CONSOL ENERGY INC
Form S-1
March 19, 2004
Table of Contents

As filed with the Securities and Exchange Commission on March 19, 2004

Registration No. 333-

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

CONSOL ENERGY INC.

(Exact name of registrant as specified in its charter)

Delaware	**1221**	**51-0337383**
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification No.)**

Consol Plaza

1800 Washington Road

Pittsburgh, PA 15241-1421

(412) 831-4000

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Stephen E. Williams, Esq.

Vice President - General Counsel

CONSOL Energy Inc.

Consol Plaza

1800 Washington Road

Pittsburgh, PA 15241-1421

(412) 831-4000

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copy to:

Steven L. Wasserman, Esq.

Piper Rudnick LLP

1251 Avenue of the Americas

New York, New York 10020

(212) 835-6000

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this registration statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ¨

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered	Proposed maximum offering price per unit	Proposed maximum aggregate offering price	Amount of registration fee
Common Stock, par value, $.01 per share	16,622,932	$ 25.23(1)	$ 419,396,574.3	$ 53,137.55(1)(2)

(1) Estimated solely for purposes of calculating the registration fee pursuant to Rule 457(c) on the basis of the average of the high and low prices per share of our common stock, as reported on the New York Stock Exchange, on March 15, 2004.
(2) Pursuant to Rule 457(p), the registration fee of $53,137.55 has been offset by a portion of the $64,720 filing fee paid pursuant to the filing of the Form S-3 Registration Statement, Registration No. 333-105739, which was withdrawn by CONSOL Energy Inc. on March 10, 2004.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file an amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the

Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents

The information in the Prospectus is not complete and may be changed. The selling stockholders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion, Dated March 19, 2004

PRELIMINARY PROSPECTUS

CONSOL ENERGY INC.

16,622,932 shares of common stock

We are furnishing this document to allow the selling stockholders identified in this prospectus to sell up to an aggregate of 16,622,932 shares of our common stock. The selling stockholders may sell these shares from time to time in underwritten offerings, in regular brokerage transactions, in transactions directly with market makers or in privately negotiated transactions.

We will not receive any of the proceeds from the sale of the shares by the selling stockholders. The selling stockholders will pay all brokers or underwriters discounts and commissions, transfer taxes, and fees and disbursements of any counsel to the selling stockholders, if any.

Our common stock is listed on the New York Stock Exchange under the symbol CNX . On March 15, 2004, the last reported sales price of our common stock as reported on the New York Stock Exchange was $25.01 per share.

We urge you to read carefully the Risk Factors section beginning on page 2 where we describe specific risks associated with an investment in our company and these securities before you make your investment decision.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is March •, 2004

Table of Contents

TABLE OF CONTENTS

Table of Contents

PROSPECTUS SUMMARY

You should read the entire prospectus, including the information set forth in Risk Factors before making an investment decision.

CONSOL Energy

We are a multi-fuel energy producer and energy services provider that primarily serves the electric power generation industry in the United States. That industry generates approximately two-thirds of its output by burning coal or gas, the two fuels we produce. At December 31, 2003, we produced high-Btu bituminous coal from 20 mining complexes in the United States and Australia. Coal produced from our mines has a high-Btu content which creates more energy per unit when burned compared to coals with lower Btu content. As a result, coals with greater Btu content can be more efficient to use. We also produce pipeline-quality coalbed methane gas from our coal properties in Pennsylvania, Virginia and West Virginia and conventional gas from our properties in Tennessee and Virginia. We believe that the use of coal and gas to generate electricity will grow as demand for power increases.

Historically, we rank among the largest coal producers in the United States based upon total revenue, net income and operating cash flow. Our production of approximately 60 million tons of coal in 2003 accounted for approximately 5% of the total tons produced in the United States and approximately 12% of the total tons produced east of the Mississippi River during that year. We are one of the premier coal producers in the United States by several measures:

- We mine more high-Btu bituminous coal than any other United States producer;
- We are the largest coal producer, in terms of tons produced, east of the Mississippi River;
- We have the second largest amount of recoverable coal reserves among United States coal producers; and
- We are the largest United States producer of coal from underground mines.

We also rank as one of the largest coalbed methane gas companies in the United States based on both our proved reserves and our current daily production. Our industry position is highlighted by several measures:

- We possess one of the largest coalbed methane reserve bases among publicly traded oil and gas companies in the United States with approximately 1.0 trillion cubic feet of net proved reserves of gas;
- Our principal coalbed methane operations produce gas from coal seams with a high gas content;
- We currently have approximately 146 million cubic feet of gross average daily production;

At December 31, 2003, we operated more than 1,500 wells connected by approximately 800 miles of gathering lines and associated infrastructure; and

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

Additionally, we provide energy services, including terminal services, industrial supply services and coal waste disposal services. We are developing our land assets that we previously used primarily to support our coal operations.

CONSOL Energy was organized as a Delaware corporation in 1991. Our address is CONSOL Plaza, 1800 Washington Road, Pittsburgh, Pennsylvania 15241-1421 and our telephone number is (412) 831-4000.

Table of Contents

RISK FACTORS

Investing in our securities will be subject to risks, including risks inherent in our business. The value of your investment may decline and could result in a loss. You should carefully consider the following factors as well as other information contained in this prospectus before deciding to invest in our securities.

We have a significant amount of debt compared to our stockholders equity, which limits our flexibility, imposes restrictions on us and could hinder our ability to compete and meet future capital and liquidity needs.

At December 31, 2003, we had outstanding approximately $564 million in aggregate principal amount of indebtedness, including capital leases, and total stockholders equity of $291 million. We have become leveraged as a result of our policy of paying dividends. Since 1992, we have paid dividends aggregating $1.2 billion, approximately the amount of our aggregate net income for the same period.

The degree to which we are leveraged could have important consequences to us, including the following:

- a portion of our cash flow must be used to pay interest on our indebtedness and therefore is not available for use in our business;
- our indebtedness increases our vulnerability to changes in general economic and industry conditions;
- our ability to obtain additional financing for working capital, capital expenditures, general corporate purposes or other purposes could be impaired;
- because some of our borrowings are short-term or at variable rates of interest, we are vulnerable to interest rate fluctuations, which could result in us incurring higher interest expenses if interest rates increase; and
- our failure to comply with covenants and restrictions contained in the terms of our borrowings could lead to a default which could cause all or a significant portion of our debt to become immediately payable.

Stockholders equity was reduced by comprehensive losses of approximately $9 million in 2003, $56 million in 2002 and $37 million in 2001. These losses relate primarily to the recognition of a minimum pension liability as a result of the negative return on plan assets for non-contributory defined benefit retirement plans covering substantially all employees not covered by multi-employer retirement plans. Our minimum pension liability generally is calculated annually and reflects a number of factors including conditions in the stock markets and interest rates. We cannot predict whether we will be required to recognize such losses in the future. Further comprehensive losses would reduce our stockholders equity and possibly preclude us from paying dividends, which likely would adversely affect our stock price. For these and other reasons, we may not pay dividends at the same levels as in recent periods or at all.

