

Costs

Cost of Goods Sold and Other Operating Charges decreased \$43 million, or 2.7%, to \$1,543 million in the 2002 period from \$1,586 million in the 2001 period.

Cost of goods sold for company produced coal decreased \$42 million, or 3.4% to \$1,197 million in the 2002 period from \$1,239 million in the 2001 period. The decrease was primarily due to a 12.4% decrease in the volume of company produced coal sold. The decrease in tons sold was due primarily to lower demand for coal in the 2002 period. Demand was weak primarily due to the continued sluggish United States economy, and the lingering effect of higher than normal customer inventory levels. The decrease in tons sold was also due to the deferral of shipments by our customers during the year to later periods and reduced volumes from requirements contracts. The reduced cost of goods sold and other charges related to volume, was offset, in part, by a 10.3% increase in the cost per ton sold of company produced coal. The increase in cost primarily relates to employee benefit costs and supply costs. The rise in employee benefit costs is primarily due to increased medical costs and increased post employment benefit costs. Post employment benefit costs are calculated actuarially and have increased due to changes in assumptions, including discount rate and mortality tables used in this calculation. (See Critical Accounting Policies for a discussion of Other Post Employment Benefits.)

Cost of goods sold for industrial supplies decreased \$23 million, or 24.0%, to \$70 million in the 2002 period from \$93 million in the 2001 period. The decrease in costs is related to reduced sales volumes resulting from the sale of 18 industrial and store management sites that took place in the 2001 period. Fairmont Supply continues to operate 12 service centers.

Coal property holding costs decreased \$9 million, or 66.0%, to \$5 million in the 2002 period from \$14 million in the 2001 period. The decrease was primarily due to leasehold surrenders that occurred in the 2001 period.

These decreases in cost of goods sold and other costs were offset, in part, by increased cost of goods sold for gas operations. Gas operations cost of goods sold increased \$9 million, or 15.8%, to \$65 million in the 2002 period from \$56 million in the 2001 period. The increase was due mainly to a 44.5% increase in the volume of gas sold as a result of the August 22, 2001 acquisition of the remaining 50% interest in Pocahontas Gas Partnership. The increase in volume was offset, in part, by a \$0.35, or 19.9% reduction in the cost per million British thermal units sold. The average cost per million British thermal units sold was \$1.40 in the 2002 period compared to \$1.75 in the 2001 period. The decrease was primarily due to a decrease in the cost of gob well drilling and lower royalty expense. Gob wells are drilled in previously mined areas of underground coal mines. Royalty expenses decreased \$0.07 per British thermal unit primarily due to the 17.1% decrease in average sales price per British thermal unit in the 2002 period compared to the 2001 period.

Cost of goods sold for closed and idled mine costs increased \$14 million, or 21.7%, to \$79 million in the 2002 period from \$65 million in the 2001 period. The increase is primarily due to \$32 million related to locations that were closed or idled during a portion of the 2002 period that were in operation during the 2001 period. This increase was offset, in part, by a decrease of \$18 million related to mine closing and reclamation liability adjustments as a result of updated engineering survey adjustments for closed and idled locations. Survey adjustments resulted in \$16 million of expense recognized in the 2001 period compared to \$2 million of income in the 2002 period.

Cost of goods sold for purchased coal increased \$4 million, or 5.4%, to \$80 million in the 2002 period from \$76 million in the 2001 period. The increased costs were primarily due to an increase of \$4.79, or 17.5%, in the average cost per ton of purchased coal, offset, in part, by a decrease of 0.3 million tons, or 10.3%, decrease in the volume of purchased tons sold. The average cost per ton of purchased coal was \$32.16 in the 2002 period compared to \$27.37 in the 2001 period.

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Miscellaneous cost of goods sold and other operating charges increased \$4 million, or 7.9%, to \$47 million in the 2002 period from \$43 million in the 2001 period. The increase is due mainly to \$14 million of equipment removal cost in the 2002 period compared to \$9 million in the 2001 period. The increase in the 2002 period was also due to \$4 million of contribution expense related to the donation of property to The Conservation Fund and \$2 million of expense to recognize an allowance for doubtful accounts related to trade receivables. Bank fees also increased \$2 million in the 2002 period related to the renegotiation of our revolving credit facility. The new facility

replaces the previous agreement, which expired on September 20, 2002 and allows for an aggregate of \$485 million of commercial paper principal and letters of credit to be issued. Miscellaneous cost of goods sold and other operating charges also increased \$9 million due to various miscellaneous transactions that occurred throughout both periods, none of which were individually material. These increases in cost of goods sold and other charges were offset, in part, by an \$18 million reduction in incentive compensation expense. Expense for this item was reduced in the 2002 period because performance targets for 2002 were not achieved.

Freight expense decreased \$25 million, or 15.5%, to \$134 million in the 2002 period from \$159 million in the 2001 period. Freight expense is based on weight of coal shipped, negotiated freight rates and method of transportation (e.g., rail, barge or truck) used for the customers that 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 \$5 million, or 7.7%, to \$66 million in the 2002 period from \$61 million in the 2001 period. Administrative expenses increased \$4 million due to additional wages, salaries and other costs related to executive severance which occurred in the 2002 period and increased medical costs in the 2002 period. An increase of \$2 million was primarily due to expenses for training, licensing fees and professional consulting related to the conversion to a new integrated information technology system provided by SAP AG to support business processes. Implementation of the system will be completed in 2003 at an estimated total cost of \$53 million, a portion of which is to be capitalized. These increases were offset, in part, by a \$1 million decrease in selling costs due to the reduction of sales employees at Fairmont Supply related to the sale of 18 industrial and store management sites that took place in the 2001 period. Fairmont Supply continues to operate 12 service centers.

Depreciation, depletion and amortization expense increased \$19 million, or 7.9%, to \$263 million in the 2002 period compared to the \$244 million in the 2001 period. The increase was primarily due to the August 22, 2001 acquisition of the remaining 50% interest in Pocahontas Gas Partnership and the remaining 25% interest in the Cardinal States Gathering Company. In the 2002 period, these entities were reported as fully consolidated. In the 2001 period, these entities were reported on the equity basis. Depreciation and amortization also increased due to more coal assets being placed in service in the 2002 period. These increases were offset, in part, by lower financial depletion related to the reduced production levels in the 2002 period compared to the 2001 period.

Interest expense increased \$3 million, or 6.6%, to \$46 million in the 2002 period compared to \$43 million in the 2001 period. This was due primarily to \$16 million of additional interest expense related to the March 7, 2002 issuance of \$250 million of 7.875% Notes due in 2012. The interest on the notes is payable March 1 and September 1 of each year commencing September 1, 2002. This increase was offset, in part, by a \$9 million reduction in interest expense related to commercial paper. The reduction was due primarily to a \$13 million reduction in the average levels of commercial paper outstanding during the 2002 period compared to the 2001 period, along with a decrease of 2.3% per annum in average interest rates in the period to period comparison. Interest expense was also reduced \$4 million due to the reduction of long-term debt through scheduled payments.

Taxes other than income increased \$11 million, or 7.2%, to \$172 million in the 2002 period compared to \$161 million in the 2001 period. The increase was due primarily to increased black lung excise taxes, real estate and personal property taxes and state reclamation fee taxes in the 2002 period compared to the 2001 period. In the 2001 period, due to certain black lung excise taxes being declared unconstitutional, \$11 million of prior year accruals, which were not paid and were no longer owed, were reversed. The increase in certain taxes was offset by \$4 million due to the reduction of 7 million tons of production in the 2002 period compared to the 2001 period. Real estate and personal property taxes increased \$8 million in the 2002 period compared to the 2001 period. This increase was due to \$3 million of additional taxes related to the properties owned by Windsor Coal Company, Southern Ohio Coal Company, Central Ohio Coal Company, Pocahontas Gas Partnership and Cardinal States Gathering Company which were acquired in 2001. Real estate and personal property taxes also increased \$1 million due to expanded permitting at our mining locations. The remaining \$4 million increase in real estate and personal property taxes was related to several transactions throughout the 2002 and 2001 periods, none of which were individually material. These increases in taxes other than income were offset, in part, by a \$3 million reduction in payroll taxes. The reduction in payroll taxes is primarily due to reduced employee counts as a result of several mines being idled during the 2002 period. Taxes other than income also decreased \$1 million as a result of various transactions throughout the 2002 and 2001 periods, none of which were individually material.

CONSOL Energy is no longer required to pay certain excise taxes on export coal sales. We have filed claims with the Internal Revenue Service seeking refunds for these excise taxes that were determined to be unconstitutional and were paid during the period 1991 through 1999. During the 2001 period, we recognized \$92 million of pre-tax earnings net of other charges and \$26 million of interest income related to these claims. During the 2002 period, we recognized \$1 million of interest income related to these claims. In the 2002 period, \$4 million has been collected on these claims. A \$93 million receivable remains in Other Receivables at December 31, 2002.

Income Taxes

Income taxes represent a \$52 million benefit in the 2002 period compared to \$32 million of expense in the 2001 period. The decrease in tax expense was due mainly to a pre-tax loss of \$40 million in the 2002 period compared to pre-tax income of \$183 million in the 2001 period without a comparable reduction in percentage depletion tax benefits. Our effective tax rate is sensitive to changes in annual profitability and percentage depletion. The effective rate was 128.9% in the 2002 period compared to 17.5% in the 2001 period. Income taxes were also reduced due to adjusting the provision for income taxes at the time the returns are filed. These adjustments decreased income tax expense by \$4 million in the 2002 period and increased income tax expense \$1 million for the 2001 period. In the 2002 period, CONSOL Energy also received a \$2 million federal income tax benefit from a final agreement resolving disputed federal income tax items for the years 1995 to 1997.

Six Months Ended December 31, 2001 compared with Six Months Ended December 31, 2000 (unaudited)

Net Income

CONSOL Energy's net income for the six months ended December 31, 2001 was \$1 million compared with \$34 million for the six months ended December 31, 2000. The decrease of \$33 million was primarily due to lower prices for natural gas caused by general market declines and higher cost per ton of produced coal mined caused principally by adverse mining conditions and mechanical problems. The effects of lower prices for natural gas and higher coal production costs were offset, in part, by a reduction in income tax expense due to a pre tax loss in the 2001 transitional period along with changes in percentage depletion allowances and higher volumes of gas sold.

Revenue

Sales decreased \$28 million, or 2.8% to \$964 million for the six months ended December 31, 2001 from \$992 million for the six months ended December 31, 2000.

Revenues from the sale of coalbed methane gas and gathering fees decreased \$8 million, or 13.7% to \$48 million in the 2001 transitional period from \$56 million in the 2000 six month period. This decrease was due mainly to a 44.2% decrease in average sales price for the period. Average sales price for the 2001 transitional period was \$2.61 per million British thermal unit compared to \$4.68 per million British thermal unit for the six months ended December 31, 2000. The decrease in sales price was offset, in part, by higher volumes as a result of the August 22, 2001 acquisition of the remaining 50% interest in Pocahontas Gas Partnership. Sales volumes were 18.6 billion cubic feet in the 2001 transitional period, an increase of 6.5 billion cubic feet, or 53.4% from the 2000 six month period.

