

CONSOL ENERGY INC
Form 10-Q
November 01, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2007 or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-14901

CONSOL Energy Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of

51-0337383
(IRS Employer Identification No.)

Incorporation or Organization)

1800 Washington Road

Pittsburgh, Pennsylvania
(Address of Principal Executive Offices)

15241
(Zip Code)

(412) 831-4000

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

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Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

| Class | Shares outstanding as of October 23, 2007 |
|--------------------------------|---|
| Common stock, \$0.01 par value | 181,445,679 |

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FINANCIAL INFORMATION

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Table of Contents**PART I****FINANCIAL INFORMATION****ITEM 1. CONDENSED FINANCIAL STATEMENTS
CONSOL ENERGY INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME****(Unaudited)****(Dollars in thousands, except per share data)**

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|----------------|-------------------|------------------|
| | September 30, | | September 30, | |
| | 2007 | 2006 | 2007 | 2006 |
| Sales Outside | \$ 791,981 | \$ 747,898 | \$ 2,504,408 | \$ 2,441,149 |
| Sales Gas Royalty Interests | 10,175 | 13,221 | 36,841 | 41,714 |
| Sales Purchased Gas | 821 | 9,076 | 3,297 | 41,206 |
| Freight Outside | 44,707 | 38,239 | 132,007 | 113,007 |
| Other Income | 20,692 | 34,918 | 167,006 | 124,427 |
| Total Revenue and Other Income | 868,376 | 843,352 | 2,843,559 | 2,761,503 |
| Cost of Goods Sold and Other Operating Charges (exclusive of depreciation, depletion and amortization shown below) | 634,852 | 555,822 | 1,745,258 | 1,628,147 |
| Gas Royalty Interests Costs | 8,525 | 10,781 | 31,663 | 34,400 |
| Purchased Gas Costs | 496 | 9,340 | 2,988 | 42,091 |
| Freight Expense | 44,707 | 38,239 | 132,007 | 113,007 |
| Selling, General and Administrative Expense | 26,623 | 25,062 | 79,171 | 67,053 |
| Depreciation, Depletion and Amortization | 82,402 | 72,824 | 234,880 | 219,088 |
| Interest Expense | 5,820 | 5,685 | 19,257 | 17,791 |
| Taxes Other Than Income | 60,064 | 57,145 | 190,816 | 195,301 |
| Total Costs | 863,489 | 774,898 | 2,436,040 | 2,316,878 |
| Earnings Before Income Taxes and Minority Interest | 4,887 | 68,454 | 407,519 | 444,625 |
| Income Taxes | 4,506 | 13,208 | 126,964 | 128,567 |
| Earnings Before Minority Interest | 381 | 55,246 | 280,555 | 316,058 |
| Minority Interest | (5,765) | (6,962) | (19,560) | (22,524) |
| Net Income | \$ (5,384) | \$ 48,284 | \$ 260,995 | \$ 293,534 |
| Basic Earnings Per Share | \$ (0.03) | \$ 0.26 | \$ 1.43 | \$ 1.60 |
| Dilutive Earnings Per Share | \$ (0.03) | \$ 0.26 | \$ 1.41 | \$ 1.58 |

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| Weighted Average Number of Common Shares Outstanding: | | | | |
|---|-------------|-------------|-------------|-------------|
| Basic | 181,866,727 | 183,246,777 | 182,123,133 | 183,597,117 |
| Dilutive | 181,866,727 | 185,555,687 | 184,517,283 | 185,850,322 |
| Dividends Paid Per Share | \$ 0.07 | \$ 0.07 | \$ 0.21 | \$ 0.21 |

The accompanying notes are an integral part of these financial statements.

Table of Contents**CONSOL ENERGY INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(Dollars in thousands, except per share data)

| | (Unaudited) | |
|---|---------------------|---------------------|
| | September 30, | December 31, |
| | 2007 | 2006 |
| ASSETS | | |
| Current Assets: | | |
| Cash and Cash Equivalents | \$ 78,696 | \$ 223,883 |
| Accounts and Notes Receivable: | | |
| Trade | 190,960 | 303,175 |
| Other Receivables | 58,458 | 51,890 |
| Inventories | 165,527 | 149,307 |
| Deferred Income Taxes | 123,592 | 117,231 |
| Recoverable Income Taxes | | 1,278 |
| Prepaid Expenses | 81,124 | 67,732 |
| Total Current Assets | 698,357 | 914,496 |
| Property, Plant and Equipment: | | |
| Property, Plant and Equipment | 8,782,244 | 7,849,936 |
| Less Accumulated Depreciation, Depletion and Amortization | 3,980,789 | 3,809,649 |
| Total Property, Plant and Equipment Net | 4,801,455 | 4,040,287 |
| Other Assets: | | |
| Deferred Income Taxes | 379,407 | 507,996 |
| Investment in Affiliates | 92,462 | 84,219 |
| Other | 104,741 | 116,334 |
| Total Other Assets | 576,610 | 708,549 |
| TOTAL ASSETS | \$ 6,076,422 | \$ 5,663,332 |

The accompanying notes are an integral part of these financial statements.

