

**ALLEGHENY ENERGY, INC.**  
**Consolidated Statements of Operations**

<u>(In thousands, except number of shares and per share data)</u>	Unaudited Three Months Ended September 30,		Unaudited Nine Months Ended September 30,	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
<b>Total operating revenues</b>	\$ 637,560	\$ 537,136	\$ 1,712,465	\$ 2,326,834
<b>Cost of revenues:</b>				
Fuel consumed for electric generation	160,764	166,095	453,590	436,266
Purchased energy and transmission	82,046	75,060	249,841	265,498
Natural gas purchases	16,198	128,572	137,702	432,099
Deferred energy costs, net	(10,023)	(3,675)	(30,647)	10,908
Other	7,241	37,287	27,427	77,267
Total cost of revenues	<u>256,226</u>	<u>403,339</u>	<u>837,913</u>	<u>1,222,038</u>
<b>Net revenues</b>	<u>381,334</u>	<u>133,797</u>	<u>874,552</u>	<u>1,104,796</u>
<b>Other operating expenses:</b>				
Workforce reduction expenses	---	104,170	---	104,170
Operation expense	213,127	218,704	789,309	714,084
Depreciation and amortization	86,039	77,359	243,124	233,226
Taxes other than income taxes	50,301	52,381	161,663	168,570
Total other operating expenses	<u>349,467</u>	<u>452,614</u>	<u>1,194,096</u>	<u>1,220,050</u>
<b>Operating income (loss)</b>	<u>31,867</u>	<u>(318,817)</u>	<u>(319,544)</u>	<u>(115,254)</u>
<b>Other income and (expenses), net</b>	15,154	(34,867)	96,767	(27,844)
<b>Interest charges and preferred dividends:</b>				
Interest on debt and other	127,282	81,183	350,930	229,176
Allowance for borrowed funds used during construction and interest capitalized	(2,432)	(3,610)	(15,853)	(9,485)
Dividends on preferred stock of subsidiaries	<u>1,259</u>	<u>1,260</u>	<u>3,778</u>	<u>3,778</u>
Total interest charges and preferred dividends	<u>126,109</u>	<u>78,833</u>	<u>338,855</u>	<u>223,469</u>
<b>Consolidated loss before income taxes, minority interest, and cumulative effect of accounting changes</b>	(79,088)	(432,517)	(561,632)	(366,567)
<b>Federal and state income tax (benefit)</b>	(26,554)	(164,883)	(231,950)	(141,563)
<b>Minority interest (benefit)</b>	<u>(1,537)</u>	<u>(4,618)</u>	<u>(9,122)</u>	<u>(4,602)</u>
<b>Consolidated loss before cumulative effect of accounting changes</b>	(50,997)	(263,016)	(320,560)	(220,402)
<b>Cumulative effect of accounting changes, net of taxes of \$12,974 and \$79,596</b>	<u>---</u>	<u>---</u>	<u>(20,765)</u>	<u>(130,514)</u>
<b>Consolidated net loss</b>	<u>\$ (50,997)</u>	<u>\$ (263,016)</u>	<u>\$ (341,325)</u>	<u>\$ (350,916)</u>
Weighted average basic and diluted common shares outstanding	126,959,283	125,691,877	126,800,176	125,460,716
<b>Basic and diluted loss per share:</b>				
Consolidated loss before cumulative effect of accounting changes	\$ (0.40)	\$ (2.09)	\$ (2.53)	\$ (1.76)
Cumulative effect of accounting changes, net	<u>---</u>	<u>---</u>	<u>(0.16)</u>	<u>(1.04)</u>
<b>Consolidated net loss</b>	<u>\$ (0.40)</u>	<u>\$ (2.09)</u>	<u>\$ (2.69)</u>	<u>\$ (2.80)</u>

**ALLEGHENY ENERGY, INC.**  
**Consolidated Statements of Cash Flows**

Unaudited  
Nine Months Ended  
September 30,

(In thousands)

