

ALLEGHENY ENERGY, INC.

Consolidated Statements of Operations

Year ended December 31

(In thousands, except per share data)

	<u>2002</u>	<u>2001</u>
Total operating revenues	\$2,988,487	\$3,425,123
Cost of revenues:		
Fuel consumed for electric generation	591,548	560,399
Purchased energy and transmission	346,933	307,067
Natural gas purchases	660,264	217,142
Deferred energy costs, net	9,094	(11,441)
Other	<u>93,416</u>	<u>43,598</u>
Total cost of revenues	<u>1,701,255</u>	<u>1,116,765</u>
Net revenues	<u>1,287,232</u>	<u>2,308,358</u>
Other operating expenses:		
Workforce reduction expenses	107,608	--
Operation expense	1,144,371	830,368
Depreciation and amortization	308,552	301,536
Taxes other than income taxes	<u>225,841</u>	<u>216,353</u>
Total other operating expenses	<u>1,786,372</u>	<u>1,348,257</u>
Operating (loss) income	<u>(499,140)</u>	<u>960,101</u>
Other income and expenses	(46,426)	17,069
Interest charges and preferred dividends:		
Interest on debt	312,599	283,282
Allowance for borrowed funds used during construction and interest capitalized	(13,046)	(10,632)
Dividends on preferred stock of subsidiaries	<u>5,037</u>	<u>5,037</u>
Total interest charges and preferred dividends	<u>304,590</u>	<u>277,687</u>
Consolidated (loss) income before income taxes, minority interest, and cumulative effect of accounting change	(850,156)	699,483
Federal and state income tax (benefit) expense	(334,471)	248,223
Minority interest	<u>(13,509)</u>	<u>2,338</u>
Consolidated (loss) income before cumulative effect of accounting change	(502,176)	448,922
Cumulative effect of accounting change, net	<u>(130,514)</u>	<u>(31,147)</u>
Consolidated net (loss) income	<u>\$ (632,690)</u>	<u>\$ 417,775</u>
Basic common shares outstanding	125,657,979	120,104,328
Diluted common shares outstanding	125,657,979	120,542,151
Basic earnings per share:		
Consolidated (loss) income before cumulative effect of accounting change	\$ (4.00)	\$ 3.74
Cumulative effect of accounting change, net	<u>(1.04)</u>	<u>(.26)</u>
Consolidated net (loss) income	<u>\$ (5.04)</u>	<u>\$ 3.48</u>
Diluted earnings per share:		
Consolidated (loss) income before cumulative effect of accounting change	\$ (4.00)	\$ 3.73
Cumulative effect of accounting change, net	<u>(1.04)</u>	<u>(.26)</u>
Consolidated net (loss) income	<u>\$ (5.04)</u>	<u>\$ 3.47</u>

ALLEGHENY ENERGY, INC.

Consolidated Statements of Cash Flows

Year ended December 31

(In thousands)

	<u>2002</u>	<u>2001</u>
Cash flows from (used in) operations:		
Consolidated net (loss) income	\$ (632,690)	\$ 417,775
Cumulative effect of accounting change, net	<u>130,514</u>	<u>31,147</u>
Consolidated (loss) income before cumulative effect of accounting change	(502,176)	448,922
Depreciation and amortization	308,552	301,536
Gain on Canaan Valley land sales	(22,387)	--
Loss on sale of businesses before effect of minority interest	31,450	--
Minority interest	(13,509)	2,338
Deferred investment credit and income taxes, net	(205,195)	278,785
Unrealized losses (gains) on commodity contracts, net	358,240	(608,260)
Workforce reduction expenses	97,658	--
Restructuring charges and related asset impairment	28,880	--
Impairment of unregulated investments	44,672	--
Impairment of generation projects	244,037	--
Other, net	12,579	(27,423)
Changes in certain assets and liabilities:		
Accounts receivable, net	(68,305)	74,695
Materials and supplies	(1,353)	(41,842)
Accounts payable	86,510	(55,976)
Taxes accrued	(24,539)	6,172
Benefit plans' investments	54,769	(1,484)
Funds on deposit	(18,379)	--
Taxes receivable	(98,386)	(61,185)
Other, net	<u>11,942</u>	<u>18,200</u>
Net cash flows from operations	<u>325,060</u>	<u>334,478</u>
Cash flows from (used in) investing:		
Construction expenditures and investments (less allowance for other than borrowed funds used during construction)	(403,142)	(463,250)
Unregulated investments	2,780	(21,168)
Acquisitions	--	(1,652,607)
Proceeds from sale of businesses and Canaan Valley land, net	<u>22,337</u>	<u>--</u>
Net cash flows (used in) investing	<u>(378,025)</u>	<u>(2,137,025)</u>
Cash flows from (used in) financing:		
Issuance of debentures, notes and bonds	1,143,304	1,186,557
Retirement of debentures, notes, bonds, and QUIDS	(670,767)	(356,161)
Funds on deposit with trustees and restricted funds	--	--
Short-term debt, net	(106,762)	516,331
Proceeds from issuance of common stock	3,992	670,478
Cash dividends paid on common stock	<u>(150,551)</u>	<u>(194,699)</u>
Net cash flows from financing	<u>219,216</u>	<u>1,822,506</u>
Net change in cash and temporary cash investments	166,251	19,959
Cash and temporary cash investments at January 1	<u>37,980</u>	<u>18,021</u>
Cash and temporary cash investments at December 31	<u>\$ 204,231</u>	<u>\$ 37,980</u>
Supplemental cash flow information:		
Cash paid during the year for:		
Interest (net of amount capitalized)	\$ 289,948	\$ 259,389
Income taxes	--	81,099

