

ALLEGHENY ENERGY, INC.
Consolidated Statements of Operations

<i>(In thousands, except per share data)</i>	Unaudited Three Months Ended December 31,		Year Ended December 31,	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Total operating revenues	\$ 759,967	\$ 661,653	\$ 2,472,432	\$ 2,988,487
Cost of revenues:				
Fuel consumed for electric generation	140,229	155,282	593,819	591,548
Purchased energy and transmission	63,488	81,435	313,329	346,933
Natural gas purchases	65,825	228,165	203,527	660,264
Deferred energy costs, net	(5,003)	(1,814)	(35,650)	9,094
Other	6,144	16,149	33,571	93,416
Total cost of revenues	<u>270,683</u>	<u>479,217</u>	<u>1,108,596</u>	<u>1,701,255</u>
Net revenues	<u>489,284</u>	<u>182,436</u>	<u>1,363,836</u>	<u>1,287,232</u>
Other operating expenses:				
Workforce reduction expenses	---	3,438	---	107,608
Operation expense	221,063	430,287	1,010,372	1,144,371
Depreciation and amortization	83,811	75,326	326,935	308,552
Taxes other than income taxes	63,352	57,271	225,015	225,841
Total other operating expenses	<u>368,226</u>	<u>566,322</u>	<u>1,562,322</u>	<u>1,786,372</u>
Operating income (loss)	<u>121,058</u>	<u>(383,886)</u>	<u>(198,486)</u>	<u>(499,140)</u>
Other income and (expenses), net	9,648	(18,582)	106,415	(46,426)
Interest charges and preferred dividends:				
Interest on debt	127,068	83,423	477,998	312,599
Allowance for borrowed funds used during construction and interest capitalized	(875)	(3,561)	(16,728)	(13,046)
Dividends on preferred stock of subsidiaries	<u>1,259</u>	<u>1,259</u>	<u>5,037</u>	<u>5,037</u>
Total interest charges and preferred dividends	<u>127,452</u>	<u>81,121</u>	<u>466,307</u>	<u>304,590</u>
Consolidated income (loss) before income taxes, minority interest, and cumulative effect of accounting changes	3,254	(483,589)	(558,378)	(850,156)
Federal and state income tax (benefit)	14,960	(192,908)	(216,990)	(334,471)
Minority interest (benefit)	<u>1,948</u>	<u>(8,907)</u>	<u>(7,174)</u>	<u>(13,509)</u>
Consolidated loss before cumulative effect of accounting changes	(13,654)	(281,774)	(334,214)	(502,176)
Cumulative effect of accounting changes, net	---	---	(20,765)	(130,514)
Consolidated net loss	<u>\$ (13,654)</u>	<u>\$ (281,774)</u>	<u>\$ (354,979)</u>	<u>\$ (632,690)</u>
Average basic and diluted common shares outstanding	126,968,238	126,243,338	126,848,253	125,657,979
Basic and diluted loss per share:				
Consolidated loss before cumulative effect of accounting changes	\$ (0.11)	\$ (2.23)	\$ (2.64)	\$ (4.00)
Cumulative effect of accounting changes, net	---	---	(0.16)	(1.04)
Consolidated net loss	<u>\$ (0.11)</u>	<u>\$ (2.23)</u>	<u>\$ (2.80)</u>	<u>\$ (5.04)</u>

ALLEGHENY ENERGY, INC.
Consolidated Statements of Cash Flows

<i>(In thousands)</i>	Year Ended December 31,	
	2003	2002
Cash flows from operations:		
Consolidated net loss	\$ (354,979)	\$ (632,690)
Cumulative effect of accounting changes, net	20,765	130,514
Consolidated loss before cumulative effect of accounting changes	(334,214)	(502,176)
Reapplication of SFAS No. 71	(75,824)	---
Depreciation and amortization	326,935	308,552
Loss (gain) on disposal of assets, net	22,054	(22,387)
Loss on sale of businesses before effect of minority interest	---	31,450
Minority interest	(7,174)	(13,509)
Deferred investment credit and income taxes, net	(158,432)	(205,195)
Unrealized losses on commodity contracts, net	468,375	358,240
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	(26,700)	12,579
Changes in certain assets and liabilities:		
Accounts receivable, net	80,040	(68,305)
Materials and supplies	(23,707)	(1,353)
Taxes receivable/accrued, net	186,869	(122,925)
Accounts payable	(81,686)	86,510
Benefit plans' investments	47,309	54,769
Commodity contract termination costs	(47,706)	47,965
Other, net	(6,073)	(53,658)
Net cash flows from operations	370,066	325,804
Cash flows used in investing:		
Construction expenditures (less allowance for other than borrowed funds used during construction)	(254,460)	(403,142)
Acquisition of generating assets	(318,435)	---
Proceeds from sale of businesses and assets	57,645	22,337
Increase in restricted funds	(42,676)	(744)
Other investments	11,707	2,780
Net cash flows used in investing	(546,219)	(378,769)
Cash flows from financing:		
Short-term debt, net	(1,079,210)	(106,762)
Issuance of notes, bonds and other long-term debt	2,274,098	1,143,304
Retirement of notes, bonds, and other long-term debt	(694,354)	(670,767)
Proceeds from issuance of common stock	---	3,992
Cash dividends paid on common stock	---	(150,551)
Net cash flows from financing	500,534	219,216
Net change in cash and temporary cash investments	324,381	166,251
Cash and temporary cash investments at January 1	204,231	37,980
Cash and temporary cash investments at December 31	\$ 528,612	\$ 204,231