Table of Contents**CONSOL ENERGY INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(Dollars in thousands, except per share data)

| | (Unaudited) | |
|---|---------------------|---------------------|
| | September 30, | December 31, |
| | 2007 | 2006 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current Liabilities: | | |
| Accounts Payable | \$ 239,606 | \$ 225,060 |
| Short-Term Notes Payable | 181,000 | |
| Current Portion of Long-Term Debt | 16,964 | 59,518 |
| Accrued Income Taxes | 38,318 | |
| Other Accrued Liabilities | 463,337 | 455,546 |
| Total Current Liabilities | 939,225 | 740,124 |
| Long-Term Debt: | | |
| Long-Term Debt | 398,163 | 391,983 |
| Capital Lease Obligations | 91,535 | 100,762 |
| Total Long-Term Debt | 489,698 | 492,745 |
| Deferred Credits and Other Liabilities: | | |
| Postretirement Benefits Other Than Pensions | 2,259,996 | 2,252,115 |
| Pneumoconiosis Benefits | 199,151 | 184,424 |
| Mine Closing | 408,550 | 389,896 |
| Workers Compensation | 135,614 | 121,337 |
| Deferred Revenue | 4,636 | 13,106 |
| Salary Retirement | 39,207 | 113,944 |
| Reclamation | 27,120 | 26,461 |
| Other | 174,608 | 127,370 |
| Total Deferred Credits and Other Liabilities | 3,248,882 | 3,228,653 |
| Minority Interest | 157,102 | 135,659 |
| Total Liabilities and Minority Interest | 4,834,907 | 4,597,181 |
| Stockholders Equity: | | |
| Common Stock, \$.01 par value; 500,000,000 Shares Authorized, 185,126,526 Issued and 181,246,015 Outstanding at September 30, 2007; 185,126,526 Issued and 182,654,629 Outstanding at December 31, 2006 | 1,851 | 1,851 |
| Preferred Stock, 15,000,000 Shares Authorized; None Issued and Outstanding | | |
| Capital in Excess of Par Value | 946,318 | 921,881 |
| Retained Earnings | 803,267 | 600,541 |
| Other Comprehensive Loss | (371,369) | (375,717) |
| Common Stock in Treasury, at Cost 3,880,511 Shares at September 30, 2007 and 2,471,897 Shares at December 31, 2006 | (138,552) | (82,405) |
| Total Stockholders Equity | 1,241,515 | 1,066,151 |
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY | \$ 6,076,422 | \$ 5,663,332 |

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The accompanying notes are an integral part of these financial statements.

Table of Contents**CONSOL ENERGY INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

(Dollars in thousands, except per share data)

| | Common Stock | Capital in Excess of Par Value | Retained Earnings (Deficit) | Other Compre- hensive Income (Loss) | Treasury Stock | Total Stock- holders Equity |
|---|-----------------|---|-----------------------------------|---|-------------------|--------------------------------------|
| Balance December 31, 2006 | \$ 1,851 | \$ 921,881 | \$ 600,541 | \$ (375,717) | \$ (82,405) | \$ 1,066,151 |
| (Unaudited) | | | | | | |
| Net Income | | | 260,995 | | | 260,995 |
| Treasury Rate Lock (Net of \$39 tax) | | | | (62) | | (62) |
| Amortization of Prior Service Costs and Actuarial Gains (Loss) (Net of \$1,359 tax) | | | | (2,727) | | (2,727) |
| Pension Settlement Accounting (Net of \$1,062 tax) | | | | 2,132 | | 2,132 |
| Minority Interest in Other Comprehensive Income and Stock-based Compensation of Gas | | | | (1,183) | | (1,183) |
| Gas Cash Flow Hedge (Net of \$3,640 tax) | | | | 6,549 | | 6,549 |
| FAS 158 Long-Term Liability Adjustments | | | | (361) | | (361) |
| Comprehensive Income (Loss) | | | 260,995 | 4,348 | | 265,343 |
| Cumulative Effect of FASB Interpretation No. 48 Adoption | | | (3,202) | | | (3,202) |
| Issuance of Treasury Stock | | | (16,785) | | 23,985 | 7,200 |
| Purchases of Treasury Stock | | | | | (80,132) | (80,132) |
| Tax Benefit from Stock-Based Compensation | | 6,358 | | | | 6,358 |
| Amortization of Stock-Based Compensation Awards | | 18,079 | | | | 18,079 |
| Dividends (\$0.21 per share) | | | (38,282) | | | (38,282) |
| Balance September 30, 2007 | \$ 1,851 | \$ 946,318 | \$ 803,267 | \$ (371,369) | \$ (138,552) | \$ 1,241,515 |

The accompanying notes are an integral part of these financial statements.

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CONSOL ENERGY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in thousands)