The SEC has informed us that it is conducting an inquiry regarding certain matters, which may include allegations contained in an anonymous letter that certain directors and senior executive officers have misappropriated corporate funds and other assets and engaged in other illegal or inappropriate activities.

We received a copy of an anonymous letter addressed to the SEC and delivered to our independent auditors, PricewaterhouseCoopers LLP. The letter, and other anonymous letters received subsequently, contains numerous allegations including assertions that certain directors and senior executive officers have misappropriated corporate funds and other assets and engaged in other illegal or inappropriate activities. We have been informed that the SEC commenced an informal, non-public inquiry in October 2003 regarding certain matters, which may be related to the anonymous letter. If the SEC determined to bring an action against us, it could have a material adverse effect upon us, our financial statements and the value of our common stock.

Table of Contents

We reported losses in recent periods and we may incur losses in future periods.

We reported a net loss of $7.8 million in the twelve months ended December 31, 2003. Although we reported net income for each of the twelve months ended December 31, 2002, the six months ended December 31, 2001 and the twelve months ended June 30, 2001, net income was attributable to income tax benefits in the periods ended December 31, 2002 and 2001 and benefited substantially from an export sales excise tax resolution in the twelve months ended June 30, 2001. For the twelve months ended December 31, 2003 and 2002 and the six months ended December 31, 2001, we incurred losses before income tax benefits of $33.5 million, $40.4 million and $19.6 million, respectively. Our results reflect a number of factors in each period. For example, a decrease in tons of coal produced and tons of coal sold as a result of higher than usual customer inventory levels, decreased average sales price for gas in the industrial sector and lower demand for gas during the 2001-2002 winter heating season resulted in high levels of gas storage. During the fourth quarter of 2003, results were adversely affected by production problems at a number of mines. These and other conditions, including conditions beyond our control, could continue to affect our business, and we may incur losses in the future.

If we determine that some or all of our deferred tax assets will not be realized then we will need to reduce our deferred tax assets which could materially reduce our operating results and stockholders equity and possibly preclude dividend payments.

We account for our income taxes in accordance with Statement of Financial Accounting Standard No. 109, Accounting for Income Taxes, 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 basis of recorded assets and liabilities. Statement of Financial Accounting Standard No. 109 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion of the deferred tax asset will not be realized. At December 31, 2003, we had deferred tax assets in excess of deferred tax liabilities of approximately $535 million. The deferred tax assets are evaluated periodically to determine if a valuation allowance is necessary. Realization of our deferred tax assets is principally dependent upon our achievement of projected future coal and non-coal mining regular taxable income. Our judgments regarding future profitability may change due to future market conditions, our ability to continue to successfully execute our business strategy and other factors. These changes, if any, may require possible valuation allowances to be recognized. These allowances could materially reduce our operating results and stockholders equity and possibly preclude dividend payments, which likely would adversely affect the price of our common stock.

We may need substantial additional financing in order for us to fund our operations, capital expenditures and to meet other obligations.

We have announced that we will incur approximately $340 million to $364 million for capital expenditures during 2004 for maintenance of production and expansion projects. We, along with other participants in the coal industry, have been informed by insurance companies that they no longer will provide surety bonds for workers compensation and other post employment benefits without collateral. As a result, we have satisfied these obligations by providing letters of credit or other assurances of payment. However, the issuance of letters of credit under our bank credit facilities reduces amounts that we can borrow under our bank credit facilities for other purposes, including to fund operations and capital expenditures. Cash generated by operations may not be sufficient to fund our currently planned capital expenditures and to provide the collateral necessary to meet workers compensation and other post employment benefits performance obligations. For these and other reasons, we may need substantial additional financing. We cannot be certain that we will be able to raise additional financing, as required, or that any financing, if available, will be on terms acceptable to us. Debt financing would increase our interest expense, reducing operating results, and could include covenants that are more restrictive than those in our current financings, including limitations on the payment of dividends and on the incurrence of additional debt. The issuance of additional equity could be dilutive to our existing stockholders. If we cannot obtain financing, it could reduce capital expenditures, particularly for expansion projects. Such a reduction in spending for these projects, however, could adversely affect future performance.

Table of Contents

We may be unable to comply with restrictions imposed by our senior credit facility which could result in a default under these agreements.

Our senior credit facility imposes a number of restrictions on us. A failure to comply with these restrictions could adversely affect our ability to borrow under our senior credit facility or result in an event of default under these agreements and our other debt. Our senior credit facility contains financial and other covenants that create limitations on our ability to, among other things, borrow the full amount under our senior credit facility or incur additional debt, and requires us to maintain various financial ratios and comply with various other financial covenants. These financial covenants include a funded debt ratio that requires us to maintain a ratio of total indebtedness for borrowed money as of the last day of each quarter to total earnings before interest, taxes, depreciation and amortization and excluding any extraordinary gains or losses for the four quarters ended on that date of not more than 3.5 to 1 and a ratio for the last four consecutive quarters of total earnings before interest, taxes, depreciation and amortization and excluding any extraordinary gains or losses to total interest payable (including amortization of debt discount) on indebtedness for borrowed money of not less than 4.5 to 1. A covenant also limits capital expenditures to $455 million for the fiscal year ending December 31, 2004 and $470 million for the fiscal year ending December 31, 2005. Our ability to comply with these restrictions depends upon our operating results, which recently have deteriorated from earlier periods, and we may be unable to comply with these covenants and other restrictions in our senior credit facility. In the event of a default, our lenders could terminate their commitments to us and declare all amounts borrowed, together with accrued interest and fees, immediately due and payable. If this were to occur, we might not be able to pay these amounts or we might be forced to seek an amendment to our debt agreements which could make the terms of these agreements more onerous for us. Failure to comply with these restrictions, even if waived by our bank lenders, also could adversely affect our credit ratings, which could increase the costs of debt financings to us and impair our ability to obtain additional debt financing.

Our credit ratings have recently been downgraded to a sub-investment grade rating, which could adversely affect our costs and expenses.

In December 2003, Standard and Poor s classed our long-term debt as BB- (13th lowest out of 22 rating categories). The rating indicates that an obligor 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 negative sign shows relative standing within the rating category. At the same time, Standard and Poor s placed our senior unsecured debt rating on CreditWatch with negative implications.

In December 2003, Moody s Investor Service classed our long-term debt as Ba3 (13th lowest out of 21 rating categories). The rating remains under review for possible further downgrade. Bonds that are rated Ba are considered to have speculative elements; their future cannot be considered as well-assured. The protection of interest and principal payments on debt rated Ba is considered moderate, and thereby not well safeguarded during both good and bad times. Uncertainty of ability to repay characterizes bonds in this class. The modifier 3 indicates that the obligation ranks in the lower end of its generic rating category.

The downgrading of our credit ratings could adversely affect our ability to borrow and result in more restrictive borrowing terms, including increased borrowing costs, more restrictive covenants and the extension of less open credit. This in turn could affect our operational flexibility.

We may not be able to maintain our competitive position because coal and gas markets are highly competitive and are affected by factors beyond our control.

We compete with coal producers in various regions of the United States for domestic sales, and it competes both with domestic and foreign coal producers for sales in international markets. Demand for our coal by our

4

Table of Contents

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. 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.