Revenues from the sale of industrial supplies decreased \$30 million, or 46.5%, to \$34 million in the 2001 transitional period from \$64 million in the 2000 six month period. The decrease was due primarily to the sale of the physical assets, inventory and operations associated with 18

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industrial and store management sites during the 2000 six month period. The sale did not have a material impact on CONSOL Energy's financial position, results of operations or cash flow.

These decreased revenues were partially offset by increased revenues from the sale of company produced coal. Revenues from the sale of company produced coal increased \$14 million, or 1.7%, to \$836 million in the 2001 transitional period from \$822 million in the 2000 six month period. The increase in produced coal sales revenues was due mainly to an increase of \$1.62, or 6.9%, in the average sales price per ton sold. The average sales price was \$25.07 in the 2001 transitional period compared to \$23.45 in the 2000 six month period. The increase in average sales price was due primarily to demand increases and low inventory levels at coal producers. The increase in average sales price was partially offset by a 2 million ton, or 4.8%, decrease in the volume of produced tons sold in

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Cost of goods sold for purchased coal remained consistent at \$40 million in the 2001 transitional period compared to the 2000 six month period.

Cost of goods sold for closed and idled mine costs increased \$13 million to \$29 million in the 2001 transitional period from \$16 million in the 2000 six month period. The increase is due primarily to a \$10 million income adjustment for mine closing and perpetual care liabilities being recognized in the 2000 six month period. The adjustment was the result of updated engineering studies and cost projections for closed and idled locations.

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Income taxes were a \$21 million benefit in the 2001 transitional period compared to \$4 million of expense in the 2000 six month period. The decrease of \$25 million was due mainly to a pre-tax loss of \$20 million in the 2001 transitional period with little loss of percentage depletion tax benefits. Our effective tax rate is sensitive to changes in annual profitability and percentage depletion.

Freight revenue, outside and related party, which represents amounts billed to customers in a sale transaction related to shipping and handling costs, decreased 3.0% to \$161 million in the 2001 period from \$166 million in the 2000 period. Freight revenue is the amount billed to customers that equals the expense of the transportation.

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Freight expense decreased 3.0% to \$161 million in the 2001 period from \$166 million in the 2000 period. Freight expense is billed to customers and the revenues from such billings equals the transportation expense.

Selling, general and administrative expenses increased 1.4% to \$63 million in the 2001 period compared to \$62 million in the 2000 period. The increase of \$1 million was primarily due to increased professional consulting fees associated with the review of business processes and information technology systems supporting those processes, offset in part by salary cost savings from the Voluntary Separation Incentive Program implemented in the last half of the fiscal year ended June 30, 2000.

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The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make judgments, estimates and assumptions that affect reported amounts of assets and liabilities in the consolidated financial statements and at the date of the financial statements, as well as the reported amounts of income and expenses during the reporting period. Note 1 of the Notes to the Consolidated Financial Statements in this Annual Report on Form 10-K describes the significant accounting policies and methods used in the preparation of the Consolidated Financial Statements. Actual results could differ from those estimates upon subsequent resolution of identified matters. Management believes that the estimates utilized are reasonable.

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per annum. The discount rate for the six months ended December 31, 2001 and the twelve months ended June 30, 2001 was 7.25% per annum. In January 2001, the United States Department of Labor amended the regulations implementing the federal black lung laws to give greater weight to the opinion of a claimant's treating physician, expand the definition of black lung disease and limit the amount of medical evidence

Deferred Taxes

CONSOL Energy accounts for income taxes in accordance with Statement of Financial Accounting Standard No. 109, Accounting for Income Taxes (SFAS No. 109) which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax

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During the mid-1970s and early 1980s, a growing coal market and increased demand for coal attracted new investors to the coal industry, spurred the development of new mines and resulted in added production capacity throughout the industry, all of which led to increased competition and lower coal prices. Increases in coal prices similarly could encourage the development of expanded capacity by new or existing coal producers. Any overcapacity could reduce coal prices in the future. Increased prices for gas typically stimulate additional exploration and often result in additional supplies brought to market. Increased gas supply could reduce gas prices in the future.

Coal producers depend upon rail, barge, trucking, overland conveyor and other systems to provide access to markets. Disruption of transportation services because of weather-related problems, strikes, lock-outs or other events could temporarily impair our ability to supply coal to customers and adversely affect our profitability. Transportation costs represent a significant portion of the delivered cost of coal and, as a result, the cost of delivery is a critical factor in a customer's purchasing decision. Increases in transportation costs could make our coal less competitive.

The marketability of our gas production partly depends on the availability, proximity and capacity of pipeline systems owned by third parties. Unexpected changes in access to pipelines could adversely affect our operations.

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affect us if we cannot offset the cost of sulfur removal by lowering the costs of delivery of our higher sulfur coals on an energy equivalent basis.

Other new and proposed reductions in emissions of mercury, nitrogen oxides, particulate matter or greenhouse gases may require the installation of additional costly control technology or the implementation of other

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The United States and more than 160 other nations are signatories to the 1992 Framework Convention on Global Climate Change which is intended to limit or capture emissions of greenhouse gases, such as carbon dioxide. In December 1997, in Kyoto, Japan, the signatories to the convention established a binding set of emissions targets for developed nations. Although the specific emissions targets vary from country to country, the United States would be required to reduce emissions to 93% of 1990 levels over a five-year budget period from 2008 through 2012. The United States Senate is not expected to ratify the emissions targets. If the Kyoto Protocol or other comprehensive legislation focusing on greenhouse gas emissions is enacted by the United States, it could have the effect of restricting the use of coal. Other efforts to reduce emissions of greenhouse gases and federal initiatives to encourage the use of natural gas also may affect the use of coal as an energy source.

We are subject to the federal Clean Water Act and similar state laws which impose treatment, monitoring and reporting obligations.

The federal Clean Water Act and corresponding state laws affect coal mining operations by imposing restrictions on discharges into regulated waters. Permits requiring regular monitoring and compliance with effluent limitations and reporting requirements govern the discharge of pollutants into regulated waters. New requirements

One of our subsidiaries, Fairmont Supply Company, which distributes industrial supplies, currently is defending against approximately 21,900 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, payments in the future with respect to pending or future asbestos cases could be material to the financial position, results of operations or cash flows of CONSOL Energy.

ownership in the

Capital expenditures were \$295 million in the 2002 period compared to \$268 million in the 2001 period. We currently anticipate capital expenditures for the year ending December 31, 2003 to be \$266 million. We also currently anticipate capital expenditures related to investment in affiliates for the year ending December 31, 2003 to be \$38 million. However, we may choose to defer certain capital projects in light of operating results. Capital expenditures for pollution abatement and reclamation are projected to be \$4 million for the year ending December 31, 2003. Our capital expenditures have been and will be primarily used for replacement of mining and gas equipment, the expansion of mining and gas capacity and projects to improve the efficiency of the mining and gas operations. The projected capital expenditures for 2003 are not committed and are expected to be funded with cash

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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 3.25 to 1.0 measured quarterly (3.0 to 1.0 for quarters after December 31, 2002). This ratio was 2.57 to 1.0 at December 31, 2002. In addition, we are required to maintain a ratio of twelve month trailing EBITDA to

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Effective January 1, 2003, CONSOL Energy will adopt SFAS No. 143, as required. The cumulative effect on net income of adopting SFAS No. 143 is expected to be minimal. CONSOL Energy is anticipating the effect to be a gain of approximately \$5 million, net of a tax cost of \$3 million. At the time of adoption, total assets, net of accumulated depreciation, will increase approximately \$59 million, and total liabilities will increase approximately \$51 million. The amounts recorded upon adoption are dependent upon a number of variables, including the

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CONSOL Energy uses fixed-price contracts, collar-price contracts and derivative commodity instruments that qualify as cash-flow hedges under Statement of Financial Accounting Standards No. 133 to minimize exposure to market price volatility in the sale of natural gas. Our risk management policy strictly prohibits the use of derivatives for speculative positions.

CONSOL Energy has established risk management policies and procedures to strengthen the internal control environment of the marketing of commodities produced from its asset base. All of the derivative instruments are held for purposes other than trading. They are used primarily to mitigate uncertainty and volatility and cover underlying exposures. CONSOL Energy's market risk strategy incorporates fundamental risk

CONSOL Energy's interest expense is sensitive to changes in the general level of interest rates in the United States. At December 31, 2002, CONSOL Energy had outstanding \$482 million aggregate principal amount of debt under fixed-rate instruments and \$220 million aggregate principal amount of debt under variable-rate instruments. CONSOL Energy's primary exposure to market risk for changes in interest rates relates to its commercial paper program. At December 31, 2002, CONSOL Energy had an aggregate of \$203 million in commercial paper outstanding. CONSOL Energy's commercial paper bore interest at an average rate of 2.1%

during the twelve months ended December 31, 2002. At December 31, 2001, CONSOL Energy had an aggregate of \$324 million in commercial paper outstanding prior to reclassification of notes. CONSOL Energy's commercial paper bore interest at an average rate of 3.4% during the six months ended December 31, 2001. A 100-point increase in the average rate for CONSOL Energy's commercial paper would have decreased the six months ended December 31, 2001 net income by approximately \$0.6 million. A 100 basis-point increase in the average rate for CONSOL Energy's commercial paper would have decreased CONSOL Energy's twelve months ended December 31, 2002 net income by approximately \$1.8 million. The fair value of CONSOL Energy's financial instruments is set forth in Note 24 and Note 25 of the Notes to Consolidated Financial Statements.

Almost all of CONSOL Energy's transactions are denominated in U.S. dollars, and, as a result, it does not have material exposure to currency exchange-rate risks. CONSOL Energy uses foreign currency contracts to fix the costs of anticipated Australian dollar capital expenditures. CONSOL Energy does not have a material exposure to currency exchange-rate risks other than for this foreign currency contract.

Item 8. Financial Statements and Supplementary Data.

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of

CONSOL Energy Inc.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, stockholders' equity and cash flows present fairly, in all material respects, the financial position of CONSOL Energy Inc. and its subsidiaries (the Company) at December 31, 2002, and the results of their operations and their cash flows for the year ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial presentation. We believe that our audit provides a reasonable basis for our opinion.

/s/ PRICEWATERHOUSECOOPERS LLP

Pittsburgh, Pennsylvania

January 27, 2003

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Total Liabilities and Stockholders Equity	<u>\$ 4,293,160</u>	<u>\$ 4,298,732</u>	<u>\$ 3,894,971</u>
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The accompanying notes are an integral part of these consolidated financial statements.

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Advance mining royalties are advance payments made to lessors under terms of mineral lease agreements that are recoupable against future production. These advance payments are deferred and charged against income as the coal and gas reserves are extracted using the units-of-production method.

Impairment of Long-lived Assets:

Impairment of long-lived assets is recorded when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying value. The carrying value of the assets is then reduced to their estimated fair value which is usually measured based on an estimate of future discounted cash flows.

Income Taxes:

The asset and liability method is used to account for income taxes. Under this approach, deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been recognized in CONSOL Energy's financial statements or tax returns. The provision for income taxes represents income taxes paid or payable for the current year and the change in deferred taxes excluding the effects of acquisitions during the year. Deferred taxes result from differences between the financial and tax bases of the Company's assets and liabilities.

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CONSOL Energy is primarily self-insured for workers' compensation. Annual provisions are made for the estimated liability for awarded and pending claims.