| | Nine Months Ended | |
|---|-------------------|---------------|
| | September 30, | |
| | 2007 | 2006 |
| <i>Operating Activities:</i> | | |
| Net Income | \$ 260,995 | \$ 293,534 |
| Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities: | | |
| Depreciation, Depletion and Amortization | 234,880 | 219,088 |
| Stock-based Compensation | 20,496 | 10,325 |
| Gain on the Sale of Assets | (109,898) | (5,476) |
| Change in Minority Interest | 19,560 | 22,524 |
| Amortization of Mineral Leases | 3,546 | 4,069 |
| Deferred Income Taxes | 63,643 | 10,424 |
| Equity in Earnings of Affiliates | (5,209) | (669) |
| Changes in Operating Assets: | | |
| Accounts Receivable Securitization | 113,300 | |
| Accounts and Notes Receivable | 34,941 | (5,533) |
| Inventories | 10,480 | (40,895) |
| Prepaid Expenses | (9,180) | (21,714) |
| Changes in Other Assets | 19,977 | 308 |
| Changes in Operating Liabilities: | | |
| Accounts Payable | 11,822 | (23,960) |
| Other Operating Liabilities | (21,063) | (45,290) |
| Changes in Other Liabilities | (52,182) | 16,213 |
| Other | (73) | 6,349 |
| Net Cash Provided by Operating Activities | 596,035 | 439,297 |
| <i>Investing Activities:</i> | | |
| Capital Expenditures | (514,911) | (494,167) |
| Additions to Mineral Leases | (10,733) | (5,670) |
| Acquisition of AMVEST, net of cash received | (296,659) | |
| Net Investment in Equity Affiliates | (3,034) | (1,402) |
| Purchase of CNX Gas Stock | (10,000) | |
| Proceeds from Sales of Assets | 64,287 | 44,028 |
| Net Cash Used in Investing Activities | (771,050) | (457,211) |
| <i>Financing Activities:</i> | | |
| Payments on Miscellaneous Borrowings | (1,316) | (4,093) |
| Proceeds from Revolver | 181,000 | |
| Payments on Long Term Notes | (45,000) | |
| Tax Benefit from Stock-Based Compensation | 6,358 | 37,878 |
| Dividends Paid | (38,282) | (38,631) |
| Issuance of Treasury Stock | 7,200 | 12,777 |
| Purchases of Treasury Stock | (80,132) | (116,450) |

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| | | |
|---|-----------|------------|
| Stock Options Exercised | | 1,362 |
| Net Cash Provided by (Used in) Financing Activities | 29,828 | (107,157) |
| Net Decrease in Cash and Cash Equivalents | (145,187) | (125,071) |
| Cash and Cash Equivalents at Beginning of Period | 223,883 | 340,640 |
| Cash and Cash Equivalents at End of Period | \$ 78,696 | \$ 215,569 |

The accompanying notes are an integral part of these financial statements.

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CONSOL ENERGY INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2007

(Dollars in thousands, except per share data)

NOTE 1 BASIS OF PRESENTATION:

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair statement have been reflected in the interim period's presentation. Operating results for the three-month and nine-month periods ended September 30, 2007 are not necessarily indicative of the results that may be expected for future periods.

The balance sheet at December 31, 2006 has been derived from the audited consolidated financial statements at that date but does not include all the notes required by generally accepted accounting principles for complete financial statements.

For further information, refer to the consolidated financial statements and related notes for the year ended December 31, 2006 included in CONSOL Energy's Form 10-K.

In September 2006, the FASB issued Financial Accounting Standards Board Staff Position No. AUG AIR-1, Accounting for Planned Major Maintenance Activities (FSP AUG AIR-1), which amended certain provisions in the American Institute of Certified Public Accountants (AICPA) Industry Audit Guide, Audits of Airlines (Airline Guide), and Accounting Principles Board Opinion No. 28: Interim Financial Reporting. The Board rescinded the accrue-in-advance method of accounting for planned major maintenance activities as it results in the recognition of liabilities that do not meet the definition of a liability in FASB Concepts Statement No. 6, Elements of Financial Statements, because it causes the recognition of a liability in a period prior to the occurrence of the transaction or event obligating the entity. The guidance in FSP AUG AIR-1 has been applied to the three and nine month periods ended September 30, 2007 using the direct expense method of accounting for planned major maintenance activities. The guidance in FSP AUG AIR-1 also requires this approach to be applied retrospectively for all financial statements presented, unless it is impracticable to do so. Accordingly, we have reflected these adjustments in the financial statements presented. The following represents the changes that were made from the previously reported September 30, 2006 financial information:

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| | For the Three Months Ended | | | For the Nine Months Ended | | |
|--|----------------------------|------------|------------------|---------------------------|-------------|------------------|
| | September 30, 2006 | | | September 30, 2006 | | |
| | As | | | As | | |
| | Previously Presented | Adjustment | Restated Amounts | Previously Presented | Adjustment | Restated Amounts |
| Income Statement Changes: | | | | | | |
| Cost of Goods Sold and Other Operating Charges | \$ 552,132 | \$ 3,690 | \$ 555,822 | \$ 1,645,652 | \$ (17,505) | \$ 1,628,147 |
| Total Costs | \$ 771,208 | \$ 3,690 | \$ 774,898 | \$ 2,334,383 | \$ (17,505) | \$ 2,316,878 |
| Earnings Before Income Taxes and Minority Interest | \$ 72,414 | \$ (3,960) | \$ 68,454 | \$ 427,120 | \$ 17,505 | \$ 444,625 |
| Income Taxes | \$ 14,597 | \$ (1,389) | \$ 13,208 | \$ 123,631 | \$ 4,936 | \$ 128,567 |
| Earnings Before Minority Interest | \$ 57,547 | \$ (2,301) | \$ 55,246 | \$ 303,489 | \$ 12,569 | \$ 316,058 |
| Net Income | \$ 50,585 | \$ (2,301) | \$ 48,284 | \$ 280,965 | \$ 12,569 | \$ 293,534 |
| Earnings Per Share: | | | | | | |
| Basic | \$ 0.28 | \$ (0.02) | \$ 0.26 | \$ 1.53 | \$ 0.07 | \$ 1.60 |
| Dilutive | \$ 0.27 | \$ (0.01) | \$ 0.26 | \$ 1.51 | \$ 0.07 | \$ 1.58 |