A significant decline in the prices we receive for our coal and gas could adversely affect our operating results and cash flows.

Our results of operations are highly dependent upon the prices we receive for our coal and gas, which are closely linked to consumption patterns of the electric generation industry and certain industrial and residential patterns where gas is the principal fuel. Extended or substantial price declines for coal or gas would adversely affect our operating results for future periods and our ability to generate cash flows necessary to improve productivity and expand operations. For example, in 1998, 1999 and 2001, demand for coal decreased because of the warm winters in the northeastern United States. This resulted in increased inventories that caused pricing decreases. Natural gas prices have been volatile.

We may not be able to produce sufficient amounts of coal to fulfill our customers requirements, which could harm our customer relationships.

We may not be able to produce sufficient amounts of coal to meet customer demand, including amounts that we are required to deliver under long-term contracts. Our inability to satisfy our contractual obligations could result in our customers initiating claims against us. Our inability to satisfy demand could otherwise harm our relationships with our customers.

If the coal or gas industry experiences overcapacity in the future, our profitability could be impaired.

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.

If customers do not extend existing contracts or enter into new long-term contracts for coal, the stability and profitability of our operations could be affected.

During the twelve months ended December 31, 2003, approximately 95% of the coal we produced was sold under contracts with terms of one year or more. If a substantial portion of our long-term contracts are modified or terminated, we would be adversely affected if we are unable to replace them or if our new contracts were not at the same level of profitability. The profitability of our long-term coal supply contracts depends on a variety of factors, which vary from contract to contract and fluctuate during the contract term, and includes our production costs and other factors. Price changes, if any, provided in long-term supply contracts are not intended to reflect our cost increases, and therefore increases in our costs may reduce our profit margins. In addition, in periods of declining market prices, provisions for adjustment or renegotiation of prices and other provisions may increase our exposure to short-term coal price volatility. As a result, we may not be able to obtain long-term agreements at favorable prices (compared to either market conditions, as they may change from time to time, or our cost structure) and long-term contracts may not contribute to our profitability.

We depend on two customers for a significant portion of our revenues and the loss of either one of these customers could adversely affect us.

During the twelve months ended December 31, 2003, two customers accounted for approximately 21% of our total revenue and one customer, Allegheny Energy, alone accounted for approximately 14% of our total

Table of Contents

revenue. Our business and operating results could be adversely affected if either one of these customers does not continue to purchase the same amount of coal or gas as it has purchased from us in the past or on terms, including pricing, it has under existing agreements.

Some of our long-term contracts require us to supply all of our customers coal needs. If these customers coal requirements decline, our operating results may be adversely affected.

We have requirements contracts with certain customers which require us to supply all of those customers coal needs but allow the customers to defer or vary the amount of coal that they accept. For example, during 2002, the reduction in the amount required by certain of these customers contributed to the reduction in our earnings when we could not find alternative customers at the same price and volume levels. If these or other customers with requirements contracts need less coal in the future, it could adversely affect our operating results.

The creditworthiness of our customer base has declined.

Our ability to receive payment for coal or gas sold depends on the creditworthiness of our customers. In general, the creditworthiness of our customers has declined. If this trend were to continue, the number of customers with acceptable credit profiles could decline. The bankruptcy of a customer could result in a loss of revenue for coal or gas already shipped, or in adverse changes to our sales contracts being imposed by the courts.

We may not be able to accomplish acquisitions effectively, which requires us to outbid competitors, obtain financing on acceptable terms and integrate acquired operations.

The energy industry is a rapidly consolidating industry, with many companies seeking to consummate acquisitions and increase their market share. In this environment, we compete and will continue to compete with many other buyers for acquisitions. Some of those competitors may be able to outbid us for acquisitions because they have greater financial resources. As a result of these and other factors, future acquisitions may not be available to us on attractive terms. Our ability to consummate any acquisition will be subject to various conditions, including the negotiation of satisfactory agreements and obtaining necessary regulatory approvals and financing. Once any acquisition is completed, we may not be able to achieve expected operating benefits through cost reductions, increased efficiency and integration with our existing operations. As a result, our operating results may be adversely affected.

Disputes with our customers concerning contracts can result in litigation, which could result in our paying substantial damages or incurring loss of revenues.

From time to time, we have disputes with our customers over the provisions of long-term contracts relating to, among other things, coal quality, pricing and quantity. We may not be able to resolve any future disputes in a satisfactory manner, which could result in us paying substantial damages or suffering reduced revenues.

Coal mining is subject to conditions or events beyond our control, which could cause our quarterly or annual results to deteriorate.

Our coal mining operations are predominantly underground mines. These mines are subject to conditions or events beyond our control that could disrupt operations, affect production and the cost of mining at particular mines for varying lengths of time and have a significant impact on our operating results. These conditions or events have included:

- variations in thickness of the layer, or seam, of coal;
- amounts of rock and other natural materials intruding into the coal seam and other geological conditions;
- equipment failures or repair;

Table of Contents

fires and other accidents; and

weather conditions.

We face numerous uncertainties in estimating our economically recoverable coal reserves, and inaccuracies in our estimates could result in lower than expected revenues, higher than expected costs and decreased profitability.

There are numerous uncertainties inherent in estimating quantities and values of economically recoverable coal reserves, including many factors beyond our control. As a result, estimates of economically recoverable coal reserves are by their nature uncertain. Information about our reserves consists of estimates based on engineering, economic and geological data assembled and analyzed by our staff. None of our coal reserve estimates has been reviewed by independent experts.

Some of the factors and assumptions which impact economically recoverable reserve estimates include:

geological conditions;

historical production from the area compared with production from other producing areas;

the assumed effects of regulations and taxes by governmental agencies;

assumptions governing future prices; and

future operating costs.

Each of these factors may in fact vary considerably from the assumptions used in estimating reserves. For these reasons, estimates of the economically recoverable quantities of coal attributable to a particular group of properties, and classifications of these reserves based on risk of recovery and estimates of future net cash flows, may vary substantially. Actual production, revenues and expenditures with respect to our reserves will likely vary from estimates, and these variances may be material. As a result, our estimates may not accurately reflect our actual reserves.

The exploration for, and production of, gas is an uncertain process with many risks.

The exploration for and production of gas involves numerous risks. The cost of drilling, completing and operating wells for coalbed methane or other gas is often uncertain, and a number of factors can delay or prevent drilling operations or production, including:

unexpected drilling conditions;

- pressure or irregularities in formations;
- equipment failures or repairs;
- fires or other accidents;
- adverse weather conditions;
- pipeline ruptures or spills; and
- shortages or delays in the availability of drilling rigs and the delivery of equipment.

Our future drilling activities may not be successful, and we cannot be sure that our drilling success rates will not decline. Unsuccessful drilling activities could result in higher costs without any corresponding revenues. Also, we may not be able to obtain any options or lease rights in potential drilling locations that we identify which, among other things, could prevent us from producing gas at potential drilling locations.

Table of Contents

The coal beds from which we produce methane gas frequently contain water which may hamper our ability to produce gas in commercial quantities.