Deferred Revenue:

Deferred revenues represent funding received upon the negotiation of long-term contracts. The deferred revenues will be recognized as sales revenues in future periods by amortization on a rate per ton shipped over the life of the respective contract.

Retirement Plans:

CONSOL Energy has non-contributory defined benefit retirement plans covering substantially all employees not covered by multi-employer retirement plans. The benefits for these plans are based primarily on years of service and employee compensation near retirement. CONSOL Energy's policy is to annually fund the defined benefit pension plans at or above the minimum required by law.

Reclamation:

During active mining operations, expenditures relating to reclamation and regulatory requirements are expensed as incurred. Postclosure reclamation costs are estimated and charged to expense using the units-of-production method over the estimated recoverable tons. Accrued reclamation costs are regularly reviewed by management and are revised for changes in future estimated costs and regulatory requirements.

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In June 2002, Statement of Financial Accounting Standards No. 146, Accounting for Costs Associated with Exit or Disposal Activities, (SFAS No. 146) was issued and will be effective for CONSOL Energy for any exit or disposal activities that are initiated after December 31, 2002. This statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). SFAS No. 146 addresses significant issues regarding the recognition, measurement and reporting of costs that are associated with exit and disposal activities, including restructuring activities. The scope of SFAS No. 146 includes (1) costs to terminate contracts that are not capital leases; (2) costs to consolidate facilities or relocate employees; and (3) termination benefits provided to employees who are involuntarily terminated under the terms of a one-term benefits arrangement that is not an ongoing benefit arrangement or an individual deferred-compensation contract. This statement will be applied prospectively.

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The following table summarizes the estimated fair values of the assets acquired and the liabilities assumed at the date of acquisition:

	August 22, 2001
Property, plant and equipment (including estimated reserves)	\$ 163,426
Total assets acquired	163,426
Current liabilities	(6,079)
Long-term liabilities and deferred credits	(2,035)
Total liabilities assumed	(8,114)
Net assets acquired	\$ 155,312

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Other assets	17,483
<hr/>	
Total assets acquired	357,674
<hr/>	
Current liabilities	16,157
Employee and mine-related liabilities	239,993
Other long-term liabilities and deferred credits	101,524
<hr/>	
Total liabilities assumed	357,674
<hr/>	
Net assets acquired	\$
<hr/>	

As part of this acquisition, the liabilities were assumed by CONSOL Energy. American Electric Power also paid CONSOL Energy \$336,000 in cash. Subsequent to the acquisition, the cash was used by CONSOL Energy to pay down a portion of its short-term debt. The acquisition has been accounted for as a purchase and, accordingly, the operating results of Windsor Coal Company, Southern Ohio Coal Company and Central Ohio Coal Company

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Freight		564		3,903	1,422
		<u> </u>		<u> </u>	<u> </u>
Total Sales and Freight Revenue	Related Parties	\$ 1,368	\$	\$ 13,191	\$ 4,676
		<u> </u>		<u> </u>	<u> </u>

CONSOL Energy and Rheinbraun had an agreement to investigate possible investments in which they may jointly participate. Under this agreement, expenses were to be shared equally. CONSOL Energy expended \$626 and \$821 for the twelve months ended June 30, 2001 and June 30, 2000, respectively related to this agreement. No investments were made pursuant to this agreement. The agreement was terminated on March 9, 2001.

Also, a subsidiary of Rheinbraun periodically provides insurance brokerage services to CONSOL Energy without fee. CONSOL Energy expended \$1,423 for the twelve months ended December 31, 2002, \$222 for the six months ended December 31, 2001, \$419 and \$510 for the twelve months ended June 30, 2001 and 2000, respectively. Prepaid expense of \$104 and \$240 was recognized at June 30, 2001 and 2000 for insurance brokered through this subsidiary of Rheinbraun. At December 31, 2002 and December 31, 2001, there was no prepaid expense related to the brokered insurance through Rheinbraun.

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Net Property, Plant and Equipment	\$ 2,904,024	\$ 2,915,310	\$ 2,531,292
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Plant and equipment includes gross assets under capital lease of \$19,654 at December 31, 2002, \$19,627 at December 31, 2001 and June 30, 2001. Accumulated amortization for capital leases was \$12,205, \$10,180 and \$9,106 at December 31, 2002, December 31, 2001 and June 30, 2001, respectively. Development costs capitalized during 2002 were \$32,229, of which \$25,398 were at the McElroy Mine, \$838 were at the Loveridge Mine and \$5,993 were at various other mining locations. Development costs capitalized during the six-month period ended December 31, 2001 at Mine 84 were \$31,050.

Note 12 Short-Term Notes Payable:

CONSOL Energy has commercial paper notes outstanding of \$203,139, \$323,683 and \$360,063 (net of discount of \$87, \$368 and \$42) at December 31, 2002 and 2001 and June 30, 2001, respectively. On March 7, 2002, CONSOL Energy issued \$250,000 of 7.875 percent per annum bonds due March 1, 2012 (Note 28). Because proceeds from the transaction of \$245,814 were used to repay short-term notes payable, this amount of short-term notes payable has been reclassified to long-term debt at December 31, 2001. The weighted average interest rate of the commercial paper notes outstanding was 1.87, 3.04 and 4.22 percent, with an average maturity of 8, 13 and 1 day(s) at December 31, 2002, December 31, 2001 and June 30, 2001, respectively.

Note 14 Long-Term Debt:

	December 31, 2002	December 31, 2001	June 30, 2001
	<u> </u>	<u> </u>	<u> </u>
Unsecured Debt:			
Notes due 2002 at average of 8.28%	\$	\$ 66,000	\$ 66,000
Notes due 2004 at 8.21%	45,000	45,000	45,000
Notes due 2007 at 8.25% (par value of \$45,000 less unamortized discount of \$129)	44,871	44,848	44,836

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CONSOL Energy uses various leased facilities and equipment in its operations. Future minimum lease payments under capital and operating leases, together with the present value of the net minimum capital lease payment, at December 31, 2002, are as follows:

	<u>Capital Leases</u>	<u>Operating Leases</u>
2003	\$ 5,603	\$ 13,180
2004	2,006	12,199
2005	1,070	10,462
2006		8,645
2007		7,233
Remainder		9,845
	<u> </u>	<u> </u>
Total minimum lease payments	\$ 8,679	\$ 61,564
	<u> </u>	<u> </u>
Less imputed interest (7.05%-7.50%)	540	
	<u> </u>	

The Coal Industry Retiree Health Benefit Act of 1992 (the Act) created two multi-employer benefit plans: (1) the United Mine Workers of America Combined Benefit Fund (the Combined Fund) into which the former UMWA Benefit Trusts were merged, and (2) the 1992 Benefit Fund. CONSOL Energy subsidiaries account for required contributions to these multi-employer trusts as expense when incurred.

The Combined Fund provides medical and death benefits for all beneficiaries of the former UMWA Benefit Trusts who were actually receiving benefits as of July 20, 1992. The 1992 Benefit Fund provides medical and death benefits to orphan UMWA-represented members eligible for retirement on February 1, 1993, and who actually retired between July 20, 1992 and September 30, 1994. The Act provides for the assignment of beneficiaries to former employers and the allocation of unassigned beneficiaries (referred to as orphans) to companies using a formula set forth in the Act. The Act requires that responsibility for funding the benefits to be paid to beneficiaries be assigned to their former signatory employers or related companies. This cost is recognized as expense when payments are assessed. Amounts charged to expense for the Act were \$35,492 for the twelve months ended December 31, 2002, \$14,698 for the six months ended December 31, 2001, \$33,180 and \$30,524 for the twelve

Note 19 Stock-Based Compensation:

CONSOL Energy adopted the CONSOL Energy Inc. Equity Incentive Plan on April 7, 1999. The plan provides for grants of incentive stock options to key employees and to non-employee directors. The initial number of shares of common stock reserved for issuance under the plan is 3,250,000, of which 1,000,000 are available for issuance of awards other than stock options. No award of incentive stock options may be exercised under the plan after the tenth anniversary of the effective date of the award.

CONSOL Energy accounts for its stock options granted to employees and non-employee directors in accordance with APB 25.

The fair value of each option granted is estimated on the day of the grant using the Black-Scholes option-pricing model in accordance with SFAS No. 123. The weighted average assumptions used were:

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Characteristics of outstanding stock options at December 31, 2002 are as follows:

Range of Exercise Price	Outstanding Options			Exercisable Options	
	Shares	Weighted Average Remaining Life	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
\$ 10.88 - \$13.61	825,087	9.6	\$ 13.46	30,625	\$ 11.47
16.00 - 18.81	1,178,265	7.1	17.53	726,901	17.25
25.69 - 30.79	1,095,693	8.6	27.65	528,085	28.86
10.88 - 30.79	3,099,045	8.3	\$ 20.02	1,285,611	\$ 21.88

No compensation expense was recognized because the exercise price of the stock options equals the market price of the underlying stock at the date of the grant and the number of shares issued is fixed. These stock options will terminate ten years after the date on which they were granted. The employee stock options, covered by the

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Capital Leases: The fair values of long term debt are estimated using discounted cash flow analyses, based on 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 Note 25, are as follows:

	December 31, 2002		December 31, 2001		June 30, 2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 11,517	\$ 11,517	\$ 15,582	\$ 15,582	\$ 16,625	\$ 16,625
Short-term notes payable	\$ (204,545)	\$ (204,545)	\$ (323,683)	\$ (323,683)	\$ (360,063)	\$ (360,063)
Long-term debt	\$ (488,907)	\$ (492,534)	\$ (287,168)	\$ (298,608)	\$ (289,188)	\$ (293,647)
Capital Leases	\$ (8,139)	\$ (8,679)	\$ (12,458)	\$ (13,771)	\$ (14,373)	\$ (16,300)

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For these cash flow hedge strategies, the fair values of the derivatives are recorded on the balance sheet. The effective portions of the changes in fair values of the derivatives are recorded in other comprehensive income and are reclassified to sales, interest expense, or interest income in the period in which earnings are impacted by the hedged items or in the period that the transaction no longer qualifies as a cash flow hedge. There were no transactions that ceased to qualify as a cash flow hedge in 2002. CONSOL Energy's consolidated balance sheet is reflected on a net asset/(liability) basis, as permitted by the master netting agreements, by over the counter parties.

Assuming market rates remain constant with rates at December 31, 2002, \$2,019 of the \$2,365 loss and \$81 of the \$746 income included in other comprehensive income is expected to be recognized in earnings over the next 12 months.

CONSOL Energy did not have any derivatives designated as fair value hedges in the current period.