| | At September 30, 2006 | | | | |
|--|-----------------------|--|--------------|-------------|--------------|
| Balance Sheet Changes: | | | | | |
| Deferred Income Taxes Current | | | \$ 142,343 | \$ 66 | \$ 142,409 |
| Total Current Assets | | | \$ 919,478 | \$ 66 | \$ 919,544 |
| Deferred Income Taxes Long-Term | | | \$ 338,722 | \$ (1,849) | \$ 336,873 |
| Total Other Assets | | | \$ 528,100 | \$ (1,849) | \$ 526,251 |
| Total Assets | | | \$ 5,275,165 | \$ (1,783) | \$ 5,273,382 |
| Accrued Income Taxes | | | \$ 28,219 | \$ 3,155 | \$ 31,374 |
| Other Accrued Liabilities | | | \$ 528,160 | \$ (17,505) | \$ 510,655 |
| Total Current Liabilities | | | \$ 788,129 | \$ (14,350) | \$ 773,779 |
| Total Liabilities and Minority Interests | | | \$ 4,037,183 | \$ (14,350) | \$ 4,022,833 |
| Retained Earnings | | | \$ 486,543 | \$ 12,569 | \$ 499,112 |
| Total Stockholders' Equity | | | \$ 1,237,980 | \$ 12,569 | \$ 1,250,549 |

Although this guidance affects the 2006 interim financial results of CONSOL Energy, it will not affect the 2006 annual financial results. The adjustments did not change previously reported September 30, 2006 net cash provided by or used in operating, investing or financing activities on the Consolidated Statement of Cash Flows.

Certain reclassifications of 2006 data have been made to conform to the nine months ended September 30, 2007 classifications. The reclassifications include the netting of firm transportation obligations previously reported in prepaid expenses and other accrued liabilities.

Basic earnings per share are computed by dividing net income by the weighted average shares outstanding during the reporting period. Dilutive earnings per share are computed similarly to basic earnings per share except that the weighted average shares outstanding are increased to include additional shares from the effect of dilutive potential common shares outstanding during the period as calculated in accordance with Statement of Financial Accounting Standards No. 123R (SFAS 123R). The number of additional shares is calculated by assuming that stock units were converted and outstanding stock options were exercised and that the proceeds from such activity were used to acquire shares of common stock at the average market price during the reporting period. As a result of the net loss for the three months ended September 30, 2007, no options or units were included in the computation of dilutive earnings per share because the effect would be antidilutive. Options to purchase 1,174,561 shares of common stock were outstanding for the nine month period ended September 30, 2007, but were not included in the computation of dilutive earnings per share because the effect would be antidilutive. Options to purchase 756,807 shares of common stock were outstanding for the three and nine month periods ended September 30, 2006, respectively, but were not included in the computation of dilutive earnings per share because the effect would be antidilutive.

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The computations for basic and dilutive earnings per share from continuing operations are as follows:

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|-------------|-------------------|-------------|
| | September 30, | | September 30, | |
| | 2007 | 2006 | 2007 | 2006 |
| Net Income (Loss) | \$ (5,384) | \$ 48,284 | \$ 260,995 | \$ 293,534 |
| Average shares of common stock outstanding: | | | | |
| Basic | 181,866,727 | 183,246,777 | 182,123,133 | 183,597,117 |
| Effect of stock-based compensation plans | | 2,308,910 | 2,394,150 | 2,253,205 |
| Dilutive | 181,866,727 | 185,555,687 | 184,517,283 | 185,850,322 |
| Earnings per share: | | | | |
| Basic | \$ (0.03) | \$ 0.26 | \$ 1.43 | \$ 1.60 |
| Dilutive | \$ (0.03) | \$ 0.26 | \$ 1.41 | \$ 1.58 |

NOTE 2 ACQUISITIONS AND DISPOSITIONS:

On July 31, 2007, CONSOL Energy acquired AMVEST Corporation and certain subsidiaries and affiliates (AMVEST) for a cash payment, net of cash acquired, of \$296,659 in a transaction accounted for under Statement of Financial Accounting Standards No. 141 (SFAS 141), Business Combinations. The coal reserves acquired consist of approximately 200 million tons of high quality, low sulfur steam and high-volatile metallurgical coal. Also included in the acquisition were four coal preparation plants, several fleets of modern mining equipment and a common short-line railroad that connects the coal preparation plants to the CSX and Norfolk and Southern rail interchanges. The results of operations of the acquired entities are included in CONSOL Energy's Consolidated Statement of Income as of August 1, 2007.

The AMVEST acquisition, when combined with CONSOL Energy's adjacent coal reserves, creates a large contiguous block of coal reserves in the Central Appalachian region. Also, included in the acquisition was a highly-skilled workforce proficient in Central Appalachian surface mining. This workforce combined with CONSOL Energy's underground mining expertise will allow us to build and transfer knowledge among operations to focus the best skill sets to development requirements of the various parts of this reserve block.