The amount of coalbed methane that can be commercially produced depends upon the coal quality, the original gas content of the coal seam, the thickness of the seam, the reservoir pressure, the rate at which gas is released from the coal, and the existence of any natural fractures through which the gas can flow to the well bore. However, coal beds frequently contain water that must be removed in order for the gas to detach from the coal and flow to the well bore. Our ability to remove and dispose of sufficient quantities of water from the coal seam will determine whether or not we can produce gas in commercial quantities.

Disruption of rail, barge and other systems which deliver our coal, or of pipeline systems which deliver our gas, or increase in transportation costs could make our coal or gas less competitive.

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.

Government laws, regulations and other legal requirements relating to protection of the environment and health and safety matters increase our costs of doing business and may restrict our operations.

We are subject to laws, regulations and other legal requirements enacted or adopted by federal, state and local, as well as foreign, authorities relating to protection of the environment and health and safety matters, including those legal requirements that govern discharges of substances into the air and water, the management and disposal of hazardous substances and wastes, the cleanup of contaminated sites, groundwater quality and availability, plant and wildlife protection, reclamation and restoration of mining properties after mining is completed and control of surface subsidence from underground mining. Complying with these requirements, including the terms of our permits, has had, and will continue to have, a significant effect on our costs of operations and competitive position. In addition, we could incur substantial costs, including clean up costs, fines and civil or criminal sanctions and third party damage claims for personal injury, property damage, wrongful death, or exposure to hazardous substances, as a result of violations of or liabilities under environmental laws.

For example, we incur and will continue to incur significant costs associated with the investigation and remediation of environmental contamination under the federal Comprehensive Environmental Response, Compensation and Liability Act (Superfund) and similar state statutes and has been named as a potentially responsible party at Superfund sites in the past. Our costs for these matters, which currently relate predominantly to one site, could exceed our current accruals, which were $2.7 million at December 31, 2003. To date, we have spent $2.3 million for remediation of this waste disposal site and related expenses. The discovery of additional contaminants or the imposition of additional clean-up obligations or other liabilities could result in substantially greater costs than we have estimated.

We must obtain governmental permits and approvals for mining operations, which can be a costly and time consuming process and result in restrictions on our operations.

Regulatory authorities exercise considerable discretion in the timing and scope of permit issuance. Requirements imposed by these authorities may be costly and time consuming and may result in delays in the commencement or continuation of exploration or production operations. For example, we often are required to prepare and present to federal, state and local authorities data pertaining to the effect or impact that proposed exploration for or production of coal may have on the environment. Further, the public may comment on and otherwise engage in the permitting process, including through intervention in the courts. Accordingly, the permits we need may not be issued, or if issued, may not be issued in a timely fashion, or may involve requirements which restrict our ability to conduct our mining operations or to do so profitably.

The characteristics of coal may make it difficult for coal users to comply with various environmental standards related to coal combustion. As a result, they may switch to other fuels, which would affect the volume of our sales.

Coal contains impurities, including sulfur, mercury, chlorine and other elements or compounds, many of which are released into the air when coal is burned. Stricter environmental regulations of emissions from coal-fired electric generating plants could increase the costs of using coal thereby reducing demand for coal as a fuel source, the volume of our coal sales and price. Stricter regulations could make coal a less attractive fuel alternative in the planning and building of utility power plants in the future.

For example, in order to meet the federal Clean Air Act limits for sulfur dioxide emissions from electric power plants, coal users may 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 other fuels. Each option has limitations. Lower sulfur coal may be more costly to purchase on an energy basis than higher sulfur coal depending on mining and transportation costs. 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 low-sulfur fuel could materially affect us if we cannot offset the cost of sulfur removal by lowering the delivered costs of our higher sulfur coals on an energy equivalent basis.

Other new and proposed reductions in emissions of mercury, sulfur dioxides, nitrogen oxides, particulate matter or greenhouse gases may require the installation of additional costly control technology or the implementation of other measures, including trading of emission allowances and switching to other fuels. For example, the Environmental Protection Agency recently proposed separate regulations to establish mercury emission limits nationwide and to reduce the interstate transport of fine particulate matter and ozone through reductions in sulfur dioxides and nitrogen oxides through the eastern United States. The Environmental Protection Agency continues to require 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. 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. These new and proposed reductions will make it more costly to operate coal-fired plants and could make coal a less attractive fuel alternative to the planning and building of utility power plants in the future. To the extent that any new or proposed requirements affect our customers, this could adversely affect our operations and results.

We have significant reclamation and mine closure obligations. If the assumptions underlying our accruals are materially inaccurate, we could be required to expend greater amounts than anticipated.

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. We accrue for the costs of current mine disturbance and of final mine closure, including the cost of treating mine water discharge where necessary. Estimates of our total reclamation and mine-closing liabilities, which are based upon permit requirements and our experience, were $383 million at December 31, 2003. On January 1, 2003, we adopted Statement of Financial Accounting Standards No. 143 (SFAS 143) to account for the costs related to the closure of mines and gas wells

Table of Contents

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 estimated asset retirement costs is capitalized as part of the carrying amount of the long-lived asset. As a result of this change in accounting principle, we recognized a gain of $5 million, net of a tax cost of $3 million. At the time of adoption, total assets, net of accumulated depreciation, increased approximately $59 million, and total liabilities increased approximately $51 million. These 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 rates. Furthermore, these obligations are unfunded. If these accruals are insufficient or our liability in a particular year is greater than currently anticipated, our future operating results could be adversely affected.

Federal, state and local authorities extensively regulate our gas production activities.

The gas industry is subject to extensive legislation and regulation, which is under constant review for amendment or expansion. Any changes may affect, among other things, the pricing or marketing of gas production. State and local authorities regulate various aspects of gas drilling and production activities, including the drilling of wells (through permit and bonding requirements), the spacing of wells, the unitization or pooling of gas properties, environmental matters, safety standards, market sharing and well site restoration. If we fail to comply with statutes and regulations, we may be subject to substantial penalties, which would decrease our profitability.

Deregulation of the electric utility industry could have unanticipated effects on our industry.

Deregulation of the electric utility industry will enable purchasers of electricity to shop for the lowest cost suppliers. If our electric power generator customers become more sensitive to long-term price or quantity commitments in a more competitive environment, it may be more difficult for us to enter into long-term contracts and could subject our revenue stream to increased volatility which may adversely affect our profitability. Deregulation of the power industry may have other consequences for our industry, such as efforts to reduce coal prices, which may have a negative effect on our operating results.

The passage of legislation responsive to the Framework Convention on Global Climate Change or similar governmental initiatives could result in restrictions on coal use.

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 potentially 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. 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 under the Clean Water Act and corresponding state laws could cause us to incur significant additional costs that adversely affect our operating results.

Table of Contents

We have significant obligations for long-term employee benefits for which we accrue based upon assumptions which, if inaccurate, could result in us being required to expend greater amounts than anticipated.

We provide various long-term employee benefits to inactive and retired employees. We accrue amounts for these obligations. At December 31, 2003, the current and non-current portions of these obligations included:

post retirement medical and life insurance ($1.6 billion);

coal workers black lung benefits ($456 million); and

workers compensation ($316 million).

