

ALLEGHENY ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|----------------------------------------------------------------------------------------------------------|--------------------------------|-------------|------------------------------|-------------|
| | 2004 | 2003 | 2004 | 2003 |
| Operating revenues | \$657,114 | \$359,214 | \$1,546,834 | \$1,074,905 |
| Operating expenses: | | | | |
| Fuel consumed in electric generation | 140,927 | 134,054 | 302,882 | 292,826 |
| Purchased power and transmission | 79,772 | 81,527 | 160,890 | 167,795 |
| Cost of utility gas sold | 26,603 | 25,545 | 117,106 | 121,504 |
| Deferred energy costs, net | (118) | (6,965) | 16,613 | (20,624) |
| Operations and maintenance | 245,624 | 283,867 | 457,408 | 596,368 |
| Depreciation and amortization | 85,191 | 79,474 | 168,482 | 157,085 |
| Taxes other than income taxes | 53,201 | 50,735 | 112,714 | 111,362 |
| Total operating expenses | 631,200 | 648,237 | 1,336,095 | 1,426,316 |
| Operating income (loss) | 25,914 | (289,023) | 210,739 | (351,411) |
| Other income, net | 4,790 | 1,353 | 12,864 | 81,613 |
| Interest expense and preferred dividends: | | | | |
| Interest expense | 98,917 | 114,662 | 229,846 | 210,227 |
| Preferred dividend requirements of subsidiary | 1,260 | 1,260 | 2,519 | 2,519 |
| Total interest expense and preferred dividends | 100,177 | 115,922 | 232,365 | 212,746 |
| Loss before income taxes, minority interest and cumulative effect of accounting changes | (69,473) | (403,592) | (8,762) | (482,544) |
| Income tax benefit | (29,297) | (167,378) | (3,723) | (205,396) |
| Minority interest in net (loss) income of subsidiaries | (720) | (4,695) | 1,139 | (7,585) |
| Loss before cumulative effect of accounting changes | (39,456) | (231,519) | (6,178) | (269,563) |
| Cumulative effect of accounting changes, net of taxes of \$12,974 | --- | --- | --- | (20,765) |
| Net loss | \$(39,456) | \$(231,519) | \$(6,178) | \$(290,328) |
| Basic and diluted loss per common share: | | | | |
| Loss before cumulative effect of accounting changes | \$(0.31) | \$(1.82) | \$(0.05) | \$(2.13) |
| Cumulative effect of accounting changes, net | --- | --- | --- | (0.16) |
| Net loss per common share | \$(0.31) | \$(1.82) | \$(0.05) | \$(2.29) |