Other

Foreign Currency: On July 17, 2002, CONSOL Energy Australia entered into foreign currency contracts that do not qualify for fair value, cash flow or net investment hedge accounting. These contracts convert the variable market exchange rates of the U.S. dollar to Australian dollar to fixed rates. The contracts were entered into

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Gas Sales Agreements (c)	Various	\$	70,800
Ohio Power Company (d)	6/1993 - 6/2006	\$	40,339
Miscellaneous Surety Bonds (e)	Various	\$	28,700
Ohio Valley Electric Corporation (f)	1/2000 - 12/2006	\$	24,565
1992 Benefit Plan (g)	10/2002 - 10/2003	\$	22,389
Orix Financial Services (h)	12/2002 - 12/2007	\$	17,700
U.S. Bancorp (i)	7/2002 - 7/2007	\$	15,300
Court Bonds (j)	Various	\$	12,600
Illinois Industrial Commission (k)	10/2002 - 10/2003	\$	9,050
U.S. Department of Energy (l)		\$	4,900
ISDA Agreements (m)	Various	\$	3,000
Old Republic Insurance (n)	11/2002 - 11/2003	\$	2,759
GE Capital Finance (o)		\$	2,500
Centimark Corp. (p)	8/2000 - 8/2008	\$	1,600
U.S. Department of Labor (q)	12/2002 - 12/2003	\$	1,150

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Several subsidiaries of CONSOL Energy have issued miscellaneous surety bonds, primarily water quality bonds and road bonds. CONSOL Energy, through the issuance of these bonds, guarantees the performance of these obligations of its subsidiaries.

- f) 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.

- g) On October 15, 2002, a subsidiary of CONSOL Energy, issued 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.

CONSOL ENERGY INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands except per share amounts)

- 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, whereby CONSOL Energy promises prompt and full payment to U.S. Bancorp upon the failure of the subsidiary to satisfy the obligations of the agreement.
- j) 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.
- k) On October 15, 2002, CONSOL Energy, in conjunction with several of its subsidiaries, issued a letter of credit to 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, Illinois Industrial Commission will draw on this letter of credit.
- l) 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 Plan Project, and CONSOL Energy is obligated to provide their 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.
- 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 Buchanan Production Company.
- n) A subsidiary of CONSOL Energy, issued a letter of credit to Old Republic Insurance Company on November 12, 2002. This letter of credit is related to workers' compensation liabilities, and is due to the fact that CONSOL Energy and its subsidiaries are self insured for workers' compensation. The letter of credit will be drawn upon if the subsidiary fails to pay the related workers' compensation claims.
- o) Universal Aggregates received financing from GE Capital Public Finance, Inc. for the purchase of equipment for the Birchwood Power Project, through an agreement dated December 1, 2002. CONSOL Energy is a guarantor of that agreement, by which it 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.
- p) 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.
- q)

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On December 17, 2002, three subsidiaries of CONSOL Energy, issued 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.

- r) On April 1, 1999, a subsidiary of CONSOL Energy entered into an agreement with Alaska Supply Chain Integrators (ASCI) to lease warehouse space, whereas ASCI leases the warehouse from LABAR Co. In conjunction with this agreement, CONSOL Energy is a guarantor to LABAR Co., and guarantees prompt payment of all amounts due under the lease in the event of default by the subsidiary.

CONSOL ENERGY INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands except per share amounts)

Note 27 Segment Information:

CONSOL Energy has two reportable business segments: Coal and Gas. CONSOL Energy's All Other classification is made up of our terminal services, river and dock services, industrial supply services and other business activities, such as rentals of buildings and flight operations that do not qualify as operating segments. In the twelve months ended December 31, 2002, CONSOL Energy implemented a new internal segment reporting method in order to align segment results to management's assessment of profitability. As a result, the measure of segment profit or loss has changed from Pre-tax Operating Income (Loss) to Earnings (Loss) Before Income Taxes. Also, some corporate charges that were previously reflected in the All Other segment are now reported as Corporate items and reflected in the reconciliation between Segment Earnings (Loss) Before Income Tax to total Earnings (Loss) Before Income Tax. CONSOL Energy has also changed its disclosure from reporting additions to property, plant and equipment to reporting capital expenditures for property, plant and equipment as shown on the cash flow statement. Previously, additions to property, plant and equipment included certain non-cash increases.

Segment results for the twelve months ended December 31, 2002:

	Reportable Business Segments			All Other	Corporate Adjustments & Eliminations	Consolidated
	Coal	Gas	Total			
Sales outside	\$ 1,776,525(A)	\$ 146,806(A)	\$ 1,923,331	\$ 79,210	\$	\$ 2,002,541
Sales related parties	804		804			804
Freight outside	133,664		133,664	188		133,852
Freight related parties	564		564			564
Intersegment transfers		2,106	2,106	87,508	(89,614)	
Total Sales and Freight	\$ 1,911,557	\$ 148,912	\$ 2,060,469	\$ 166,906	\$ (89,614)	\$ 2,137,761
Earnings (Loss) Before Income Taxes	\$ (10,334)	\$ 38,915	\$ 28,581	\$ (22,595)	\$ (46,409)	\$ (40,423)(B)
Segment assets	\$ 2,871,693	\$ 626,539	\$ 3,498,232	\$ 223,310	\$ 571,618	\$ 4,293,160(C)
Depreciation, depletion and amortization	\$ 218,103	\$ 34,368	\$ 252,471	\$ 10,402	\$	\$ 262,873
Capital Expenditures	\$ 233,586	\$ 56,812	\$ 290,398	\$ 4,837	\$	\$ 295,235

(A) Included in the Coal segment are sales of \$169,198 to American Electric Power and sales of \$318,919 to Allegheny Energy. Included in the Gas segment are sales of \$66,922 to American Electric Power and sales of \$7,959 to Allegheny Energy.

(B) Includes equity in earnings (loss) of unconsolidated affiliates of \$(6,298), \$(2,177) and \$(1,343) for Coal, Gas and All Other, respectively.

(C)

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Includes investments in unconsolidated equity affiliates of \$92,247, \$14,582 and \$28,533 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.

Segment results for the six months ended December 31, 2001 are:

	Reportable Business Segments				Corporate Adjustments & Eliminations	Consolidated
	<u>Coal</u>	<u>Gas</u>	<u>Total</u>	<u>All Other</u>	<u></u>	<u></u>
Sales outside	\$ 876,538 ^(D)	\$ 47,918 ^(D)	\$ 924,456	\$ 40,004	\$	\$ 964,460
Sales related parties						
Freight outside	70,314		70,314			70,314
Freight related parties						

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Earnings (Loss) Before Income Taxes	\$ 197,513	\$ 88,980	\$ 286,493	\$ (1,405)	\$ (44,753)	\$ 240,335 ^(I)
Segment assets	\$ 3,001,455	\$ 329,834	\$ 3,331,289	\$ 158,694	\$ 404,988	\$ 3,894,971 ^(J)
Depreciation, depletion and amortization	\$ 220,849	\$ 10,818	\$ 231,667	\$ 11,605	\$	\$ 243,272
Capital Expenditures	\$ 211,290 ^(K)	\$ 31,353	\$ 242,643	\$ 10,428	\$	\$ 253,071

CONSOL ENERGY INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands except per share amounts)

Reconciliation of Segment Information to Consolidated Amounts:

Revenue and Other Income:

	For the Twelve Months Ended December 31, 2002	For the Six Months Ended December 31, 2001	For the Twelve Months Ended June 30,	
			2001	2000
Total segment sales and freight from external customers	\$ 2,137,761	\$ 1,034,774	\$ 2,284,142	\$ 2,260,784
Other income not allocated to segments (Note 4)	45,837	31,223	70,457	64,359
Total Consolidated Revenue and Other Income	\$ 2,183,598	\$ 1,065,997	\$ 2,354,599	\$ 2,325,143
Earnings (Loss) Before Income Taxes:				
Segment Earnings (Loss) Before Income Taxes for total reportable business segments	\$ 28,581	\$ 1,769	\$ 286,493	\$ 167,868
Segment Earnings (Loss) Before Income Taxes for all other businesses	(22,595)	(401)	(1,405)	784
Incentive Compensation	173	(1,052)	(18,356)	(6,291)
Interest income (expense), net and other non-operating activity	(46,582)	(19,936)	(26,397)	(55,814)
Earnings (Loss) Before Income Taxes	\$ (40,423)	\$ (19,620)	\$ 240,335	\$ 106,547

CONSOL ENERGY INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands except per share amounts)

	<u>December 31,</u> 2002	<u>December 31,</u> 2001	<u>June 30,</u> 2001	<u>June 30,</u> 2000
Total Assets:				
Segment assets for total reportable business segments	\$ 3,498,232	\$ 3,521,214	\$ 3,331,289	\$ 3,290,619
Segment assets for all other businesses	223,310	163,372	158,694	175,056
Items excluded from segment assets:				
Cash and other investments	11,800	15,967	17,104	8,181
Export sales excise tax resolution interest receivable	21,649	21,419	32,351	
Deferred tax assets	512,954	575,614	355,533	384,642
Recoverable (Accrued) income taxes	21,935			7,813
Intangible asset - overfunded pension plan	906	1,146		
Bond issuance costs	2,374			
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Consolidated Assets	\$ 4,293,160	\$ 4,298,732	\$ 3,894,971	\$ 3,866,311

Enterprise-Wide Disclosures:

CONSOL Energy's Revenues by geographical location

	<u>For the Twelve</u> <u>Months Ended</u> <u>December 31,</u> 2002	<u>For the Six</u> <u>Months Ended</u> <u>December 31,</u> 2001	<u>For the Twelve</u> <u>Months Ended</u> <u>June 30,</u> 2001	<u>2000</u>
United States	\$ 1,785,417	\$ 859,492	\$ 1,881,045	\$ 1,848,308
Europe	181,748	82,538	216,258	193,581
Asia	39,495	14,886	26,311	72,878
Canada	90,022	33,922	86,828	59,054
South America	34,612	36,050	52,366	45,416
Middle East				21,096
Africa	6,467	7,886	21,334	20,451
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Revenues and Freight from External Customers (P)	\$ 2,137,761	\$ 1,034,774	\$ 2,284,142	\$ 2,260,784

(P) CONSOL Energy attributes revenue to individual countries based on the location of the customer.