However, if our assumptions are inaccurate, we could be required to expend greater amounts than anticipated. These obligations are unfunded, except for coal workers black lung benefits, of which approximately 1% was funded at December 31, 2003. In addition, several states in which we operate consider changes in workers compensation laws from time to time. Such changes, if enacted, could increase our benefit expense.

If lump sum payments made to retiring salaried employees pursuant to our defined benefit pension plan exceed the total of the service cost and the interest cost in a plan year, we would need to make an adjustment to operating results equaling the unrecognized actuarial gain or loss resulting from each individual who received a lump sum payment in that year, which may result in an adjustment that could materially reduce operating results.

Our defined benefit pension plan for salaried employees allows such employees to elect to receive a lump-sum distribution in lieu of annual payments when they retire from CONSOL Energy. Statement of Financial Accounting Standards No. 88, Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Terminations Benefits , requires that if the lump-sum distributions made for a plan year, which for us is October 1 to September 30, exceed the total of the service cost and interest cost for the plan year, we would need to recognize for that year s results of operations an adjustment equaling the unrecognized actuarial gain or loss resulting from each individual who received a lump sum in that year. If lump sum payments exceed the total of the service cost and the interest cost, the adjustment could materially reduce operating results.

New regulations have expanded the definition of black lung disease and generally made it easier for claimants to assert and prosecute claims, which could increase our exposure to black lung benefit liabilities.

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 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 federal black lung regulations could significantly increase our exposure to black lung benefits liabilities.

In recent years, legislation on black lung reform has been introduced but not enacted in 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.

Fairmont Supply Company, our subsidiary, is a co-defendant in various asbestos litigation cases which could result in making payments in the future that are material.

One of our subsidiaries, Fairmont Supply Company, which distributes industrial supplies, currently is named as a defendant in approximately 22,600 asbestos claims in state courts in Pennsylvania, Ohio, West

Table of Contents

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 our financial position, results of operations or cash flows.

We have been informed by insurance companies that, unless provided with collateral, they no longer will issue surety bonds that we and other coal mining companies are required by law to obtain.

Various federal or state laws and regulations require us to obtain surety bonds or to provide other assurance of payment for certain of our long-term liabilities including mine closure or reclamation costs, workers compensation and other post employment benefits. We, along with other participants in the coal industry, have been informed by insurance companies that they no longer will provide surety bonds for workers compensation and other post employment benefits without collateral. We have satisfied our obligations under these statutes and regulations by providing letters of credit or other assurances of payment. However, letters of credit can be significantly more costly to us than surety bonds. The issuance of letters of credit under our bank credit facilities also reduces amounts that we can borrow under our bank credit facilities for other purposes.

We and certain of our officers are defendants in one or more purported class action lawsuits alleging the defendants issued false and misleading statements to the public that could result in our making substantial payments.

On October 21, 2003, a complaint was filed in the United States District Court for the Western District of Pennsylvania on behalf of Seth Moorhead against us, J. Brett Harvey and William J. Lyons. The complaint alleges, among other things, that the defendants violated Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated under the Exchange Act and that during the period between January 24, 2002 and July 18, 2002 the defendants issued false and misleading statements to the public that failed to disclose or misrepresented the following, among other things that: (a) we utilized an aggressive approach regarding our spot market sales by reserving 20% of our production to that market, and that by increasing our exposure to the spot market, we were subjecting ourself to increased risk and uncertainty as the price and demand for coal could be volatile; (b) we were experiencing difficulty selling the production that we had allocated to the spot market, and, nonetheless, we maintained our production levels which caused our coal inventory to increase; (c) our increasing coal inventory was causing our expenses to rise dramatically, thereby weakening our financial condition; and (d) based on the foregoing, defendants positive statements regarding our earnings and prospects were lacking in a reasonable basis at all times and therefore were materially false and misleading. The complaint asks the court to (1) award unspecified damages to plaintiff and (2) award plaintiff reasonable costs and expenses incurred in connection with this action, including counsel fees and expert fees. Two other class action complaints have purportedly been filed in the United States District Court for the Western District of Pennsylvania against us and certain officers and directors. We have not yet been served with either purported complaint. If we are not successful in defending one or more of these lawsuits we may have to make substantial payments to the plaintiffs.

Our rights plan may have anti-takeover effects that could prevent a change of control.

On December 19, 2003, we adopted a rights plan which, in certain circumstances, including a person or group acquiring, or the commencement of a tender or exchange offer that would result in a person or group acquiring, beneficial ownership of more than 15% of the outstanding shares of our common stock, would entitle

Table of Contents

each right holder to receive, upon exercise of the right, shares of our common stock having a value equal to twice the right exercise price. For example, at an exercise price of $80 per right, each right not otherwise voided would entitle our holders to purchase $160 worth of shares of our common stock for $80. Assuming that shares of our common stock had a per share value of $16 at such time, the holder of each right would be entitled to purchase ten shares of our common stock for $80, or a price of $8 per share, one half its then market price. This and other provisions of our rights plan could make it more difficult for a third party to acquire us, which could hinder stockholders ability to receive a premium for our stock over the prevailing market prices.

Our share price may decline due to shares eligible for future sale.

A total of 52,374,425 shares of our common stock recently have been registered for resale by stockholders who purchased the shares in private placements in September and October 2003 by us and our former principal stockholder RWE Rheinbraun. This amount, together with the 16,622,932 shares that are registered by this registration statement, substantially exceeds the approximately 22 million shares held by stockholders other than RWE before September 23, 2003, the date that it initially sold shares in a private offering. Therefore, the number of shares potentially available for trading in the public markets has significantly increased since September 23, 2003. We cannot predict the effect, if any, that future sales of shares of our common stock, or the availability of such shares for sale, would have on the market price prevailing from time to time. Sales by holders of substantial amounts of our common stock in the public market, or the perception that such sales could occur, could adversely affect prevailing market prices for our common stock. A reduction in the market price of our common stock could impair our ability to raise additional capital through future public offerings of our equity securities.

We are a holding company and conduct substantially all of our operations through subsidiaries. Our ability to service our debt and pay dividends to holders of our common stock will depend upon our receiving distributions or similar payments from our subsidiaries.

Because substantially all of our operations are conducted through subsidiaries, our cash flow and, therefore, our ability to service our debt and pay dividends to holders of our common stock primarily depends upon the earnings of our subsidiaries and the distribution of those earnings to, or upon loans or other payments of funds by those subsidiaries to, us. Our subsidiaries are separate and distinct legal entities and have no obligation to pay any amounts due pursuant to our debt securities or to make any funds available to us for the payment of dividends or otherwise. In addition, the payment of dividends and the making of loans and advances to us by our subsidiaries may be subject to statutory or contractual restrictions, will be contingent upon the earnings of our subsidiaries and subject to various business considerations.

We may not continue to pay dividends.

The declaration and payment of dividends by us is subject to the discretion of our board of directors and is under their continuing review. The payment of dividends may be limited by the terms of additional financing. We may not pay dividends in the future.

