



## NEWS RELEASE

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### FOR IMMEDIATE RELEASE

## **Allegheny Energy Reports Full Year 2002 Financial Results**

### *Completes Comprehensive Financial Review*

**Hagerstown, Md., September 25, 2003** – Allegheny Energy, Inc. (NYSE: AYE) today announced that it has completed its comprehensive financial review and has filed its 2002 Form 10-K.

#### **Financial Results**

The Company reported a consolidated net loss of \$632.7 million (\$5.04 per share) for 2002, compared with net income of \$417.8 million (\$3.48 per share) for 2001. The Company's results of operations for 2002 were reduced by \$130.5 million (net of income taxes), reflecting the cumulative effect of the accounting change associated with the adoption of Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets." The results for 2001 were reduced by \$31.1 million (net of income taxes), reflecting the cumulative effect of the accounting change associated with the adoption of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." Before the cumulative effect of an accounting change, the consolidated loss for 2002 was \$502.2 million (\$4.00 per share), as compared with consolidated income before the cumulative effect of an accounting change of \$448.9 million (\$3.74 per share) for 2001.

The decrease in 2002 earnings was primarily due to lower net revenues of \$1,029.8 million in excess generation and trading, resulting primarily from weak wholesale energy markets and unrealized losses in 2002 versus unrealized gains in 2001 from energy trading activities. Certain other items which affected 2002 income included:

- Charges related to impairment of generation projects – \$244.0 million (\$149.2 million net of tax);
- Charges related to workforce reduction – \$107.6 million (\$64.8 million net of tax);
- Charges related to impairment of unregulated investments – \$44.7 million (\$26.5 million net of tax);
- An increase to loss from adjustments related to prior years' accounting errors – \$29.5 million (\$20.1 million net of tax);
- Loss on sale of business before effect of minority interest – \$31.5 million (\$18.8 million net of tax);
- Charges related to restructuring and related asset impairment – \$28.9 million (\$17.8 million net of tax); and
- Gains on Canaan Valley land sales – \$22.4 million (\$18.2 million net of tax).

Since the Company and certain of its subsidiaries are not current with their financial reporting, they are not in compliance with certain reporting covenants in certain debt agreements. This non-compliance has resulted in the reclassification of approximately \$3.7 billion of long-term debt to current debt on the Company's consolidated balance sheet for 2002. As a result, the Company has received a modified opinion from PricewaterhouseCoopers LLP, the Company's independent auditors, that indicates there is substantial doubt about the Company's ability to continue as a going concern. Since the Company expects to file its Form 10-Q quarterly financial reports for 2003 during the fourth quarter of this year, it would, therefore, expect at such time to be in compliance with its financial reporting covenants. At this time, the Company believes that its cash-on-hand and cash flows will be adequate to meet its payment obligations under debt agreements and to fund other working capital needs in 2003.

Paul J. Evanson, Chairman, President, and Chief Executive Officer of Allegheny Energy, said, "While 2002 was a difficult year for the Company, we have already taken a number of actions to improve Allegheny's situation. We have made substantial management changes, completed key financing transactions, largely exited from Western energy markets, sold certain assets, undertaken restructuring and cost-cutting initiatives, and began improving internal controls. While this is meaningful progress, we still have major challenges ahead of us.

"Our focus today is on returning to the fundamentals of our business," added Evanson. "Our top priorities are clear – strengthen liquidity, improve internal controls, establish an outstanding management team, reduce debt, and build on the strengths of our core energy supply and delivery businesses. We are working intensely on each of these areas."

### **Comprehensive Financial Review**

Since the third quarter of 2002, the Company has undertaken a comprehensive and extended review of its financial information and internal controls and procedures. This review included continuous efforts by the Company's management and directors and extensive involvement of its independent auditors, as well as other outside services firms. Based upon the results of this review and the performance of additional procedures, the Company and its auditors were able to complete the 2002 audit and, in that connection, determine that no restatement of prior years' earnings was necessary. Errors related to prior years that were identified as part of this review, aggregating approximately \$20.1 million (net of income taxes), have been recorded as an increase to net loss in the first quarter of 2002.