ALLEGHENY ENERGY, INC.
Consolidated Balance Sheets

<i>(In thousands)</i>	December 31, 2003	December 31, 2002
ASSETS		
Current assets:		
Cash and temporary cash investments	\$ 528,612	\$ 204,231
Accounts receivable:		
Billed:		
Customer	203,801	229,418
Energy trading and other	94,769	180,542
Unbilled	175,554	166,055
Allowance for uncollectible accounts	(29,329)	(29,645)
Materials and supplies:		
Operating and construction	109,651	111,267
Fuel, including stored gas	98,097	74,768
Taxes receivable	---	185,691
Deferred income taxes	44,610	46,102
Commodity contracts	24,390	156,313
Restricted funds	120,873	2,351
Regulatory assets	68,665	36,623
Other	77,591	90,897
	1,517,284	1,454,613
Property, plant, and equipment:		
In service, at original cost:		
Generation	6,597,195	6,034,437
Transmission	1,010,062	1,005,823
Distribution	3,549,813	3,432,206
Other	525,092	503,700
Accumulated depreciation	(4,377,917)	(4,118,091)
	7,304,245	6,858,075
Construction work in progress	149,232	380,959
	7,453,477	7,239,034
Investments and other assets:		
Excess of cost over net assets acquired (Goodwill)	367,287	367,287
Benefit plans' investments	---	47,309
Unregulated investments	51,479	56,393
Intangible assets	41,710	38,648
Other	45,007	31,944
	505,483	541,581
Deferred charges:		
Commodity contracts	5,536	1,055,160
Regulatory assets	577,691	599,251
Other	112,425	83,509
	695,652	1,737,920
Total assets	\$10,171,896	\$ 10,973,148

ALLEGHENY ENERGY, INC.
Consolidated Balance Sheets (continued)

<i>(In thousands)</i>	December 31, 2003	December 31, 2002
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	\$ 53,610	\$ 1,131,966
Long-term debt due within one year	544,843	257,200
Debentures, notes, and bonds	---	3,662,201
Accounts payable	281,514	380,019
Taxes accrued:		
Federal and state income	10,317	---
Other	87,910	97,049
Adverse power purchase commitments	18,042	19,064
Commodity contracts	41,486	191,186
Regulatory liabilities	2,229	7,681
Other	240,992	244,467
	1,280,943	5,990,833
Long-term debt	5,127,437	115,944
Deferred credits and other liabilities:		
Commodity contracts	61,125	590,546
Unamortized investment credit	89,826	96,183
Deferred income taxes	860,323	1,079,151
Obligation under capital leases	32,483	39,054
Regulatory liabilities	436,118	480,767
Adverse power purchase commitments	218,105	236,147
Other	462,220	317,175
	2,160,200	2,839,023
Minority interest	13,457	21,841
Preferred stock of subsidiary	74,000	74,000
Stockholders' equity:		
Common stock---\$1.25 par value per share, 260,000,000 shares authorized, 127,008,776 shares issued, and 126,968,238 shares outstanding	158,761	158,261
Other paid-in capital	1,447,830	1,446,180
Retained earnings	2,910	357,889
Treasury stock	(1,438)	(411)
Accumulated other comprehensive loss	(92,204)	(30,412)
	1,515,859	1,931,507
Total and stockholders' equity	\$ 10,171,896	\$ 10,973,148

ALLEGHENY ENERGY, INC.
Results by Business Segment

<i>(In millions)</i>	Unaudited Three Months Ended December 31,		Year Ended December 31,	
	2003	2002	2003	2002
Total operating revenues:				
Delivery and Services	\$ 769.3	\$ 958.8	\$ 2,974.6	\$ 3,520.7
Generation and Marketing	366.7	77.3	986.3	945.3
Eliminations	(376.0)	(374.4)	(1,488.5)	(1,477.5)
Total	<u>\$ 760.0</u>	<u>\$ 661.7</u>	<u>\$ 2,472.4</u>	<u>\$ 2,988.5</u>
Operating income (loss):				
Delivery and Services	\$ 87.6	\$ 106.6	\$ 286.1	\$ 295.9
Generation and Marketing	33.5	(490.4)	(484.6)	(795.0)
Total	<u>\$ 121.1</u>	<u>\$ (383.8)</u>	<u>\$ (198.5)</u>	<u>\$ (499.1)</u>
Consolidated income (loss) before cumulative effect of accounting changes:				
Delivery and Services	\$ 29.0	\$ 42.2	\$ 111.9	\$ 84.1
Generation and Marketing	(42.7)	(324.0)	(446.1)	(586.3)
Total	<u>\$ (13.7)</u>	<u>\$ (281.8)</u>	<u>\$ (334.2)</u>	<u>\$ (502.2)</u>
Cumulative effect of accounting changes, net:				
Delivery and Services	\$ ---	\$ ---	\$ (1.2)	\$ (130.5)
Generation and Marketing	---	---	(19.6)	---
Total	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ (20.8)</u>	<u>\$ (130.5)</u>
Consolidated net income (loss):				
Delivery and Services	\$ 29.0	\$ 42.2	\$ 110.7	\$ (46.4)
Generation and Marketing	(42.7)	(324.0)	(465.7)	(586.3)
Total	<u>\$ (13.7)</u>	<u>\$ (281.8)</u>	<u>\$ (355.0)</u>	<u>\$ (632.7)</u>