Table of Contents

FORWARD-LOOKING STATEMENTS

Some statements in this prospectus or any prospectus supplement, and the documents incorporated by reference in this prospectus or any prospectus supplement are known as forward-looking statements, as that term is used in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements may relate to, among other things, future performance generally, business development activities, future capital expenditures, financing sources and availability and the effects of regulation and competition.

When we use the words believe, intend, expect, may, will, should, anticipate, could, estimate, plan, predict, project, or t similar expressions, the statements which include those words are usually forward-looking statements. When we describe strategy that involves risks or uncertainties, we are making forward-looking statements.

We warn you that forward-looking statements are only predictions. Actual events or results may differ as a result of risks that we face, including those set forth in the sections of this prospectus called Risk Factors. Those are representative of factors that could affect the outcome of the forward-looking statements. These and the other factors discussed elsewhere in this prospectus or any prospectus supplement and the documents incorporated by reference in them are not necessarily all of the important factors that could cause our results to differ materially from those expressed in our forward-looking statements. Forward-looking statements speak only as of the date they are made and we undertake no obligation to update them.

USE OF PROCEEDS

We will not receive any of the proceeds from the sale of the common stock described in this prospectus.

MARKET FOR COMMON STOCK

Our common stock is listed on the New York Stock Exchange under the symbol CNX. 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.

	High	Low	Dividends
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
Twelve Month Period Ended December 31, 2003			
Quarter Ended March 31, 2003	18.01	14.55	.14
Quarter Ended June 30, 2003	24.61	15.65	.14
Quarter Ended September 30, 2003	22.95	18.18	.14

Quarter Ended December 31, 2003	26.80	18.67	.14

On February 13, 2004, there were approximately 13,800 holders of record of our common stock. The computation of the approximate number of shareholders is based upon a broker search.

The declaration and payment of dividends by CONSOL Energy is subject to the discretion of CONSOL Energy s board of directors, and no assurance can be given that CONSOL Energy will pay dividends in the future. CONSOL Energy s board of directors determines whether dividends will be paid quarterly. The determination to pay dividends will depend upon, among other things, general business conditions, CONSOL Energy s financial results, contractual and legal restrictions regarding the payment of dividends by CONSOL Energy, the credit ratings of CONSOL Energy, planned investments by CONSOL Energy and such other factors as the board of directors deems relevant. CONSOL Energy s credit facilities prohibit the payment of cash dividends on the common stock in excess of $0.56 per share in any fiscal year.

Table of Contents

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, 2003, December 31, 2002, June 30, 2001 and June 30, 2000, 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 Financial Condition and Results of Operation 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 at that time commencing with the fiscal year beginning January 1, 2002.

Statement Of Income Data (In thousands except per share data)	**Twelve Months Ended December 31,**			**Six Months Ended December 31,**		**Twelve Months Ended June 30,**		**Six Months Ended June 30,**
	2003	**2002**	**2001**	**2001**	**2000**	**2001**	**2000**	**1999**
Revenue:								
Sales (A)	$ 2,042,851	$ 2,003,345	$ 2,095,463	$ 964,460	$ 992,201	$ 2,123,202	$ 2,094,850	$ 1,081,922
Freight (A)	114,582	134,416	159,029	70,314	72,225	160,940	165,934	80,487
Other income	65,033	45,837	64,526	31,223	37,154	70,457	64,359	28,560
Total Revenue	2,222,466	2,183,598	2,319,018	1,065,997	1,101,580	2,354,599	2,325,143	1,190,969
Costs:								
Cost of goods sold and other operating charges	1,624,016	1,543,189	1,585,686	761,146	730,329	1,554,867	1,498,982	790,119
Freight expense	114,582	134,416	159,029	70,314	72,225	160,940	165,934	80,487
Selling, general and administrative expense	77,571	65,888	61,155	31,493	33,381	63,043	62,164	30,218
Depreciation, depletion and amortization	242,152	262,873	243,588	120,039	119,723	243,272	249,877	121,237
Interest expense	34,451	46,213	43,356	16,564	30,806	57,598	55,289	30,504
Taxes other than income	160,209	172,479	160,954	80,659	77,771	158,066	174,272	98,244
Export sales excise tax resolution	(614)	(1,037)	(118,120)	5,402		(123,522)		
Restructuring costs	3,606						12,078	
Total Costs	2,255,973	2,224,021	2,135,648	1,085,617	1,064,235	2,114,264	2,218,596	1,150,809
Earnings (Loss) before income taxes	(33,507)	(40,423)	183,370	(19,620)	37,345	240,335	106,547	40,160
Income taxes (benefits)	(20,941)	(52,099)	32,164	(20,679)	3,842	56,685	(493)	121
Earnings (Loss) before Cumulative Effect of Change in Accounting Principle	(12,566)	11,676	151,206	1,059	33,503	183,650	107,040	40,039
Cumulative Effect of Changes in Accounting for Mine Closing,	4,768							

Reclamation and Gas Well Closing Costs, Net of Income Taxes of $3,035								
Net Income (Loss)	$ (7,798)	$ 11,676	$ 151,206	$ 1,059	$ 33,503	$ 183,650	$ 107,040	$ 40,039
Earnings per share:								
Basic (B)	$ (0.10)	$ 0.15	$ 1.92	$ 0.01	$ 0.43	$ 2.34	$ 1.35	$ 0.62
Dilutive (B)	$ (0.10)	$ 0.15	$ 1.91	$ 0.01	$ 0.43	$ 2.33	$ 1.35	$ 0.62
Weighted average number of common shares outstanding:								
Basic	81,732,589	78,728,560	78,671,821	78,699,732	78,584,204	78,613,580	79,499,576	64,784,685
Dilutive	82,040,418	78,834,023	78,964,557	78,920,046	78,666,391	78,817,935	79,501,326	64,784,685
Dividend per share	$ 0.56	$ 0.84	$ 1.12	$ 0.56	$ 0.56	$ 1.12	$ 1.12	$ 0.39

Table of Contents

Balance Sheet Data (In thousands)	At December 31, 2003	At December 31, 2002	At December 31, 2001	At June 30, 2001	At June 30, 2000	At June 30, 1999
Working capital (deficiency)	$ (353,759)	$ (191,596)	$ (70,505)	$ (368,118)	$ (375,074)	$ (261,427)
Total assets	4,318,978	4,293,160	4,298,732	3,894,971	3,866,311	3,875,026
Short-term debt	68,760	204,545	77,869	360,063	464,310	345,525
Long-term debt (including current portion)	495,242	497,046	545,440	303,561	307,362	326,495
Total deferred credits and other liabilities	2,761,830	2,828,249	2,913,763	2,378,323	2,358,725	2,423,483
Stockholders equity	290,637	162,047	271,559	351,647	254,179	254,725