	2003	2002
<b>Cash flows from operations:</b>		
Consolidated net loss	\$ (341,325)	\$ (350,916)
Cumulative effect of accounting changes, net	<u>20,765</u>	<u>130,514</u>
Consolidated loss before cumulative effect of accounting changes	(320,560)	(220,402)
Reapplication of SFAS No. 71	(75,824)	---
Depreciation and amortization	243,124	233,226
Amortization of adverse purchase power contract	(14,298)	(17,345)
Loss (gain) on disposal of assets	21,334	(15,033)
Minority interest	(9,122)	(4,602)
Deferred investment credit and income taxes, net	(159,600)	(7,432)
Deferred energy costs, net	(30,647)	10,908
Unrealized losses on commodity contracts, net	483,811	184,497
Workforce reduction expenses	---	94,220
Impairment of unregulated investments	---	38,036
Impairment of generation projects	---	38,488
Changes in certain assets and liabilities:		
Accounts receivable, net	100,066	(34,238)
Materials and supplies	(38,163)	(40,487)
Prepaid taxes	(16,252)	(10,185)
Taxes receivable/payable, net	181,433	21,044
Accounts payable	(46,539)	100,765
Benefit plans' investments	20,993	30,583
Accrued payroll	(12,300)	(32,087)
Interest accrued	22,447	25,653
Purchased options	10,053	(24,075)
Contract termination costs	(47,706)	---
Other, net	<u>18,447</u>	<u>370</u>
	<u>330,697</u>	<u>371,904</u>
<b>Cash flows used in investing:</b>		
Acquisition of electric generating assets	(318,435)	---
Construction expenditures	(205,604)	(330,300)
Proceeds from sale of businesses and assets	<u>55,894</u>	<u>16,556</u>
	<u>(468,145)</u>	<u>(313,744)</u>
<b>Cash flows from financing:</b>		
Proceeds from credit facilities, notes, and bonds	2,317,257	735,960
Restricted funds on deposit with trustee	(34,175)	605
Proceeds from issuance of common stock	---	647
Payments on credit facilities, notes, and bonds	(417,797)	(352,399)
Cash dividends paid on common stock	---	(145,044)
Short-term debt, net	<u>(1,131,966)</u>	<u>(100,582)</u>
	<u>733,319</u>	<u>139,187</u>
<b>Net change in cash and temporary cash investments</b>	595,871	197,347
<b>Cash and temporary cash investments at January 1</b>	<u>204,231</u>	<u>37,980</u>
<b>Cash and temporary cash investments at September 30</b>	<u>\$ 800,102</u>	<u>\$ 235,327</u>

**ALLEGHENY ENERGY, INC.**  
**Consolidated Balance Sheets**

<i>(In thousands)</i>	Unaudited	
	September 30, 2003	December 31, 2002
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and temporary cash investments	\$ 800,102	\$ 204,231
Accounts receivable:		
Billed:		
Customer	243,599	316,260
Energy trading and other	107,676	93,700
Unbilled	117,195	166,055
Allowance for uncollectible accounts	(43,399)	(29,645)
Materials and supplies (at average cost):		
Operating and construction	110,402	111,267
Fuel	111,802	74,768
Taxes receivable	---	185,691
Deferred income taxes	52,667	46,102
Commodity contracts	15,741	156,313
Prepaid taxes	66,209	49,957
Assets held for sale	---	9,259
Restricted funds	111,835	2,351
Other, including current portion of regulatory assets	97,102	77,563
	1,790,931	1,463,872
<b>Property, plant, and equipment:</b>		
In service, at original cost	11,632,793	10,976,166
Construction work in progress	162,603	380,959
	11,795,396	11,357,125
Accumulated depreciation	(4,686,817)	(4,474,551)
	7,108,579	6,882,574
<b>Investments and other assets:</b>		
Excess of cost over net assets acquired (Goodwill)	367,287	367,287
Benefit plans' investments	7,538	47,309
Unregulated investments	54,233	56,393
Intangible assets	38,648	38,648
Other	44,520	22,685
	512,226	532,322
<b>Deferred charges:</b>		
Commodity contracts	4,870	1,055,160
Regulatory assets	563,809	558,811
Other	142,624	107,540
	711,303	1,721,511
<b>Total assets</b>	<b>\$10,123,039</b>	<b>\$ 10,600,279</b>