ALLEGHENY ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

| | Six Months Ended June 30, | |
|-------------------------------------------------------------------|------------------------------|------------------|
| | 2004 | 2003 |
| Cash Flows From Operating Activities: | | |
| Net loss..... | \$(6,178) | \$(290,328) |
| Cumulative effect of accounting changes, net | --- | 20,765 |
| | | |
| Loss before cumulative effect of accounting changes | (6,178) | (269,563) |
| Adjustments for noncash (credits) and charges: | | |
| Reapplication of SFAS No. 71 | --- | (75,824) |
| Depreciation and amortization | 168,482 | 157,085 |
| (Gain) loss on asset sales | (12,074) | 30,917 |
| Minority interest | 1,139 | (7,585) |
| Deferred investment credit and income taxes, net..... | (1,875) | (142,499) |
| Unrealized losses on commodity contracts, net..... | 8,350 | 380,710 |
| Other, net..... | 65,164 | (18,681) |
| Changes in certain assets and liabilities: | | |
| Accounts receivable, net..... | 46,524 | 93,919 |
| Materials and supplies | 8,468 | (31,351) |
| Taxes receivable/accrued, net..... | (38,957) | 96,709 |
| Prepaid taxes..... | (5,803) | (9,721) |
| Collateral deposits | (66,370) | (54,110) |
| Accounts payable | 29,705 | (45,722) |
| Accrued payroll | (1,411) | (18,397) |
| Interest accrued | 8,482 | 4,672 |
| Purchased options | (1,169) | 11,689 |
| Commodity contract termination costs | (259) | (47,706) |
| Other, net..... | (27,110) | (2,115) |
| | | |
| Net cash from operating activities | 175,108 | 52,427 |
| Cash Flows Used In Investing Activities: | | |
| Capital expenditures | (118,514) | (140,539) |
| Acquisition of electric generating facility | --- | (318,435) |
| Proceeds from sale of businesses and assets..... | 13,680 | 46,168 |
| Decrease (increase) in restricted funds | 26,840 | (15,467) |
| Other investments..... | (1,653) | 8,826 |
| | | |
| Net cash used in investing activities | (79,647) | (419,447) |
| Cash Flows (Used In) From Financing Activities: | | |
| Net repayments of short-term debt | (53,610) | (1,122,181) |
| Issuance of long-term debt | 1,594,921 | 1,931,507 |
| Retirement of long-term debt | (1,858,638) | (270,928) |
| | | |
| Net cash (used in) from financing activities..... | (317,327) | 538,398 |
| Net (decrease) increase in cash and cash equivalents | (221,866) | 171,378 |
| Cash and cash equivalents at beginning of period | 528,612 | 204,231 |
| Cash and cash equivalents at end of period | \$306,746 | \$375,609 |

ALLEGHENY ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands)
(unaudited)

| | June 30, 2004 | December 31, 2003 |
|------------------------------------------------|--------------------|----------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents..... | \$306,746 | \$528,612 |
| Accounts receivable: | | |
| Customer | 202,248 | 203,801 |
| Unbilled utility revenues..... | 128,358 | 172,891 |
| Wholesale and other..... | 40,214 | 46,257 |
| Allowance for uncollectible accounts | (23,086) | (29,329) |
| Materials and supplies | 109,901 | 109,651 |
| Fuel, including stored gas..... | 90,785 | 98,097 |
| Deferred income taxes..... | 59,501 | 44,610 |
| Prepaid taxes..... | 52,208 | 46,405 |
| Collateral deposits | 117,545 | 51,175 |
| Commodity contracts | 29,927 | 24,390 |
| Restricted funds..... | 18,187 | 120,873 |
| Regulatory assets..... | 52,289 | 68,665 |
| Other..... | 25,484 | 31,186 |
| | 1,210,307 | 1,517,284 |
| Property, Plant and Equipment: | | |
| Generation..... | 6,648,399 | 6,597,195 |
| Transmission | 1,010,961 | 1,010,062 |
| Distribution..... | 3,602,729 | 3,549,813 |
| Other..... | 530,562 | 525,092 |
| Accumulated depreciation | (4,537,368) | (4,377,917) |
| | 7,255,283 | 7,304,245 |
| Construction work in progress | 194,525 | 149,232 |
| | 7,449,808 | 7,453,477 |
| Investments and Other Assets: | | |
| Goodwill..... | 367,287 | 367,287 |
| Investments in unconsolidated affiliates | 30,736 | 51,479 |
| Intangible assets..... | 39,983 | 41,710 |
| Other..... | 52,115 | 45,007 |
| | 490,121 | 505,483 |
| Deferred Charges: | | |
| Commodity contracts | 5,847 | 5,536 |
| Regulatory assets..... | 567,050 | 577,691 |
| Other..... | 145,803 | 112,425 |
| | 718,700 | 695,652 |
| Total Assets | \$9,868,936 | \$10,171,896 |