Allegheny Energy has implemented corrective actions to improve internal controls and to strengthen disclosure and reporting processes as further described in its 2002 Form 10-K. Allegheny Energy will continue to institute changes in its financial reporting policies and procedures and improve its internal controls structure.

### **Generation and Marketing Segment**

The Generation and Marketing segment reported a loss before the cumulative effect of an accounting change for 2002 of \$586.3 million, as compared with income before the cumulative effect of an accounting change of \$261.4 million for 2001. The decrease in 2002 earnings was primarily due to lower net revenues of \$1,029.8 million in excess generation and trading, resulting primarily from weak wholesale energy markets and unrealized losses in 2002 versus unrealized gains in 2001 from energy trading activities. The Generation and Marketing segment also recorded asset impairment charges of \$149.2 million (net of income taxes) for the impairment of generation projects during 2002. This segment also included a charge of \$34.4 million (net of income taxes) for workforce reduction costs, as well as \$17.4 million (net of income taxes) for restructuring charges and related asset impairment.

### **Delivery and Services Segment**

The Delivery and Services segment reported income before the cumulative effect of an accounting change for 2002 of \$84.1 million, as compared with income before the cumulative effect of an accounting change of \$187.5 million for 2001. The Delivery and Services segment recorded charges of \$26.5 million (net of income taxes) for impairment writedowns of certain unregulated investments and \$18.8 million (net of income taxes) for the loss on the sales of Fellon-McCord & Associates, Inc. and Alliance Energy Services, LLC. The segment also recorded a charge of \$30.4 million (net of income taxes) for workforce reduction costs.

## **Analyst Conference Call**

Allegheny Energy will comment further on these results in an analyst conference call at 11:00 a.m. on September 26, 2003. Investors, the news media, and others may listen to a live internet broadcast of the call at [www.alleghenyenergy.com](http://www.alleghenyenergy.com) by clicking on an available audio link. The call will also be archived for replay purposes after the live broadcast. A news release on the earnings and supporting financial data will also be available on the Company's web site for review.

Allegheny Energy is an integrated energy company with a portfolio of businesses, including Allegheny Energy Supply, which owns and operates electric generating facilities and supplies energy and energy-related commodities, and Allegheny Power, which delivers low-cost, reliable electric and natural gas service to about four million people in Maryland, Ohio, Pennsylvania, Virginia, and West Virginia. More information about the Company is available at [www.alleghenyenergy.com](http://www.alleghenyenergy.com).

*Certain statements contained herein constitute forward-looking statements with respect to Allegheny Energy, Inc. and its subsidiaries within the meanings of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Although Allegheny Energy believes that its forward-looking statements are based on reasonable estimates and assumptions and currently available information, such forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause the actual results, performance, or achievements of Allegheny Energy to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. Actual results have varied materially and unpredictably in the past. Such factors, either individually or in the aggregate, may affect Allegheny Energy's operations, markets, products, services, prices, capital expenditures, development activities, and future plans. Such factors include, among others, the following: execution of restructuring activity and liquidity enhancement plans; complications or other factors that render it difficult or impossible to obtain necessary lender consent or regulatory authorizations on a timely basis; general economic and business conditions; changes in access to capital markets; changes in interest rates; the continuing effects of global instability, terrorism and war; changes in industry capacity, development, and other activities by Allegheny's competitors; changes in the weather and other natural phenomena; changes in technology; changes in the price of power and fuel for electricity generation; changes in the underlying inputs and assumptions used to estimate the fair values of commodity contracts; changes in laws and regulation applicable to Allegheny, its markets, or its activities; environmental regulations; the loss of any significant customers and suppliers; the effect of accounting policies issued periodically by accounting standard-setting bodies; additional collateral calls; changes in business strategy, operations, or development plans; and other similar risks and uncertainties. Additional risks and uncertainties are identified and discussed in Allegheny Energy's reports and registration statements filed with the Securities and Exchange Commission.*

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