**ALLEGHENY ENERGY, INC.**  
**Consolidated Balance Sheets (Continued)**

<i>(In thousands)</i>	Unaudited	
	September 30, 2003	December 31, 2002
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Short-term debt	\$ ---	\$ 1,131,966
Long-term debt due within one year	699,289	257,200
Debentures, notes, and bonds reclassified to current	4,888,410	3,662,201
Accounts payable	326,556	380,019
Taxes accrued - other	92,791	97,049
Adverse power purchase commitments	18,297	19,064
Commodity contracts	41,514	191,186
Interest accrued	85,058	62,611
Other, including current portion of regulatory liabilities	180,067	189,537
	6,331,982	5,990,833
<b>Long-term debt</b>	407,291	115,944
<b>Deferred credits and other liabilities:</b>		
Commodity contracts	62,959	590,546
Unamortized investment credit	91,415	96,183
Deferred income taxes	934,506	1,079,151
Obligation under capital leases	34,815	39,054
Regulatory liabilities	51,445	111,967
Adverse power purchase commitments	222,616	236,147
Other	308,114	313,106
	1,705,870	2,466,154
<b>Minority interest</b>	11,685	21,841
<b>Preferred stock of subsidiary</b>	74,000	74,000
<b>Stockholders' equity:</b>		
Common stock	158,761	158,261
Other paid-in capital	1,447,830	1,446,180
Retained earnings	16,564	357,889
Treasury stock	(1,179)	(411)
Accumulated other comprehensive loss	(29,765)	(30,412)
	1,592,211	1,931,507
<b>Commitments and contingencies</b>		
<b>Total liabilities and stockholders' equity</b>	\$ 10,123,039	\$ 10,600,279

**ALLEGHENY ENERGY, INC.**  
**Results by Business Segment**

<i>(In millions)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Total operating revenues:				
Delivery and Services	\$ 689.0	\$ 857.8	\$ 2,205.3	\$ 2,561.9
Generation and Marketing	305.5	56.7	619.6	867.9
Eliminations	(356.9)	(377.4)	(1,112.4)	(1,103.0)
Total	<u>\$ 637.6</u>	<u>\$ 537.1</u>	<u>\$ 1,712.5</u>	<u>\$ 2,326.8</u>
Operating income (loss):				
Delivery and Services	\$ 64.9	\$ 28.7	\$ 198.5	\$ 189.2
Generation and Marketing	(41.1)	(349.2)	(513.7)	(301.2)
Eliminations	8.1	1.7	(4.3)	(3.3)
Total	<u>\$ 31.9</u>	<u>\$ (318.8)</u>	<u>\$ (319.5)</u>	<u>\$ (115.3)</u>
Consolidated income (loss) before cumulative effect of accounting changes:				
Delivery and Services	\$ 29.2	\$ (23.2)	\$ 82.9	\$ 41.9
Generation and Marketing	(85.1)	(240.6)	(400.7)	(260.1)
Eliminations	4.9	0.8	(2.7)	(2.2)
Total	<u>\$ (51.0)</u>	<u>\$ (263.0)</u>	<u>\$ (320.5)</u>	<u>\$ (220.4)</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	\$ 29.2	\$ (23.2)	\$ 81.7	\$ (88.6)
Generation and Marketing	(85.1)	(240.6)	(420.3)	(260.1)
Eliminations	4.9	0.8	(2.7)	(2.2)
Total	<u>\$ (51.0)</u>	<u>\$ (263.0)</u>	<u>\$ (341.3)</u>	<u>\$ (350.9)</u>