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The application of purchase accounting under SFAS 141 requires that the total purchase price be allocated to the fair value of assets acquired and liabilities assumed based on the fair values of assets and liabilities at acquisition date. CONSOL Energy continues to evaluate assets and liabilities assumed, the results of this process may lead to adjustments to the purchase price allocation shown below. The following table summarizes the estimated fair values of the assets acquired and the liabilities assumed at the date of acquisition:

| | |
|---|-------------------|
| Assets | |
| Current Assets: | |
| Cash and Cash Equivalents | \$ 7,028 |
| Accounts and Notes Receivable: | |
| Trade | 21,251 |
| Other Receivables | 14,969 |
| Inventories | 17,827 |
| Prepaid Expenses | 937 |
| Total Current Assets | 62,012 |
| Property, Plant and Equipment: | 460,880 |
| Other Assets: | |
| Other | 337 |
| Total Other Assets | 337 |
| Total Assets | \$ 523,229 |
| Liabilities | |
| Current Liabilities: | |
| Accounts Payable | \$ 12,535 |
| Accrued Income Taxes | 43,060 |
| Other Accrued Liabilities | 23,778 |
| Total Current Liabilities | 79,373 |
| Deferred Credits and Other Liabilities: | |
| Deferred Income Taxes | 103,811 |
| Postretirement Benefits Other Than Pensions | 2,130 |
| Pneumoconiosis Benefits | 8,055 |
| Mine Closing | 16,705 |
| Workers Compensation | 1,744 |
| Reclamation | 2,239 |
| Other | 5,484 |
| Total Deferred Credits and Other Liabilities | 140,168 |
| Total Liabilities | 219,541 |
| Net Assets Acquired | \$ 303,688 |

The unaudited pro forma results presented below are prepared as if the transaction occurred at the beginning of each period presented:

| For the Quarter Ended | | For the Nine Months Ended | |
|-----------------------|-----------------------|---------------------------|-----------------------|
| September 30, 2007 | September 30, 2006 | September 30, 2007 | September 30, 2006 |

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| | | | | |
|--------------------------------|------------|------------|--------------|--------------|
| Total Revenue and Other Income | \$ 889,124 | \$ 920,959 | \$ 2,983,508 | \$ 2,966,961 |
| Earnings Before Income Taxes | \$ 13,628 | \$ 79,542 | \$ 422,338 | \$ 470,139 |
| Net Income | \$ 1,056 | \$ 56,245 | \$ 271,912 | \$ 311,853 |
| Basic Earnings Per Share | \$ 0.01 | \$ 0.31 | \$ 1.50 | \$ 1.70 |

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The pro forma results are not necessarily indicative of what actually would have occurred if the acquisition of the interest in these entities had been completed as of the beginning of each fiscal period presented, nor are they necessarily indicative of future consolidated results.

In July 2007, CONSOL Energy, through a subsidiary, completed the acquisition of Piping & Equipment, Inc. for a cash payment, net of cash acquired, of \$16,914. This amount is included in capital expenditures in cash used in investing activities on the Consolidated Statement of Cash Flow. Piping & Equipment, Inc. is a pipe, valve and fittings supplier with eight locations in Florida, Alabama, Louisiana and Texas. The fair value of merchandise for resale acquired in this acquisition is \$9,531 and is included in inventory on the Consolidated Balance Sheet. The pro forma results for this acquisition are not significant to CONSOL Energy's financial position.

During the three months ended September 30, 2007, CONSOL Energy purchased \$10,000 of CNX Gas stock on the open market at an average price of \$26.87 per share. The purchase of these 372,000 shares changed CONSOL Energy's ownership percentage in CNX Gas from 81.5% to 81.7%.

In June 2007, CONSOL Energy, through a subsidiary, exchanged certain coal assets in Northern Appalachia with Peabody Energy for coalbed methane and gas rights. This transaction was accounted for as a non-monetary exchange under Statement of Financial Accounting Standards No. 153 resulting in a pre-tax gain of \$50,060.

In June 2007, CONSOL Energy, through a subsidiary, acquired certain coalbed methane and gas rights from Peabody Energy for a cash payment of \$15,000 plus approximately \$1,500 of various other acquisition costs.

In June 2007, CONSOL Energy, through a subsidiary, sold the rights to certain western Kentucky coal in the Illinois Basin to Alliance Resource Partners, L.P. for \$53,309. This transaction resulted in a pre-tax gain of \$49,868.

In December 2006, CONSOL Energy, through a subsidiary, completed a sale/lease-back transaction for its future headquarters property. Cash proceeds were \$9,548 which did not result in a gain or loss on the sale. The initial lease term is twenty years and includes an option to renew the lease term for an additional five-year period and a subsequent four-and-one-half year lease term. The lease is accounted for as a capital lease during the construction period, in accordance with the guidance provided by the Emerging Issues Task Force (EITF) on Issue No. 97-10, The Effect of Lessee Involvement in Asset Construction. After construction, the lease will be accounted for as an operating lease. Estimated monthly rental payments of \$462 will be made for the period August 1, 2008 through July 31, 2010; \$552 for the period August 1, 2010 through July 31, 2018; and \$581 for the period August 1, 2018 through July 31, 2028.

In November 2006, CONSOL Energy, through a subsidiary, acquired a 50% interest in a specialty contracting company for a cash payment of \$29,500. The specialty contracting company provides drilling services to the government, commercial, mining and public utility industries. The acquisition was accounted for under the equity method of accounting.