Other Operating Data	Twelve Months Ended December 31, 2003	Twelve Months Ended December 31, 2002	Twelve Months Ended December 31, 2001	Six Months Ended December 31, 2001	Six Months Ended December 31, 2000	Twelve Months Ended June 30, 2001	Twelve Months Ended June 30, 2000	Six Months Ended June 30, 1999
Coal:								
Tons sold (in thousands) (C)(D)	63,962	67,308	76,503	35,587	36,590	77,322	78,714	38,553
Tons produced (in thousands) (D)	60,388	66,230	73,705	34,355	32,508	71,858	73,073	38,244
Productivity (tons per manday) (D)	41.26	40.18	39.95	37.15	41.60	42.21	44.23	39.86
Average production cost ($ per ton produced) (D)	$ 26.24	$ 24.73	$ 22.21	$ 23.73	$ 21.93	$ 21.35	$ 20.00	$ 21.47
Average sales price of tons produced ($ per ton produced) (D)	$ 27.61	$ 26.76	$ 24.66	$ 25.02	$ 23.41	$ 23.93	$ 23.66	$ 25.12
Recoverable coal reserves (tons in millions) (D)(E)	4,146	4,275	4,365	4,365	4,372	4,411	4,461	4,705
Number of mining complexes (at period end)	20	22	27	27	23	23	22	24
Gas:								
Net sales volume produced (in billion cubic feet) (D)	44.46	41.30	33.92	17.61	14.18	29.75	14.20	2.67
Average sale price ($ per mcf) (D) (F)	$ 4.31	$ 3.17	$ 4.04	$ 2.63	$ 4.73	$ 5.19	$ 3.01	$ 2.04
Average costs ($ per mcf) (D)	$ 2.35	$ 2.18	$ 2.38	$ 2.27	$ 1.94	$ 2.16	$ 1.60	$ 2.31
Net estimated proved reserves (in billion cubic feet) (D)(G)	1,004	961	1,023	1,023	639	677	653	409

Cash Flow Statement Data (In thousands)	Twelve Months Ended December 31, 2003	Twelve Months Ended December 31, 2002	Twelve Months Ended December 31, 2001	Six Months Ended December 31, 2001	Six Months Ended December 31, 2000	Twelve Months Ended June 30, 2001	Twelve Months Ended June 30, 2000	Six Months Ended June 30, 1999
Net cash provided by operating activities	$ 381,127	$ 329,556	$ 347,356	$ 93,084	$ 181,568	$ 435,839	$ 295,028	$ 84,995
Net cash used in investing activities	(204,614)	(339,936)	(114,160)	(11,598)	(131,078)	(233,321)	(299,554)	(100,790)
Net cash (used in) provided by financing activities	(181,517)	6,315	(228,184)	(82,529)	(48,419)	(194,074)	(10,852)	8,069
Other Financial Data								
(In thousands)								
Capital expenditures	$ 290,652	$ 295,025	$ 266,825	$ 162,700	$ 109,007	$ 213,132	$ 142,270	$ 105,032
EBIT (H)	(5,354)	(1,230)	194,330	(2,132)	65,590	262,052	156,165	68,438
EBITDA (H)	236,798	261,643	437,918	117,907	185,313	505,324	406,042	189,675
Ratio of earnings to fixed charges (I)			4.59		1.85	4.54	2.70	2.19

(A) See note 30 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 307,829, 105,463 and 292,736 for the twelve months ended December 31, 2003, 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, 2003, 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 and 2.2 million tons in the six months ended June 30, 1999. Sales of coal produced by equity affiliates were; 1.0 million tons in the twelve months ended December 31, 2003, 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. 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 net production, sales or reserves equal to CONSOL Energy s percentage equity ownership. For coal, Glennies Creek Mine is reported as an equity affiliate for the entire December 2003 period and Line Creek was reported as an equity affiliate through February 2003. 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

Table of Contents

periods have coal equity affiliates. For gas, Knox Energy makes up the equity earnings data in 2003 and 2002. Greene Energy was part of equity earnings in 2002 and 2001. 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. Sales of gas produced by equity affiliates were .08 bcf in the twelve months ended December 31, 2003, .22 bcf in the twelve months ended December 31, 2002, 5.5 billion cubic feet or bcf in the twelve months ended December 31, 2001, 1.4 bcf in the six months ended December 31, 2001, and 7.7 bcf in the twelve months ended June 30, 2001.

(E) Represents proven and probable reserves at period end.

(F) Represents average net sales price before the effect of derivative transactions.

(G) Represents proved developed and undeveloped gas reserves at period end.

(H) 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 reconcilement of EBIT and EBITDA to financial net income is as follows:

(In thousands)	Twelve Months Ended December 31,			Six Months Ended December 31,		Twelve Months Ended June 30,		Six Months Ended June 30,
	2003	2002	2001	2001	2000	2001	2000	1999
Net Income (Loss)	$ (7,798)	$ 11,676	$ 151,206	$ 1,059	$ 33,503	$ 183,650	$ 107,040	$ 40,039
Add: Interest expense	34,451	46,213	43,356	16,564	30,806	57,598	55,289	30,504
Less: Interest income	(5,602)	(5,738)	(5,990)	(3,734)	(2,561)	(4,817)	(5,671)	(2,226)
Less: Interest income included in export sales excise tax resolution	(696)	(1,282)	(26,406)	4,658		(31,064)		
Less: Cumulative Effect of Changes in Accounting for Mine Closing, Reclamation and Gas Well Closing Costs, net of Income taxes of $3,035	(4,768)							
Add: Income Tax Expense (Benefit)	(20,941)	(52,099)	32,164	(20,679)	3,842	56,685	(493)	121
Earnings (Loss) before interest and taxes (EBIT)	(5,354)	(1,230)	194,330	(2,132)	65,590	262,052	156,165	68,438
Add: Depreciation, depletion and amortization	242,152	262,873	243,588	120,039	119,723	243,272	249,877	121,237
Earnings before interest, taxes and depreciation, depletion and amortization	$ 236,798	$ 261,643	$ 437,918	$ 117,907	$ 185,313	$ 505,324	$ 406,042	$ 189,675

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, 2003 and December 31, 2002, fixed charges exceeded earnings by $24.7 million and $30.6 million, respectively. For the six months ended December 31, 2001, fixed charges exceeded earnings by $20.4 million.

18

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATION

General

CONSOL Energy incurred a loss before income taxes and before effect of change in accounting principle of $34 million, recognized income tax benefits of $21 million and recognized a $5 million income adjustment for the effect of change in accounting for mine closing, reclamation, and gas well closing costs resulting in a net loss of $8 million for the twelve months ended December 31, 2003. CONSOL Energy incurred a loss before income taxes of $40 million and recognized income tax benefits of $52 million, resulting in net income of $12 million for the twelve months ended December 31, 2002.

Total coal sales for the twelve months ended December 31, 2003 were 64.0 million tons, including our portion of sales by equity affiliates, of which 61.5 million tons of sales were produced by CONSOL Energy operations, by our equity affiliates or sold from inventory of CONSOL Energy s produced coal, including coal sold from inventories and produced by equity affiliates. This compares with total coal sales of 67.3 million tons for the twelve months ended December 31, 2002, of which 64.8 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. The decrease in tons sold primarily is related to lower CONSOL Energy coal production in the period-to-period comparison.