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CONSOL Energy's Property, Plant and Equipment by geographical location are:

	<u>December 31, 2002</u>	<u>December 31, 2001</u>	<u>June 30, 2001</u>	<u>June 30, 2000</u>
United States	\$ 2,856,391	\$ 2,868,050	\$ 2,483,369	\$ 2,525,937
Canada	47,524	47,145	47,801	48,397
Belgium	109	115	122	110
Total Property, Plant and Equipment	\$ 2,904,024	\$ 2,915,310	\$ 2,531,292	\$ 2,574,444

Note 28 Guarantor Subsidiaries Financial Information:

The payment obligations under the \$250,000 7.875 percent per annum Notes due March 1, 2012 issued by CONSOL Energy are fully and unconditionally guaranteed by several subsidiaries of CONSOL Energy. There are no financial covenants related to the obligations. In accordance with rules established by the Securities and Exchange Commission, the following financial information sets forth separate financial information with respect to

CONSOL ENERGY INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands except per share amounts)

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's parent and a guarantor company 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 Twelve Months Ended December 31, 2002:

	<u>Parent</u>	<u>Guarantor</u>	<u>Non-Guarantor</u>	<u>Elimination</u>	<u>Consolidated</u>
Sales - Outside	\$	\$ 1,709,144	\$ 293,397	\$	\$ 2,002,541
Sales - Related Parties		804			804
Freight - Outside		106,923	26,929		133,852
Freight - Related Parties		564	1,265	(1,265)	564
Other Income	34,534	45,107	(2,592)	(31,212)	45,837
<hr/>					
Total Revenue	34,534	1,862,542	318,999	(32,477)	2,183,598
Cost of Goods Sold and Other Operating Charges	12,690	1,432,494	256,932	(158,927)	1,543,189
Related Party Activity	(6,126)	(95,965)	(73,543)	175,634	
Freight Expense		107,487	28,194	(1,265)	134,416
Selling, General and Administrative Expense		54,145	11,743		65,888
Depreciation, Depletion and Amortization	2,362	223,632	38,733	(1,854)	262,873
Interest Expense	22,907	20,390	2,916		46,213
Taxes Other Than Income	3,635	146,540	22,304		172,479
Export Sales Excise Tax Resolution		(1,037)			(1,037)
<hr/>					
Total Costs	35,468	1,887,686	287,279	13,588	2,224,021
<hr/>					
Earnings (Loss) Before Income Taxes	(934)	(25,144)	31,720	(46,065)	(40,423)
Income Taxes (Benefit)	(12,610)	(43,224)	3,735		(52,099)
<hr/>					
Net Income (Loss)	\$ 11,676	\$ 18,080	\$ 27,985	\$ (46,065)	\$ 11,676
<hr/>					

Balance Sheet for December 31, 2002:

<u>Parent</u>	<u>Guarantor</u>	<u>Non-Guarantor</u>	<u>Elimination</u>	<u>Consolidated</u>
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Assets:				
Current Assets:				
Cash and cash equivalents	\$ 2,651	\$ 316	\$ 8,550	\$ 11,517
Accounts and notes receivable:				
Trade		169,943	35,948	205,891
Other	6,481	102,847	17,898	127,226
Inventories	258	122,771	12,592	135,621
Recoverable Income Taxes	21,935			21,935
Deferred Income Taxes	92,236			92,236
Prepaid Expenses	4,770	19,255	4,386	28,411
	<hr/>	<hr/>	<hr/>	<hr/>
Total Current Assets	128,331	415,132	79,374	622,837
Property, Plant and Equipment:				
Property, Plant and Equipment	87,689	4,600,222	1,009,813	5,697,724
Less Accumulated Depreciation, Depletion and Amortization	41,620	2,678,503	73,577	2,793,700
	<hr/>	<hr/>	<hr/>	<hr/>

CONSOL ENERGY INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands except per share amounts)

	<u>Parent</u>	<u>Guarantor</u>	<u>Non-Guarantor</u>	<u>Elimination</u>	<u>Consolidated</u>
Property, Plant and Equipment Net	46,069	1,921,719	936,236		2,904,024
Other Assets:					
Deferred Income Taxes	420,718				420,718
Advanced Mining Royalties		51,477	39,084		90,561
Investment in Affiliates	1,367,605	1,107,658	66,411	(2,406,312)	135,362
Other	2,509	82,788	34,361		119,658
Total Other Assets	<u>1,790,832</u>	<u>1,241,923</u>	<u>139,856</u>	<u>(2,406,312)</u>	<u>766,299</u>
Total Assets	<u>\$ 1,965,232</u>	<u>\$ 3,578,774</u>	<u>\$ 1,155,466</u>	<u>\$ (2,406,312)</u>	<u>\$ 4,293,160</u>
Liabilities and Stockholders Equity:					
Current Liabilities:					
Accounts Payable	\$ 110,120	\$ 2,846	\$ 38,405	\$	\$ 151,371
Accounts Payable (Receivable) Related Parties	1,023,380	(740,489)	(282,891)		
Short-Term Notes Payable	203,139		1,406		204,545
Current Portion of Long-Term Debt and Capital Lease Obligations	100	7,802	713		8,615
Other Accrued Liabilities	62,606	322,814	64,482		449,902
Total Current Liabilities	<u>1,399,345</u>	<u>(407,027)</u>	<u>(177,885)</u>		<u>814,433</u>
Long-Term Debt:					
Long-Term Debt	248,107	215,266	22,162		485,535
Capital Lease Obligations		2,896			2,896
Total Long-Term Debt	<u>248,107</u>	<u>218,162</u>	<u>22,162</u>		<u>488,431</u>
Deferred Credits and Other Liabilities:					
Postretirement Benefits Other Than Pensions		1,437,987			1,437,987
Pneumoconiosis		455,436			455,436
Mine Closing		202,538	130,382		332,920
Workers Compensation	1,827	234,428	24,995		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	55,910	21,819		140,970
Total Deferred Credits and Other Liabilities	<u>155,733</u>	<u>2,476,636</u>	<u>195,880</u>		<u>2,828,249</u>
Stockholders Equity	<u>162,047</u>	<u>1,291,003</u>	<u>1,115,309</u>	<u>(2,406,312)</u>	<u>162,047</u>
Total Liabilities and Stockholders Equity	<u>\$ 1,965,232</u>	<u>\$ 3,578,774</u>	<u>\$ 1,155,466</u>	<u>\$ (2,406,312)</u>	<u>\$ 4,293,160</u>

Condensed Statement of Cash Flows

For the Twelve Months Ended December 31, 2002:

	<u>Parent</u>	<u>Guarantor</u>	<u>Non-Guarantor</u>	<u>Elimination</u>	<u>Consolidated</u>
Net Cash Provided by (Used in) Operating Activities	\$ (20,149)	\$ 258,770	\$ 90,935	\$	\$ 329,556
Cash Flows from Investing Activities:					
Capital Expenditures	\$ (13,797)	\$ (210,939)	\$ (70,499)	\$	\$ (295,235)

CONSOL ENERGY INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands except per share amounts)

	Parent	Guarantor	Non-Guarantor	Elimination	Consolidated
Investment in Equity Affiliates	(28,141)	(125)	(39,703)		(67,969)
Other Investing Activities	8	24,183	(923)		23,268
Net Cash Used in Investing Activities	\$ (41,930)	\$ (186,881)	\$ (111,125)	\$	\$ (339,936)
Cash Flows from Financing Activities:					
Payments on Short-Term Borrowings	\$ (119,993)	\$	\$	\$	\$ (119,993)
Payments on Long-Term Notes		(66,000)			(66,000)
Proceeds from Long-Term Notes	246,310		15,493		261,803
Dividends Paid	(66,086)				(66,086)
Other Financing Activities	776	(5,731)	1,546		(3,409)
Net Cash Provided by (Used in) Financing Activities	\$ 61,007	\$ (71,731)	\$ 17,039	\$	\$ 6,315

Income Statement
for the Six Months Ended December 31, 2001:

	Parent	Guarantor	Non-Guarantor	Elimination	Consolidated
Sales Outside	\$	\$ 646,897	\$ 317,563	\$	\$ 964,460
Freight Outside		42,017	28,297		70,314
Other Income (including equity earnings)	4,820	76,938	(26,340)	(24,195)	31,223
Total Revenue	4,820	765,852	319,520	(24,195)	1,065,997
Cost of Goods Sold and Other Operating Charges	7,326	635,242	184,884	(66,306)	761,146
Related Party Activity	(7,827)	(54,209)	(2,073)	64,109	
Freight Expense		42,018	28,296		70,314
Selling, General and Administrative Expense		22,384	9,109		31,493
Depreciation, Depletion and Amortization	1,129	90,458	28,452		120,039
Interest Expense	3,358	11,808	1,398		16,564
Taxes Other Than Income	1,820	58,782	20,057		80,659
Export Sales Excise Tax Resolution		5,083	319		5,402
Total Costs	5,806	811,566	270,442	(2,197)	1,085,617
Earnings (Loss) Before Income Taxes	(986)	(45,714)	49,078	(21,998)	(19,620)
Income Taxes (Benefit)	(2,045)	(30,919)	12,285		(20,679)

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Net Income (Loss)	\$ 1,059	\$ (14,795)	\$ 36,793	\$ (21,998)	\$ 1,059
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Balance Sheet for December 31, 2001:

	<u>Parent</u>	<u>Guarantor</u>	<u>Non-Guarantor</u>	<u>Elimination</u>	<u>Consolidated</u>
Assets:					
Current Assets:					
Cash and Cash Equivalents	\$ 3,723	\$ 158	\$ 11,701	\$	\$ 15,582
Accounts and Notes Receivable:					
Trade		204,520	59,331	(43,409)	220,442
Other	1,566	108,791	12,979		123,336
Inventories	240	83,668	29,986		113,894

CONSOL ENERGY INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands except per share amounts)

	<u>Parent</u>	<u>Guarantor</u>	<u>Non-Guarantor</u>	<u>Elimination</u>	<u>Consolidated</u>
Deferred Income Taxes	54,708				54,708
Prepaid Expenses	3,142	30,667	8,465		42,274
Total Current Assets	63,379	427,804	122,462	(43,409)	570,236
Property, Plant and Equipment:					
Property, Plant and Equipment	51,581	4,055,229	1,307,150		5,413,960
Less Accumulated Depreciation, Depletion and Amortization	20,737	2,074,162	403,751		2,498,650
Property, Plant and Equipment Net	30,844	1,981,067	903,399		2,915,310
Other Assets:					
Deferred Income Taxes	520,906				520,906
Advanced Mining Royalties	9	52,966	39,669		92,644
Investment in Affiliates	1,113,982	951,651	51,236	(2,038,941)	77,928
Other	1,649	74,451	45,608		121,708
Total Other Assets	1,636,546	1,079,068	136,513	(2,038,941)	813,186
Total Assets	\$ 1,730,769	\$ 3,487,939	\$ 1,162,374	\$ (2,082,350)	\$ 4,298,732
Liabilities and Stockholders' Equity:					
Current Liabilities:					
Accounts Payable	\$ 117,281	\$ 5,957	\$ 92,094	\$ (43,409)	\$ 171,923
Accounts Payable (Receivable) Related Parties	811,479	(374,435)	(517,919)	80,875	
Short-Term Notes Payable	77,869				77,869
Current Portion of Long-Term Debt and Capital Lease Obligations	100	72,036	635		72,771
Accrued Income Taxes	4,799				4,799
Other Accrued Liabilities	31,753	208,826	72,800		313,379
Total Current Liabilities	1,043,281	(87,616)	(352,390)	37,466	640,741
Long-Term Debt:					
Long-Term Debt	245,892	211,688	6,607		464,187
Capital Lease Obligations		8,482			8,482
Total Long-Term Debt	245,892	220,170	6,607		472,669
Deferred Credits and Other Liabilities:					
Postretirement Benefits Other Than Pensions		1,417,567			1,417,567
Pneumoconiosis		459,776			459,776
Mine Closing		198,700	135,038		333,738
Workers' Compensation	1,738	234,814	32,523		269,075
Deferred Revenue		195,370	32,225		227,595
Salary Retirement	8,633				8,633

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Reclamation		7,715	6,029		13,744
Other	159,666	21,649	2,320		183,635
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Deferred Credits and Other Liabilities	170,037	2,535,591	208,135		2,913,763
Stockholders' Equity	271,559	819,794	1,300,022	(2,119,816)	271,559
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Stockholders' Equity	\$ 1,730,769	\$ 3,487,939	\$ 1,162,374	\$ (2,082,350)	\$ 4,298,732
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

CONSOL ENERGY INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands except per share amounts)

Condensed Statement of Cash Flows

For the Six Months Ended December 31, 2001:

	<u>Parent</u>	<u>Guarantor</u>	<u>Non-Guarantor</u>	<u>Elimination</u>	<u>Consolidated</u>
Net Cash Provided by (Used in) Operating Activities	\$ 105,258	\$ 112,440	\$ (124,614)	\$	\$ 93,084
Cash Flows from Investing Activities:					
Capital Expenditures	\$ (3,637)	\$ (112,777)	\$ (46,448)	\$	\$ (162,862)
Acquisitions Net of Cash Acquired	(20,694)		183,432		162,738
Investment in Equity Affiliates	(1,598)	(275)	(12,046)		(13,919)
Other Investing Activities	15	2,538	(108)		2,445
Net Cash (Used in) Provided by Investing Activities	\$ (25,914)	\$ (110,514)	\$ 124,830	\$	\$ (11,598)
Cash Flows from Financing Activities:					
Payments on Short-Term Borrowings	\$ (36,564)	\$	\$	\$	\$ (36,564)
Dividends Paid	(44,050)				(44,050)
Other Financing Activities		(1,915)			(1,915)
Net Cash Used in Financing Activities	\$ (80,614)	\$ (1,915)	\$	\$	\$ (82,529)

Income Statement

for the Twelve Months Ended June 30, 2001:

	<u>Parent</u>	<u>Guarantor</u>	<u>Non-Guarantor</u>	<u>Elimination</u>	<u>Consolidated</u>
Sales Outside	\$	\$ 1,575,195	\$ 538,719	\$	\$ 2,113,914
Sales Related parties		4,029	5,259		9,288
Freight Outside		98,552	58,485		157,037
Freight Related parties		3,903	647	(647)	3,903
Other Income (including equity earnings)	197,473	192,216	(90,397)	(228,835)	70,457
Total Revenue	197,473	1,873,895	512,713	(229,482)	2,354,599
Cost of Goods Sold and Other Operating Charges	31,927	1,403,980	247,372	(128,412)	1,554,867
Related Party Activity	(33,862)	(112,934)	17,163	129,633	
Freight Expense		102,455	59,132	(647)	160,940

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Selling, General and Administrative Expense		43,379	19,664		63,043
Depreciation, Depletion and Amortization	2,010	193,868	49,251	(1,857)	243,272
Interest Expense	17,111	36,340	4,147		57,598
Taxes Other Than Income	4,204	156,369	(2,507)		158,066
Export Sales Excise Tax Resolution		(115,886)	(7,636)		(123,522)
Total Costs	<u>21,390</u>	<u>1,707,571</u>	<u>386,586</u>	<u>(1,283)</u>	<u>2,114,264</u>
Earnings (Loss) Before Income Taxes	176,083	166,324	126,127	(228,199)	240,335
Income Taxes (Benefit)	(7,567)	34,486	29,766		56,685
Net Income (Loss)	<u>\$ 183,650</u>	<u>\$ 131,838</u>	<u>\$ 96,361</u>	<u>\$ (228,199)</u>	<u>\$ 183,650</u>

CONSOL ENERGY INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands except per share amounts)

Balance Sheet for June 30, 2001:

	<u>Parent</u>	<u>Guarantor</u>	<u>Non-Guarantor</u>	<u>Elimination</u>	<u>Consolidated</u>
Assets:					
Current Assets:					
Cash and Cash Equivalents	\$ 4,993	\$ 147	\$ 11,485	\$	\$ 16,625
Accounts and Notes Receivable:					
Trade		190,151	58,834	(27,428)	221,557
Related parties	(11)	4	7		
Other	967	124,460	32,988		158,415
Inventories	240	81,385	13,421		95,046
Deferred Income Taxes	46,340				46,340
Prepaid Expenses	2,127	23,060	2,685		27,872
Total Current Assets	54,656	419,207	119,420	(27,428)	565,855
Property, Plant and Equipment:					
Property, Plant and Equipment	39,195	3,942,384	962,382		4,943,961
Less Accumulated Depreciation, Depletion and Amortization	20,636	1,981,411	410,622		2,412,669
Property, Plant and Equipment Net	18,559	1,960,973	551,760		2,531,292
Other Assets:					
Deferred Income Taxes	309,193				309,193
Advanced Mining Royalties	6	56,922	40,489		97,417
Investment in Affiliates	1,076,146	699,994	101,492	(1,653,965)	223,667
Other	54,929	77,350	35,268		167,547
Total Other Assets	1,440,274	834,266	177,249	(1,653,965)	797,824
Total Assets	\$ 1,513,489	\$ 3,214,446	\$ 848,429	\$ (1,681,393)	\$ 3,894,971
Liabilities and Stockholders Equity:					
Current Liabilities:					
Accounts Payable	\$ 104,839	\$ 17,571	\$ 49,118	\$ (27,428)	\$ 144,100
Accounts Payable (Receivable) Related Parties	554,795	(274,834)	(373,952)	94,086	95
Short-Term Notes Payable	360,063				360,063
Current Portion of Long-Term Debt and Capital Lease Obligations					
	100	71,798	635		72,533
Accrued Income Taxes	2,322				2,322
Other Accrued Liabilities	63,028	254,041	37,791		354,860
Total Current Liabilities	1,085,147	68,576	(286,408)	66,658	933,973

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Long-Term Debt:				
Long-Term Debt	69	213,224	7,101	220,394
Capital Lease Obligations		10,634		10,634
		<u> </u>	<u> </u>	<u> </u>
Total Long-Term Debt	69	223,858	7,101	231,028
Deferred Credits and Other Liabilities:				
Postretirement Benefits Other Than Pensions		1,140,501		1,140,501
Pneumoconiosis		446,790	1,527	448,317
Mine Closing		176,516	95,704	272,220
Workers Compensation	2,052	213,495	45,062	260,609

CONSOL ENERGY INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands except per share amounts)

	<u>Parent</u>	<u>Guarantor</u>	<u>Non-Guarantor</u>	<u>Elimination</u>	<u>Consolidated</u>
Deferred Revenue			40,024		40,024
Salary Retirement	114				114
Reclamation		15,748	4,058		19,806
Other	74,460	116,049	6,223		196,732
Total Deferred Credits and Other Liabilities	76,626	2,109,099	192,598		2,378,323
Stockholders' Equity	351,647	812,913	935,138	(1,748,051)	351,647
Total Liabilities and Stockholders' Equity	\$ 1,513,489	\$ 3,214,446	\$ 848,429	\$ (1,681,393)	\$ 3,894,971

Condensed Statement of Cash Flows**For the Twelve Months Ended June 30, 2001:**

	<u>Parent</u>	<u>Guarantor</u>	<u>Non-Guarantor</u>	<u>Elimination</u>	<u>Consolidated</u>
Net Cash Provided by (Used in) Operating Activities	\$ (269,967)	\$ 611,839	\$ 93,967	\$	\$ 435,839
Cash Flows from Investing Activities:					
Capital Expenditures	\$ (3,163)	\$ (162,074)	\$ (48,762)	\$	\$ (213,999)
Acquisitions Net of Cash Acquired			(39,072)		(39,072)
Investment in Equity Affiliates	(156)	14,075	(1,805)		12,114
Other Investing Activities	1,428	5,288	920		7,636
Net Cash Used in Investing Activities	\$ (1,891)	\$ (142,711)	\$ (88,719)	\$	\$ (233,321)
Cash Flows from Financing Activities:					
Proceeds From (Payments on) Short-Term Borrowings	\$ 361,855	\$ (464,310)	\$	\$	\$ (102,455)
Dividends Paid	(88,014)				(88,014)
Other Financing Activities	1,521	(4,769)	(357)		(3,605)
Net Cash Provided by (Used in) Financing Activities	\$ 275,362	\$ (469,079)	\$ (357)	\$	\$ (194,074)

Income Statement**for the Twelve Months Ended June 30, 2000:**

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	<u>Parent</u>	<u>Guarantor</u>	<u>Non-Guarantor</u>	<u>Elimination</u>	<u>Consolidated</u>
Sales Outside	\$	\$ 1,574,291	\$ 517,305	\$	\$ 2,091,596
Sales Related Parties		1,891	11,642	(10,279)	3,254
Freight Outside		148,693	15,819		164,512
Freight Related Parties		1,422			1,422
Other Income (including equity earnings)	87,147	92,003	(26,970)	(87,821)	64,359
Total Revenue	87,147	1,818,300	517,796	(98,100)	2,325,143
Cost of Goods Sold and Other Operating Charges	17,135	1,333,687	300,826	(152,666)	1,498,982
Related Party Activity	(73,355)	(114,559)	34,738	153,176	
Freight Expense		150,115	15,819		165,934
Selling, General and Administrative Expense		34,156	28,008		62,164
Depreciation, Depletion and Amortization	2,519	197,074	52,142	(1,858)	249,877
Interest Expense	4,024	47,531	3,734		55,289
Taxes Other Than Income	4,559	141,371	28,342		174,272

CONSOL ENERGY INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands except per share amounts)

	Parent	Guarantor	Non-Guarantor	Elimination	Consolidated
Restructuring Costs	11,109	969			12,078
Total Costs	(34,009)	1,790,344	463,609	(1,348)	2,218,596
Earnings (Loss) Before Income Taxes	121,156	27,956	54,187	(96,752)	106,547
Income Taxes (Benefit)	14,116	(14,338)	(271)		(493)
Net Income (Loss)	\$ 107,040	\$ 42,294	\$ 54,458	\$ (96,752)	\$ 107,040

Condensed Statement of Cash Flows

For the Twelve Months Ended June 30, 2000:

	Parent	Guarantor	Non-Guarantor	Elimination	Consolidated
Net Cash Provided by (Used in) Operating Activities	\$ 104,993	\$ (8,688)	\$ 198,723	\$	\$ 295,028
Cash Flows from Investing Activities:					
Capital Expenditures	\$	\$ (115,744)	\$ (26,854)	\$	\$ (142,598)
Acquisitions Net of Cash Acquired			(163,506)		(163,506)
Investment in Equity Affiliates		(2,299)			(2,299)
Other Investing Activities	40	9,331	(522)		8,849
Net Cash Provided by (Used in) Investing Activities	\$ 40	\$ (108,712)	\$ (190,882)	\$	\$ (299,554)
Cash Flows from Financing Activities:					
Proceeds From Short-Term Borrowings	\$	\$ 117,331	\$	\$	\$ 117,331
Dividends Paid	(89,055)				(89,055)
Other Financing Activities	(19,496)	(6,947)	(12,685)		(39,128)
Net Cash Provided by (Used in) Financing Activities	\$ (108,551)	\$ 110,384	\$ (12,685)	\$	\$ (10,852)

Note 29 Supplemental Coal Data (unaudited):

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	Millions of Tons			
	For the Twelve Months Ended December 31, 2002	For the Six Months Ended December 31, 2001	For the Twelve Months Ended June 30,	
			2001	2000
	2002	2001	2001	2000
Proven and probable reserves at beginning of period	4,322	4,378	4,461	4,705
Purchased reserves	4	4	3	3
Reserves sold in place	(28)	(8)	(5)	(66)
Production	(64)	(34)	(71)	(73)
Revisions and other changes		(18)	(10)	(108)
Consolidated proven and probable reserves at end of period*	4,234	4,322	4,378	4,461
Proportionate share of proven and probable reserves of unconsolidated equity affiliates*	41	43	33	

* Proven and probable coal reserves are the equivalent of demonstrated reserves under the coal resource classification system of the U.S. Geological Survey. Generally, these reserves would be commercially mineable at year-end prices and cost levels, using current technology and mining practices.