In March 2006, CONSOL Energy, through a subsidiary, completed a sale/lease-back of longwall equipment. Cash proceeds from the sale were \$36,363 which was equal to our basis in the equipment. Accordingly, no gain or loss was recorded on the transaction. The lease has been accounted for as a capital lease. The lease term is five years.

In January 2006, CONSOL Energy, through a subsidiary, completed the acquisition of Mon River Towing and J.A.R. Barge Lines, LLC, from The Guttman Group for a cash payment of \$24,750. The acquisition included 13 towboats and more than 350 barges with the capacity to transport 13 million tons of coal annually. Mon River Towing transports petroleum products, coal, limestone and other bulk commodities to various locations along the navigable rivers of Pennsylvania, Ohio, West Virginia and Kentucky. J.A.R. Barge Lines, LLC charters motor vessels and barges to other river transportation firms along the inland waterways.

Table of Contents**NOTE 3 COMPONENTS OF PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS NET PERIODIC BENEFIT COSTS:**

Components of net periodic costs for the three and nine months ended September 30 are as follows:

| | Pension Benefits | | | | Other Benefits | | | |
|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | Three Months Ended | | Nine Months Ended | | Three Months Ended | | Nine Months Ended | |
| | September 30, 2007 | September 30, 2006 | September 30, 2007 | September 30, 2006 | September 30, 2007 | September 30, 2006 | September 30, 2007 | September 30, 2006 |
| Service cost | \$ 2,754 | \$ 3,952 | \$ 8,261 | \$ 11,855 | \$ 2,747 | \$ 2,523 | \$ 8,241 | \$ 7,570 |
| Interest cost | 7,201 | 7,062 | 21,478 | 21,186 | 34,814 | 32,416 | 104,396 | 97,249 |
| Expected return on plan assets | (7,688) | (6,531) | (22,936) | (19,593) | | | | |
| Settlement loss | | 21,809 | 3,192 | 21,809 | | | | |
| Amortization of prior service costs (credit) | (279) | (271) | (836) | (814) | (12,750) | (14,156) | (38,251) | (42,464) |
| Recognized net actuarial loss | 3,122 | 4,171 | 9,366 | 12,514 | 15,307 | 16,077 | 45,923 | 48,226 |
| Net periodic benefit cost | \$ 5,110 | \$ 30,192 | \$ 18,525 | \$ 46,957 | \$ 40,118 | \$ 36,860 | \$ 120,309 | \$ 110,581 |

Our defined benefit pension plan for salaried employees allows such employees to receive a lump-sum distribution in lieu of annual payments when they retire from CONSOL Energy and its subsidiaries. Statement of Financial Accounting Standards (SFAS) No. 88, Employers Accounting for Settlements & Curtailments of Defined Benefit Pension Plans and for Termination Benefits, requires that when the lump-sum distributions made for a plan year, which for CONSOL Energy is October 1 to September 30, exceed the total of the service cost and interest cost for the plan year, an adjustment equaling the unrecognized actuarial gain or loss resulting from each individual who received a lump sum in that year be recognized. There was no settlement loss recognized in the three months ended September 30, 2007. CONSOL Energy recognized a settlement loss of \$3,192 in the nine months ended September 30, 2007. CONSOL Energy recognized a settlement loss of \$21,809 in the three and nine months ended September 30, 2006. The settlement loss was included in costs of goods sold and other operating charges and selling, general and administrative expenses.

For the three month and nine month periods ended September 30, 2007, \$80,695 and \$84,794 of pension benefits have been paid. CONSOL Energy presently does not anticipate contributing any additional funds to the pension trust in 2007.

We do not expect to contribute to the other post employment benefit plan in 2007. We intend to pay benefit claims as they become due. For the three and nine month periods ended September 30, 2007, \$34,195 and \$101,748 of other post employment benefits have been paid.

Table of Contents**NOTE 4 COMPONENTS OF COAL WORKERS PNEUMOCONIOSIS (CWP) AND WORKERS COMPENSATION NET PERIODIC BENEFIT COSTS:**

Components of net periodic costs (benefits) for the three and nine months ended September 30 are as follows:

| | CWP | | | | Workers Compensation | | | |
|---|-----------------------|----------|-----------------------|----------|-----------------------|-----------|-----------------------|-----------|
| | Three Months Ended | | Nine Months Ended | | Three Months Ended | | Nine Months Ended | |
| | September 30, 2007 | 2006 | September 30, 2007 | 2006 | September 30, 2007 | 2006 | September 30, 2007 | 2006 |
| Service cost | \$ 1,412 | \$ 1,490 | \$ 4,234 | \$ 4,472 | \$ 7,415 | \$ 7,574 | \$ 22,244 | \$ 22,721 |
| Interest cost | 2,935 | 3,017 | 8,636 | 9,051 | 2,095 | 2,092 | 6,253 | 6,276 |
| Amortization of actuarial gain | (5,775) | (5,462) | (17,325) | (16,387) | (988) | (692) | (2,965) | (2,075) |
| State administrative fees and insurance bond premiums | | | | | 2,024 | 2,352 | 5,903 | 5,655 |
| Legal and administrative costs | 675 | 675 | 2,025 | 2,025 | 815 | 872 | 2,445 | 2,616 |
| Net periodic (benefit) cost | \$ (753) | \$ (280) | \$ (2,430) | \$ (839) | \$ 11,361 | \$ 12,198 | \$ 33,880 | \$ 35,193 |

CONSOL Energy does not expect to contribute to the CWP plan in 2007. We intend to pay benefit claims as they become due. For the three and nine months ended September 30, 2007, \$2,772 and \$7,940 of CWP benefit claims have been paid.