ALLEGHENY ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (continued)
(in thousands)
(unaudited)

| | June 30, 2004 | December 31, 2003 |
|---------------------------------------------------------|------------------|----------------------|
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Short-term debt..... | \$ --- | \$53,610 |
| Long-term debt due within one year | 157,434 | 544,843 |
| Accounts payable | 312,838 | 281,514 |
| Accrued taxes | 59,270 | 98,227 |
| Commodity contracts | 49,780 | 41,486 |
| Regulatory liabilities | 1,114 | 2,229 |
| Other | 227,351 | 259,034 |
| | 807,787 | 1,280,943 |
| Long-term Debt | 5,278,874 | 5,127,437 |
| Deferred Credits and Other Liabilities: | | |
| Commodity contracts | 65,860 | 61,125 |
| Investment tax credit..... | 86,669 | 89,826 |
| Deferred income taxes..... | 878,850 | 860,323 |
| Obligations under capital leases | 28,502 | 32,483 |
| Regulatory liabilities | 443,370 | 436,118 |
| Adverse power purchase commitments | 209,742 | 218,105 |
| Other | 454,334 | 462,220 |
| | 2,167,327 | 2,160,200 |
| Minority Interest | 26,676 | 13,457 |
| Preferred Stock of Subsidiary | 74,000 | 74,000 |
| Common Stockholders' Equity: | | |
| Common stock..... | 158,946 | 158,761 |
| Other paid-in capital..... | 1,449,869 | 1,447,830 |
| Retained (deficit) earnings | (3,268) | 2,910 |
| Treasury stock | (1,438) | (1,438) |
| Accumulated other comprehensive loss | (89,837) | (92,204) |
| | 1,514,272 | 1,515,859 |
| Total Liabilities and Stockholders' Equity | \$9,868,936 | \$10,171,896 |

ALLEGHENY ENERGY, INC. AND SUBSIDIARIES
RESULTS BY BUSINESS SEGMENT
(unaudited)

| (In millions) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---------------------------------------------------------------------------------------|--------------------------------|------------------|------------------------------|------------------|
| | 2004 | 2003 | 2004 | 2003 |
| Total operating revenues: | | | | |
| Delivery and Services | \$699.7 | \$665.5 | \$1,569.8 | \$1,516.4 |
| Generation and Marketing | 326.4 | 33.3 | 759.2 | 314.1 |
| Eliminations | (369.0) | (339.6) | (782.2) | (755.6) |
| Total | \$657.1 | \$359.2 | \$1,546.8 | \$1,074.9 |
| Operating income (loss): | | | | |
| Delivery and Services | \$65.7 | \$39.6 | \$161.8 | \$133.6 |
| Generation and Marketing | (40.9) | (335.7) | 52.8 | (472.6) |
| Eliminations | 1.1 | 7.1 | (3.9) | (12.4) |
| Total | \$25.9 | \$(289.0) | \$210.7 | \$(351.4) |
| Interest expense: | | | | |
| Delivery and Services | \$33.6 | \$32.7 | \$68.1 | \$63.8 |
| Generation and Marketing | 65.3 | 82.0 | 161.8 | 146.4 |
| Eliminations | --- | --- | (0.1) | --- |
| Total | \$98.9 | \$114.7 | \$229.8 | \$210.2 |
| Consolidated income (loss) before cumulative effect of accounting changes: | | | | |
| Delivery and Services | \$24.2 | \$4.3 | \$63.2 | \$53.7 |
| Generation and Marketing | (64.4) | (240.2) | (67.0) | (315.6) |
| Eliminations | 0.7 | 4.4 | (2.4) | (7.6) |
| Total | \$(39.5) | \$(231.5) | \$(6.2) | \$(269.5) |
| Cumulative effect of accounting changes, net: | | | | |
| Delivery and Services | \$--- | \$--- | \$--- | \$(1.3) |
| Generation and Marketing | --- | --- | --- | (19.5) |
| Eliminations | --- | --- | --- | --- |
| Total | \$--- | \$--- | \$--- | \$(20.8) |
| Consolidated net income (loss): | | | | |
| Delivery and Services | \$24.2 | \$4.3 | \$63.2 | \$52.4 |
| Generation and Marketing | (64.4) | (240.2) | (67.0) | (335.1) |
| Eliminations | 0.7 | 4.4 | (2.4) | (7.6) |
| Total | \$(39.5) | \$(231.5) | \$(6.2) | \$(290.3) |