ALLEGHENY ENERGY, INC.

Consolidated Balance Sheets

<i>(In thousands)</i>	As of December 31	
ASSETS	<u>2002</u>	2001 <u>(Restated*)</u>
Current assets:		
Cash and temporary cash investments	\$ 204,231	\$ 37,980
Accounts receivable:		
Billed:		
Customer	316,260	344,539
Energy trading and other	93,700	44,611
Unbilled	166,055	169,612
Allowance for uncollectible accounts	(29,645)	(32,796)
Materials and supplies (at average cost):		
Operating and construction	111,267	104,965
Fuel	74,768	82,390
Taxes receivable	185,691	103,105
Deferred income taxes	46,102	118,405
Commodity contracts	156,313	153,749
Other, including current portion of regulatory assets	<u>129,871</u>	<u>133,202</u>
	1,454,613	1,259,762
Property, plant, and equipment:		
In service, at original cost	10,976,166	10,660,177
Construction work in progress	<u>380,959</u>	<u>426,706</u>
	11,357,125	11,086,883
Accumulated depreciation	<u>(4,474,551)</u>	<u>(4,233,868)</u>
	6,882,574	6,853,015
Investments and other assets:		
Excess of cost over net assets acquired (Goodwill)	367,287	603,615
Benefit plans' investments	47,309	102,078
Unregulated investments	56,393	66,422
Intangible assets	38,648	43,045
Other	<u>31,944</u>	<u>4,135</u>
	541,581	819,295
Deferred charges:		
Commodity contracts	1,055,160	1,375,561
Regulatory assets	558,811	594,182
Other	<u>107,540</u>	<u>130,647</u>
	1,721,511	2,100,390
Total assets	<u>\$10,600,279</u>	<u>\$11,032,462</u>

*The December 31, 2001, consolidated balance sheet has been restated to reflect certain reclassifications with respect to commodity contracts and related deferred income tax balances. These reclassifications had no effect on shareholders' equity, cash flows, or results of operations.

ALLEGHENY ENERGY, INC.

Consolidated Balance Sheets (continued)

	As of December 31	
	2002	2001 (Restated*)
<i>(In thousands)</i>		
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	\$ 1,131,966	\$ 1,238,728
Long-term debt due within one year	257,200	353,054
Debentures, notes and bonds**	3,662,201	--
Accounts payable	380,019	368,148
Taxes accrued – other	97,049	99,393
Adverse power purchase commitments	19,064	24,839
Commodity contracts	191,186	370,252
Other, including current portion of regulatory liabilities	<u>252,148</u>	<u>241,448</u>
	5,990,833	2,695,862
Long-term debt and QUIDS	115,944	3,200,421
Deferred credits and other liabilities:		
Commodity contracts	590,546	398,689
Unamortized investment credit	96,183	102,589
Deferred income taxes	1,079,151	1,278,248
Obligation under capital leases	39,054	35,309
Regulatory liabilities	111,967	108,055
Adverse power purchase commitments	236,147	253,499
Other	<u>313,106</u>	<u>145,830</u>
	2,466,154	2,322,219
Minority interest	21,841	29,991
Preferred stock of subsidiary	74,000	74,000
Stockholders' equity:		
Common stock	158,261	156,596
Other paid-in capital	1,446,180	1,421,117
Retained earnings	357,889	1,152,487
Treasury stock	(411)	--
Accumulated other comprehensive loss	<u>(30,412)</u>	<u>(20,231)</u>
	1,931,507	2,709,969
Commitments and contingencies		
Total liabilities and stockholders' equity	<u>\$10,600,279</u>	<u>\$11,032,462</u>

*The December 31, 2001, consolidated balance sheet has been restated to reflect certain reclassifications with respect to commodity contracts and related deferred income tax balances. These reclassifications had no effect on shareholders' equity, cash flows, or results of operations.

**Represents long-term debt that has been reclassified as a current liability due to violations of covenants related to financial reporting.