CONSOL Energy produced 60.4 million tons, including our portion of production at equity affiliates in the 2003 period compared to 66.2 million tons, including our portion of production at equity affiliates in the 2002 period. The decrease in tons produced is primarily due to the closure of the Dilworth, Humphrey and Windsor mines, where economically mineable reserves were depleted in the last quarter of 2002. The decrease was also attributable to the sale of the assets at the Cardinal River and Line Creek mines in February 2003 and the idling of the Rend Lake mine in 2002 due to market conditions. Coal inventories, including our portion of inventories at equity affiliates, were 1.4 million tons at December 31, 2003 compared to 3.0 million tons at December 31, 2002.

Sales of coalbed methane gas, including our share of the sales from equity affiliates were 50.0 billion gross cubic feet in the 2003 period compared to 46.6 billion gross cubic feet in the 2002 period. The increased sales volume is primarily due to higher production volumes as a result of our on going drilling program. Our average sales price for coalbed methane gas, including our portion of sales from equity affiliates, was $4.16 per thousand cubic feet in the 2003 period compared to $3.17 per thousand cubic feet in the 2002 period. The increase in average sales price was driven by concerns for levels of natural gas in storage at the beginning of the year and by concerns over intermediate-term supplies of gas in the United States.

In December 2003, CONSOL Energy adopted a shareholder rights plan designed to ensure that all shareholders receive fair value for their common shares in the event of a proposed takeover and to guard against the use of partial tender offers or other coercive tactics to gain control of CONSOL Energy without offering fair value to CONSOL Energy shareholders.

In December 2003, Standard and Poor s lowered CONSOL Energy s rating of our long-term debt to BB- (13th lowest out of 22 rating categories). Standard and Poor s defines an obligation rated BB as less vulnerable to nonpayment than other speculative issues. However, the rating indicates that an obligor 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 negative sign shows relative standing within the rating category. At the same time, Standard and Poor s placed CONSOL Energy s senior unsecured debt rating on CreditWatch with negative implications.

In December 2003, Moody s Investor Service lowered its rating of CONSOL Energy s long-term debt from Ba1 to Ba3 (13th lowest out of 21 rating categories). The rating remains under review for possible further downgrade. Bonds which are rated Ba are considered to have speculative elements; their future cannot be

Table of Contents

considered as well-assured. Often the protection of interest and principal payments may be very moderate, and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class. The modifier 3 indicates that the obligation ranks in the lower end 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 January, 2004, CONSOL Energy announced that it intended to sell the stock in its wholly owned subsidiary CNX Australia Pty Limited to certain affiliates of AMCI, Inc. for $27.5 million, the assumption of approximately $21 million of debt, and associated interest rate swaps and foreign currency hedges. CNX Australia Pty Limited, through its wholly owned subsidiary CONSOL Energy Australia Pty Limited, owns a 50% interest in the Glennies Creek Mine in New South Wales, Australia with its joint venture partner Maitland Main Collieries Pty Limited, an affiliate of AMCI, Inc. Agreements were finalized on February 25, 2004 and are expected to result in a pre-tax gain of approximately $13 million.

In January 2004, a Special Committee of the Board of Directors of CONSOL Energy completed its investigation of allegations against certain directors and officers of CONSOL Energy contained in an anonymous letter sent to the United States Securities and Exchange Commission. The Special Committee found no evidence of fraud or malfeasance and no evidence to suggest that CONSOL Energy s publicly issued financial statements were incorrect.

In January 2004, CONSOL Energy s Board of Directors elected three new independent members to the Board. They were: William E. Davis, a power industry executive; William P. Powell, an investment banker; and Joseph T. Williams, a former oil and gas industry executive.

In February 2004, CONSOL Energy s former majority shareholder, RWE AG, closed on a previously announced private placement sale of its remaining 16.6 million shares of CONSOL Energy common stock. On September 23 and 24, 2003, RWE closed on a previously announced sale of 14.1 million shares of CONSOL Energy common stock. On the same dates, CONSOL Energy closed on a previously announced sale of 11.0 million primary shares of its common stock, increasing the total shares of common stock outstanding to 89.9 million and reduced RWE s initial majority interest from 73.6% to 48.9%. On October 9, 2003, RWE closed on the sale of 27.3 million shares of CONSOL Energy common stock. That sale reduced RWE s ownership to 16.6 million shares, or 18.5%.

In February 2004, as a result of the sale of the remaining shares of CONSOL Energy common stock held by RWE AG and pursuant to the terms of the Placement Agreement, dated September 18, 2003, by and among CONSOL Energy, Friedman, Billings, Ramsey & Co., Inc. and RWE Rheinbraun AG, the remaining two directors representing RWE AG, Berthold Bonekamp and Dr. Rolf Zimmerman, resigned from the CONSOL Energy Board of Directors. Also in February 2004, Raj Gupta, a former oil and gas industry executive, was elected to the board of directors of CONSOL Energy. He will serve until the next election of directors at the annual meeting of shareholders.

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 at that time.

Table of Contents

Results of Operations

Twelve Months Ended December 31, 2003 compared with Twelve Months Ended December 31, 2002 (All dollar amounts in charts reported in millions)

Net Income

Net income changed primarily due to the following items:

	2003 Period	2002 Period	Dollar Variance	Percentage Change
Gas Sales	$ 208	$ 147	$ 61	41.5%
Coal Sales - Produced and Purchased	1,758	1,777	(19)	(1.1)%
Other Sales and Other Income	256	260	(4)	(1.5)%
Total Revenue	2,222	2,184	38	1.7%
Coal Cost of Goods Sold - Produced and Purchased	1,310	1,277	33	2.6%
Gas Cost of Goods Sold	84	65	19	29.2%
Other Cost of Goods Sold	230	201	29	14.4%
Total Cost of Goods Sold	1,624	1,543	81	5.2%
Depreciation, Depletion and Amortization	242	263	(21)	(8.0)%
Interest Expense	34	46	(12)	(26.1)%
Other	356	372	(16)	(4.3)%
Total Costs	2,256	2,224	32	1.4%
Earnings (Loss) before Income Taxes	(34)	(40)	6	15.0%
Income Taxes	21	52	(31)	(59.6)%
Earnings (Loss) Before Cumulative Effect of Change in Accounting	(13)	12	(25)	(208.3)%
Cumulative Effect of Change in Accounting Principle	5		5	100.0%
Net Income (Loss)	$ (8)	$ 12	$ (20)	(166.7)%

Net income (loss) for the 2003 period was lower than the 2002 period primarily due to increased cost of goods sold and lower income tax benefits, offset, in part, by higher revenues and lower depreciation, depletion and amortization. The increase in cost of goods sold was mainly attributable to higher retiree medical costs and salaried pension expenses, increased gas volumes and royalty costs related to gas sales, and costs related to mine fires at the Loveridge Mine and Mine 84. Tax benefits were lower in the 2003 period primarily due to the tax effect of the current year s sale of our Canadian assets. The higher sales revenues are primarily attributable to the increased gas volumes sold in the 2003 period compared to the 2002 period. Depreciation, depletion and amortization expense declined primarily as a result of the equipment at the Dilworth mine and the related preparation plant becoming fully depreciated prior to the 2003 period, coinciding with the closure of the mine due to economically depleted reserves.

Table of Contents

Revenue

	2003 Period	2002 Period	Dollar Variance	Percentage Change
Sales				
Produced Coal	$ 1,683	$ 1,693	$ (10)	