CONSOL ENERGY INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in thousands except per share amounts)**

The vast majority of coal reserves are located in nearly every major coal-producing region in North America. At December 31, 2002, 924 million tons were assigned to mines either in production or under development. The proved and probable reserves at December 31, 2002 include 3,598 million tons of steam coal in consolidated reserves and 2 million tons of steam coal in unconsolidated equity affiliates, of which approximately 15 percent has a sulfur content equivalent to less than 1.2 pounds sulfur dioxide per million British thermal unit (Btu), and an additional 16 percent has a sulfur content equivalent to between 1.2 and 2.5 pounds sulfur dioxide per million Btu. The reserves also include 636 million tons of metallurgical coal in consolidated reserves and 39 million tons of metallurgical coal in unconsolidated equity affiliates, of which approximately 69 percent has a sulfur content equivalent to less than 1.2 pounds sulfur dioxide per million Btu, and the remaining 31 percent has a sulfur content equivalent to between 1.2 and 2.5 pounds sulfur dioxide per million Btu. A significant portion of this metallurgical coal can also serve the steam coal market.

Note 30 Supplemental Gas Data (unaudited):

The following information was prepared in accordance with Statement of Financial Accounting Standards No. 69, Disclosures About Oil and Gas Producing Activities and related accounting rules:

Capitalized Costs:

	December 31, 2002	December 31, 2001	June 30, 2001
Proved properties	\$ 596,014	\$ 523,377	\$ 148,012
Accumulated depreciation, depletion and amortization	64,425	29,708	17,151
Net Capitalized Costs	\$ 531,589	\$ 493,669	\$ 130,861
Proportionate Share of Gas Producing Net Property, Plant and Equipment of Unconsolidated Equity Affiliates	\$ 10,670	\$ 496	\$ 109,422

Results of Operations:

For the Twelve Months Ended December 31, 2002	For the Six Months Ended December 31, 2001	For the Twelve Months Ended June 30,
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			<u>2001</u>	<u>2000</u>
Total Revenue	\$ 148,914	\$ 51,060	\$ 157,832	\$ 52,456
Lifting Costs	16,439	8,111	8,893	6,615
Royalty Expense	12,214	3,530	12,983	2,725
Other Production Costs	45,837	18,015	29,845	14,496
Depreciation, Depletion & Amortization	34,368	12,581	10,818	5,299
Total Cost	108,858	42,237	62,539	29,135
Pretax Operating Income	40,056	8,823	95,293	23,321
Income Taxes	14,020	(798)	33,236	8,222
Results of Operations, excluding Corporate and Interest Costs	\$ 26,036	\$ 9,621	\$ 62,057	\$ 15,099
Gross Reserve Quantity (Million Cubic Feet):				
Proved developed and undeveloped gas reserves at beginning of period*	1,176,232	780,507	746,813	467,009

CONSOL ENERGY INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands except per share amounts)

	For the Twelve Months Ended December 31, 2002	For the Six Months Ended December 31, 2001	For the Twelve Months Ended June 30,	
			2001	2000
Purchased reserves		414,806		284,591
Production	(47,164)	(19,737)	(34,706)	(16,299)
Revisions and other changes	(25,855)	656	68,400	11,512
Proved developed and undeveloped gas reserves at end of Period*	1,103,213	1,176,232	780,507	746,813
Proportional interest in reserves of investees accounted for by the equity method (included in proved developed and undeveloped gas reserves)	559	6,802	416,183	424,848
Proved developed reserves:				
At beginning of period	413,234	261,426	178,690	72,749
At end of period	374,098	413,234	261,426	178,690
Proved developed reserves in equity affiliates included in proved developed reserves:				
At beginning of period	5,022	117,620	103,313	
At end of period	559	5,022	117,620	103,313

* Proved developed and undeveloped gas reserves are defined by the Securities and Exchange Commission Rule 4.10(a) of Regulation S-X. Generally, these reserves would be commercially recovered under current economic conditions, operating methods and government regulations.

CONSOL Energy's proven gas reserves are located in the states of Virginia, Tennessee and Pennsylvania.

Standardized Measure of Discounted Future Net Cash Flows:

The following information has been prepared in accordance with the provisions of Statement of Financial Accounting Standards No. 69, Disclosures about Oil and Gas Producing Activities. This statement requires the standardized measure of discounted future net cash flows to be based on year-end sales prices, costs and statutory income tax rates and a 10 percent annual discount rate. Because prices used in the calculation are as of the end of the period, the standardized measure could vary significantly from year to year based on the market conditions at that specific date.

The projections should not be viewed as realistic estimates of future cash flows, nor should the standardized measure be interpreted as representing current value to CONSOL Energy. Material revisions to estimates of proven reserves may occur in the future; development and production of the reserves may not occur in the periods assumed; actual prices realized are expected to vary significantly from those used; and actual costs may vary. CONSOL Energy's investment and operating decisions are not based on the information presented, but on a wide range of reserve estimates that include probable as well as proved reserves, and on different price and cost assumptions.

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

CONSOL ENERGY INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(Dollars in thousands except per share amounts)**

The future net cash flows for the prior year ended December 31, 2001 have been restated from \$433,224 for future net cash flows and \$218,365 for total standardized measure of discounted future net cash flows previously included in our reports due to revisions in development costs for that period. This change is necessary to illustrate a more accurate comparison of the year to year changes.

	December 31, 2002	December 31, 2001	June 30,	
			2001	2000
Future Cash Flows:				
Revenues	\$ 5,110,417	\$ 3,258,890	\$ 2,647,689	\$ 3,238,988
Production costs	(1,806,259)	(1,847,658)	(1,520,955)	(1,365,925)
Development costs	(283,290)	(284,905)	(286,680)	(242,733)
Income tax expense	(983,172)	(224,984)	(288,447)	(479,504)
Future Net Cash Flows	2,037,696	901,343	551,607	1,150,826
Discounted to present value at a 10% annual rate	(1,302,515)	(555,517)	(362,451)	(656,245)
Total standardized measure of discounted net cash flows	\$ 735,181	\$ 345,826	\$ 189,156	\$ 494,581
Standardized measure of discounted net cash flows for equity affiliates included above	\$	\$	\$ 32,451	\$ 177,068

The gas reserves and production costs are stated on an 8/8th basis due to the structure of existing lease agreements. As such, a 1/8th royalty expense of \$495,087 and \$410,504 is included in future estimated production costs at December 31, 2002 and December 31, 2001, respectively.

The following are the principal sources of change in the standardized measure of discounted future net cash flows during:

	December 31, 2002	December 31, 2001	June 30,	
			2001	2000
Balance at Beginning of Period	\$ 345,826	\$ 189,156	\$ 494,581	\$ 63,340
Net changes in sales prices and production costs	1,971,309	(1,387,961)	(857,403)	857,939
Sales net of production costs	(56,795)	284,498	(106,111)	(28,620)
Net change due to acquisition		1,155,060		744,637
Net change due to revisions in quantity estimates	(40,263)	232,901	217,185	(18,299)
Development costs incurred, previously estimated	42,705	(18,141)	(13,398)	(4,545)

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Changes in estimated future development costs	(41,090)	1,775	(43,947)	(141,683)
Net change in future income taxes	(739,520)	163,576	191,057	(382,909)
Accretion of discount and other	(746,991)	(275,038)	307,192	(595,279)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

CONSOL ENERGY INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(Dollars in thousands except per share amounts)**

	December 31, 2002	December 31, 2001	June 30,	
			2001	2000
Total Discounted Cash Flow at End of Period	\$ 735,181	\$ 345,826	\$ 189,156	\$ 494,581

Note 31 Quarterly Information (unaudited):

	Three Months Ended			
	December 31, 2002	September 30, 2002	June 30, 2002	March 31, 2002
Sales	\$ 508,351	\$ 506,901	\$ 482,888	\$ 505,205
Freight Revenue	\$ 32,012	\$ 31,724	\$ 34,248	\$ 36,432
Costs of Goods Sold and Other Operating Charges	\$ 390,854	\$ 426,915	\$ 362,511	\$ 362,909
Freight Expense	\$ 32,012	\$ 31,724	\$ 34,248	\$ 36,432
Net Income (Loss)	\$ 4,134	\$ (6,986)	\$ 9,027	\$ 5,501
Earnings Per Share:				
Basic	\$ 0.05	\$ (0.09)	\$ 0.11	\$ 0.07
Dilutive	\$ 0.05	\$ (0.09)	\$ 0.11	\$ 0.07
Weighted Average Shares Outstanding:				
Basic	\$ 78,748,594	\$ 78,735,267	\$ 78,722,778	\$ 78,704,593
Dilutive	\$ 78,757,425	\$ 78,770,328	\$ 78,935,017	\$ 78,909,819

Three Months Ended

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	December 31, 2001	September 30, 2001
Sales	\$ 478,811	\$ 485,649
Freight Revenue	\$ 34,104	\$ 36,210
Costs of Goods Sold and Other Operating Charges	\$ 371,833	\$ 389,313
Freight Expense	\$ 34,104	\$ 36,210
Net Income (Loss)	\$ 12,568	\$ (11,509)
Earnings Per Share:		
Basic	\$ 0.16	\$ (0.15)
Dilutive	\$ 0.16	\$ (0.15)
Weighted Average Shares Outstanding:		
Basic	78,703,099	78,696,365
Dilutive	78,926,711	78,913,117

CONSOL ENERGY INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(Dollars in thousands except per share amounts)**

	Three Months Ended			
	June 30, 2001	March 31, 2001	December 31, 2000	September 30, 2000
Sales	\$ 555,876	\$ 575,125	\$ 501,292	\$ 490,909
Freight Revenue	\$ 56,080	\$ 32,635	\$ 35,154	\$ 37,071
Costs of Goods Sold and Other Operating Charges	\$ 404,928	\$ 419,610	\$ 360,449	\$ 369,880
Freight Expense	\$ 56,080	\$ 32,635	\$ 35,154	\$ 37,071
Net Income	\$ 49,347	\$ 100,800	\$ 29,407	\$ 4,096
Earnings Per Share:				
Basic	\$ 0.63	\$ 1.28(A)	\$ 0.37	\$ 0.05
Dilutive	\$ 0.62	\$ 1.27(A)	\$ 0.37	\$ 0.05
Weighted Average Shares Outstanding:				
Basic	78,670,017	78,616,575	78,590,854	78,577,553
Dilutive	79,071,471	79,201,793	78,745,914	78,681,451

(A) The increase in Earnings Per Share was due mainly to the recognition of pre-tax income of \$95,292 for the Export Sales Excise Tax Resolution.