CONSOL Energy does not expect to contribute to the workers compensation plan in 2007. We intend to pay benefit claims as they become due. For the three and nine months ended September 30, 2007, \$10,561 and \$31,039 of workers compensation benefits, state administrative fees and surety bond premiums have been paid.

NOTE 5 INCOME TAXES:

The following is a reconciliation, stated in dollars and as a percentage of pretax income, of the U. S. statutory federal income tax rate to CONSOL Energy's effective tax rate:

| | For the Nine Months Ended September 30, | | | |
|---|---|---------|------------|---------|
| | 2007 | | 2006 | |
| | Amount | Percent | Amount | Percent |
| Statutory U.S. federal income tax rate | \$ 142,632 | 35.0% | \$ 154,428 | 35.0% |
| Excess tax depletion | (38,356) | (9.4) | (41,056) | (9.3) |
| Effect of domestic production activities deduction | (1,504) | (0.4) | (1,896) | (0.4) |
| Effect of Medicare Prescription Drug, Improvement and Modernization Act of 2003 | 1,169 | 0.3 | 1,206 | 0.3 |
| Effect of 2006 federal tax accrual to tax return reconciling adjustment | 4,172 | 1.0 | | |
| Net effect of state tax | 16,177 | 4.0 | 15,576 | 3.5 |
| Other | 2,674 | 0.6 | 309 | 0.2 |
| Income Tax Expense / Effective Rate | \$ 126,964 | 31.1% | \$ 128,567 | 29.3% |

The effective tax rate for the nine months ended September 30, 2007 was calculated using the effective rate projection on recurring earnings and also includes tax expense related to certain discrete transactions. The nine months ended September 30, 2007 also includes \$4,172 of expense related to the actualization of the 2006 accrual to the federal income tax returns that were filed in September 2007. The effective tax rate for the nine months ended September 30, 2006 was calculated using the effective rate projection on recurring earnings.

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CONSOL Energy adopted the provisions of FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes, on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized an increase of \$3,202 in the liability for unrecognized tax benefits upon adoption, which was accounted for as a reduction to the January 1, 2007 balance of retained earnings. During the three months ended September 30, 2007, CONSOL Energy recognized an increase of \$10,000 in the liability for unrecognized tax benefits as a result of tax positions taken during the current period, and uncertain tax positions identified upon the acquisition of AMVEST Corporation and related subsidiaries (AMVEST). Of the total increase in the liability for unrecognized tax benefits, \$7,500 results from an increase in uncertain tax positions related to temporary differences, similar to those positions currently under examination, which have been generated by current operations. The remainder of the increase in the liability, \$2,500, is attributable to uncertain tax positions recognized as a result of the acquisition of AMVEST. Recognition of these liabilities had no impact on net income for the period ending September 30, 2007.

The total amount of unrecognized tax benefits as of September 30, 2007 and January 1, 2007 were \$61,000 and \$50,000, respectively. If these unrecognized tax benefits were recognized, approximately \$10,000 and \$13,200 respectively would affect CONSOL Energy's effective income tax rate.

CONSOL Energy and its subsidiaries file income tax returns in the U. S. federal, various states and Canadian jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2002. The Internal Revenue Service (IRS) commenced an examination of CONSOL Energy's U.S. 2004 and 2005 income tax returns in 2006 that is anticipated to be completed by the end of 2008. As of September 30, 2007, the IRS has not proposed any significant adjustments relating to CONSOL Energy's tax positions.

The IRS' examination of the Company's 2002 and 2003 tax returns has been substantially completed with one issue currently under review by the Appeals Division. Management is currently evaluating the merits of its position regarding the issue in dispute, and does not anticipate that the adjustment would result in a material change to its financial statements. However, we anticipate that it is reasonably possible that an additional payment of approximately \$1,600 of interest related to the issue will be made by the end of 2007.

CONSOL Energy recognizes interest accrued related to unrecognized tax benefits in its interest expense. As of September 30, 2007 and January 1, 2007, the Company had an accrued liability of \$7,000 and \$5,000, respectively for interest related to uncertain tax positions. The accrued interest liability includes \$2,000 that was recorded in the Company's statement of operations for the nine months ended September 30, 2007.

CONSOL Energy recognizes penalties accrued related to unrecognized tax benefits in its income tax expense. As of September 30, 2007 and January 1, 2007, CONSOL had an accrued liability of approximately \$1,200 for tax penalties.

NOTE 6 INVENTORIES:

Inventory components consist of the following:

| | September 30, 2007 | December 31, 2006 |
|------------------------|-----------------------|----------------------|
| Coal | \$ 50,913 | \$ 51,238 |
| Merchandise for resale | 25,577 | 18,298 |
| Supplies | 89,037 | 79,771 |
| Total Inventories | \$ 165,527 | \$ 149,307 |

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NOTE 7 ACCOUNTS RECEIVABLE SECURITIZATION

In April 2007, CONSOL Energy and certain of our U.S. subsidiaries amended their existing trade accounts receivable facility with financial institutions for the sale on a continuous basis of eligible trade accounts receivable. The amended facility allows CONSOL Energy to receive on a revolving basis, up to \$150,000, a \$25,000 increase over the previous facility. The amended facility also allows for the issuance of letters of credit against the \$150,000 capacity. At September 30, 2007, there were no letters of credit outstanding against the facility.