	Three Months Ended			
	June 30, 2000	March 31, 2000	December 31, 1999	September 30, 1999
Sales	\$ 501,513	\$ 511,016	\$ 537,109	\$ 545,212
Freight Revenue	\$ 44,387	\$ 35,862	\$ 40,734	\$ 44,951
Costs of Goods Sold and Other Operating Charges	\$ 337,984	\$ 369,524	\$ 375,387	\$ 416,087

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Freight Expense	\$ 44,387	\$ 35,862	\$ 40,734	\$ 44,951
Net Income	\$ 36,837	\$ 22,970	\$ 36,506	\$ 10,727
Earnings Per Share:				
Basic	\$ 0.47	\$ 0.29	\$ 0.46	\$ 0.13
Dilutive	\$ 0.47	\$ 0.29	\$ 0.46	\$ 0.13
Weighted Average Shares Outstanding:				
Basic	78,615,363	79,217,730	79,901,818	80,250,718
Dilutive	78,619,097	79,218,134	79,902,337	80,250,870

CONSOL ENERGY INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands except per share amounts)

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures.

CONSOL Energy's Board of Directors appointed PricewaterhouseCoopers LLP to serve as the Company's independent accountant, effective July 2, 2002. PricewaterhouseCoopers LLP serves as the independent accountant for RWE Rheinbraun AG., a multi-utility holding group headquartered in Essen, Germany, which owns approximately 74 percent of CONSOL Energy's common stock. PricewaterhouseCoopers LLP replaced Ernst & Young LLP as the Company's independent accountant. Effective June 5, 2002, CONSOL Energy Board of Directors dismissed Ernst & Young LLP as its independent accountant.

PART III

Item 10. Directors and Executive Officers of the Registrant.

The information requested by Item 401 of Regulations S-K is incorporated herein by reference to the section, Proposal #1 Nominations for Election of Directors in the Proxy Statement for the annual meeting of shareholders held on April 30, 2003 (the Proxy Statement).

Item 11. Executive Compensation.

The information requested by Item 402 of Regulations S-K is incorporated herein by reference to the section, Executive Compensation and Stock Option Information, in the Proxy Statement.

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

The information requested by Item 402 of Regulations S-K is incorporated herein by reference to the section, Beneficial Ownership of Securities, in the Proxy Statement.

Item 13. Certain Relationships and Related Transactions.

The information requested by Item 402 of Regulations S-K is incorporated herein by reference to the section Executive Compensation and Stock Option Information Related Party Transactions, in the Proxy Statement.

Item 14. Controls and Procedures

Based on their evaluation of the Company's disclosure controls and procedures as of a date within 90 days of the filing of this Report, the Chief Executive Officer and Chief Financial Officer have concluded that such controls and procedures are effective.

There were no significant changes in the Company's internal controls or in other factors that could significantly affect such controls subsequent to the date of their evaluation.

PART IV
Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K.**EXHIBIT INDEX**

	<u>Page</u>
(a)(1) <i>Financial Statements:</i>	
The following consolidated financial statements of CONSOL Energy Inc. and subsidiaries are included in this filing on the pages indicated:	
Report of Independent Accountants	70
Consolidated Statements of Income for the Twelve Months Ended December 31, 2002, Six Months Ended December 31, 2001, Twelve Months Ended June 30, 2001 and 2000	72
Consolidated Balance Sheets at December 31, 2002, December 31, 2001, and June 30, 2001	73
Consolidated Statements of Stockholders' Equity for the Twelve Months Ended December 31, 2002, Six Months Ended December 31, 2001, Twelve Months Ended June 30, 2001 and 2000	75
Consolidated Statements of Cash Flows for the Twelve Months Ended December 31, 2002, Six Months Ended December 31, 2001, Twelve Months Ended June 30, 2001 and 2000	76
Notes to Consolidated Financial Statements	77
(a)(2) <i>Financial Statement Schedules:</i>	
No schedules are required to be presented by CONSOL Energy.	
(a)(3) <i>Exhibits filed as part of this Report:</i>	
The response to this portion of Item 15 is submitted as a separate part of this Report.	
(b)(1) <i>Reports on Form 8-K:</i>	
None.	
(c) <i>Exhibits:</i>	
3.1 Certificate of Incorporation of CONSOL Energy Inc. incorporated by reference to Exhibit 3.1 to Amendment No. 2 to Registration Statement Form S-1 (Registration No. 333-68987) filed on March 24, 1999, (Amendment No. 2).	
3.2 By-Laws of CONSOL Energy Inc., incorporated by reference to Exhibit 3.2 to Amendment No. 2.	
4.1 Indenture, dated March 7, 2002, among CONSOL Energy Inc., certain subsidiaries of CONSOL Energy Inc. and The Bank of Nova Scotia Trust Company of New York, as trustee, incorporated by reference to exhibit 4.1 to Form 10-K (file number 333-68987)	

filed on March 29, 2002 (Form 10-K).

- 4.2 Supplemental Indenture No. 1, dated March 7, 2002, among CONSOL Energy Inc., certain subsidiaries of CONSOL Energy Inc. and The Bank of Nova Scotia Trust Company of New York, as trustee, incorporated by reference to exhibit 4.2 to Form 10-K.
- 10.1 Senior Revolving Loan Agreement dated as of December 23, 1993 between Consolidation Coal Company and Morgan Guaranty Trust Company of New York for a maximum principal amount at any one time outstanding not to exceed \$25,000,000, incorporated by reference to Exhibit 10.1 to Amendment No. 1 to Registration on Form S-1 (Registration No. 333-68987) filed on March 24, 1999 (Amendment No.1).
- 10.2 First Amendment to Senior Revolving Loan Agreement dated as of November 28, 1994 between Consolidation Coal Company and Morgan Guaranty Trust Company of New York, incorporated by reference to Exhibit 10.2 to Amendment No. 1.
- 10.3 Second Amendment to Senior Revolving Loan Agreement dated as of October 1, 1995, between Consolidation Coal Company and Morgan Guaranty Trust Company of New York, incorporated by reference to Exhibit 10.3 to Amendment No. 1.
- 10.4 Third Amendment to Senior Revolving Loan Agreement dated as of December 14, 1995 between Consolidation Coal Company and Morgan Guaranty Trust Company of New York, incorporated by reference to Exhibit 10.4 to Amendment No. 1.
- 10.5 Fourth Amendment to Senior Revolving Loan Agreement dated as of March 1, 1996 between Consolidation Coal Company and Morgan Guaranty Trust Company of New York, incorporated by reference to Exhibit 10.5 to Amendment No. 1.
- 10.6 Fifth Amendment to Senior Revolving Loan Agreement dated as of December 2, 1997 between Consolidation Coal Company and Morgan Guaranty Trust Company of New York, incorporated by reference to Exhibit 10.6 to Amendment No. 1.
- 10.7 Sixth Amendment to Senior Revolving Loan Agreement dated as of October 29, 1998 between Consolidation Coal Company and Morgan Guaranty Trust Company of New York, incorporated by reference to Exhibit 10.7 to Amendment No. 1.
- 10.8 Seventh Amendment to Senior Revolving Loan Agreement dated as of January 19, 1999 between Consolidation Coal Company and Morgan Guaranty Trust Company of New York, incorporated by reference to Exhibit 10.8 to Amendment No. 1.
- 10.9 Intentionally omitted.
- 10.10 Note issued by Consolidation Coal Company in the aggregate principal amount of \$100,000,000, incorporated by reference to Exhibit 10.10 to Amendment No. 1.
- 10.11 Parent Guaranty dated November 13, 1998 from CONSOL Energy Inc., to First National Bank of Chicago, incorporated by reference to Exhibit 10.11 to Amendment No. 1.
- 10.12 Significant Subsidiary Guaranty dated November 13, 1998 among CONSOL Energy Inc. and certain subsidiaries of CONSOL Energy Inc. for the benefit of the First National Bank of Chicago, incorporated by reference to Exhibit 10.12 to Amendment No. 1.
- 10.13 Subordination Agreement dated November 13, 1998 among CONSOL Energy Inc. and certain subsidiaries of CONSOL Energy Inc. for the benefit of the First National Bank of Chicago, incorporated by reference to Exhibit 10.13 to Amendment No. 1.
- 10.14 Share Purchase Agreement dated September 14, 1998 among E. I. du Pont de Nemours and

- Company, Du Pont Energy Company, Rheinbraun A. G. and CONSOL Energy Inc., incorporated by reference to Exhibit 10.14 to Amendment No. 1.
- 10.15 Amendatory Amendment No. 3 dated October 1, 1997 to the Shareholders Agreement dated December 6, 1991, as amended, incorporated by reference to Exhibit 10.15 to Amendment No. 1.
- 10.16 Amendatory Amendment No. 4 dated September 14, 1998 to the Shareholders Agreement dated December 6, 1991, as amended, incorporated by reference to Exhibit 10.16 to Amendment No. 1.
- 10.17 Intentionally omitted.
- 10.18 Employment Agreement dated December 11, 1997 between CONSOL Energy Inc. and J. Brett Harvey, incorporated by reference to Exhibit 10.18 to Amendment No. 1.
- 10.19 Employment Agreement dated February 22, 1999 between CONSOL Energy Inc. and John L. Whitmire, incorporated by reference to Exhibit 10.19 to Amendment No. 2.
- 10.20 CONSOL Energy Inc. Equity Incentive Plan, as amended, incorporated by reference to Exhibit 10.20 to Amendment No. 2.
- 10.21 Intentionally omitted.
- 10.22 Registration Rights Agreement, dated March 7, 2002, among CONSOL Energy Inc., certain subsidiaries of CONSOL Energy Inc., Salomon Smith Barney Inc., Dresdner Kleinwort Wasserstein Grantchester, Inc., Mellon Financial Markets, LLC, PNC Capital Markets, Inc., Scotia Capital Markets, Inc., Australia and New Zealand Banking Group Limited London Branch and NatCity Investments, Inc, incorporated by reference to exhibit 10.22 to Form 10-K.
- 10.23 Intentionally omitted.
- 10.24 Intentionally omitted.
- 10.25 Intentionally omitted.
- 10.26 Intentionally omitted.
- 10.27 Three Year Credit Agreement, dated as of September 16, 2002, among CONSOL Energy Inc., the banks, financial institutions, other institutional lenders and issuers of letters of credit listed on the signature pages thereof, Dresdner Bank AG, New York and Grand Cayman Branches, PNC Bank, N.A., Salomon Smith Barney Inc. and Citibank, N.A., incorporated by reference to Exhibit 10.27 to the Registrant's Form 10-Q for the quarter ended September 30, 2002.
- 10.28 364 Day Credit Agreement, dated as of September 16, 2002, among CONSOL Energy Inc., the banks, financial institutions and other institutional lenders listed on the signature pages thereof, Dresdner Bank AG, New York and Grand Cayman Branches, PNC Bank, N.A., Salomon Smith Barney Inc. and Citibank, N.A., incorporated by reference to Exhibit 10.28 to the Registrant's Form 10-Q for the quarter ended September 30, 2002.
- 10.29 Syndicated Multi-Option Facility Agreement, dated July 17, 2002, among CONSOL Energy Australia Pty Limited and Maitland Main Collieries Pty Limited, Borrowers, Glennies Creek Coal Management Pty Ltd, Operator, Glennies Creek Coal Sales Pty Limited, Marketing Company, CONSOL Energy Inc. and K-M Investment Corporation, Sponsors, ANZ Investment Bank, Arranger, Australia and New Zealand Banking Group Limited, Agent, Capital Facility Provider and initial Participant, ANZ Capel Court Limited, Security Trustee,