CONSOL Energy formed CNX Funding Corporation, a wholly owned, special purpose, bankruptcy-remote subsidiary for the sole purpose of buying and selling eligible trade receivables generated by certain subsidiaries of CONSOL Energy. Under the receivables facility, CONSOL Energy and certain subsidiaries, irrevocably and without recourse, sell all of their eligible trade accounts receivable to financial institutions and their affiliates, while maintaining a subordinated interest in a portion of the pool of trade receivables. CONSOL Energy will continue to service the sold trade receivables for the financial institutions for a fee based upon market rates for similar services.

The cost of funds under this facility is based upon commercial paper rates, plus a charge for administrative services paid to the financial institutions. Costs associated with the receivables facility totaled \$1,231 and \$1,420 for the three and nine months ended September 30, 2007, respectively. Costs associated with the receivables facility totaled \$42 and \$295 for the three and nine months ended September 30, 2006, respectively. These costs have been recorded as financing fees, which are included in Cost of Goods Sold and Other Operating Charges in the Consolidated Statements of Income. No servicing asset or liability has been recorded. The receivables facility expires in April 2012.

At September 30, 2007 and December 31, 2006, eligible accounts receivable totaled approximately \$131,400 and \$119,900, respectively. The subordinated retained interest approximated \$18,100 and \$119,900 at September 30, 2007 and December 31, 2006, respectively. Accounts receivables totaling \$113,300 were removed from the Consolidated Balance Sheet at September 30, 2007. At September 30, 2006, no accounts receivable were removed from the Consolidated Balance Sheet because CNX Funding retained the total eligible accounts receivable. CONSOL Energy's \$113,300 reduction in accounts receivable securitization program for the nine months ended September 30, 2007 is reflected in cash flows from operating activities in the Consolidated Statement of Cash Flows.

The key economic assumptions used to measure the retained interest at the date of the securitization for all such sales completed in 2007 were a discount rate of 6.07% and an estimated life of 32 days. At September 30, 2007 an increase in the discount rate or estimated life of 10% and 20% would have reduced the fair value of the retained interest by \$69 and \$137, respectively. These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10% variation in assumption to the change in fair value may not be linear. Also, in this example, the effect of a variation in a particular assumption on the fair value of the subordinated retained interest is calculated without changing any other assumption. Changes in any one factor may result in changes in others.

Table of Contents**NOTE 8 PROPERTY, PLANT AND EQUIPMENT:**

The components of property, plant and equipment are as follows:

| | September 30, | December 31, |
|--|---------------------|---------------------|
| | 2007 | 2006 |
| Plant & equipment | \$ 5,060,570 | \$ 4,548,030 |
| Coal properties and surface lands | 1,487,484 | 1,118,083 |
| Airshafts | 920,985 | 885,103 |
| Mine development | 492,169 | 488,808 |
| Leased coal lands | 458,131 | 451,585 |
| Advance mining royalties | 362,905 | 358,327 |
| Total gross | 8,782,244 | 7,849,936 |
| Less: Accumulated depreciation, depletion and amortization | 3,980,789 | 3,809,649 |
| Total Net Property, Plant and Equipment | \$ 4,801,455 | \$ 4,040,287 |

NOTE 9 DEBT:

On June 27, 2007, CONSOL Energy and certain of its subsidiaries entered into an Amended and Restated five-year \$1,000,000 senior secured credit facility, which replaces the \$750,000 credit facility entered into on April 1, 2005. The facility is secured by substantially all of the assets of CONSOL Energy and certain of its subsidiaries and collateral is shared equally and ratably with the holders of CONSOL Energy Inc. 7.875% bonds maturing in 2012. The Agreement provides for the release of collateral upon the achievement of certain credit ratings. Fees and interest rate spreads are based on a ratio of financial covenant debt to twelve month trailing earnings before interest, taxes, depreciation, depletion and amortization (EBITDA), measured quarterly. The facility includes a minimum interest coverage ratio of no less than 4.50 to 1.00, measured quarterly. The interest coverage ratio was 15.95 to 1.00 at September 30, 2007. The facility also includes a maximum leverage ratio of not more than 3.25 to 1.00, measured quarterly. The leverage ratio was 1.18 to 1.00 at September 30, 2007. Affirmative and negative covenants in the facility limit our ability to dispose of assets, make investments, purchase or redeem CONSOL Energy common stock, pay dividends and merge with another corporation. At September 30, 2007, the \$1,000,000 facility had \$181,000 of borrowings outstanding and \$246,579 of letters of credit outstanding, leaving \$572,421 of capacity available for borrowings and the issuance of letters of credit.

In October 2005, CNX Gas entered into a five-year \$200,000 unsecured credit agreement. The agreement contains a negative pledge provision, whereas CNX Gas assets cannot be used to secure other obligations. Fees and interest rate spreads are based on the percentage of facility utilization, measured quarterly. Covenants in the facility limit CNX Gas ability to dispose of assets, make investments, purchase or redeem CNX Gas stock, pay dividends and merge with another corporation. The facility includes a maximum leverage ratio covenant of not more than 3.0 to 1.0, measured quarterly. The leverage ratio was 0.08 to 1.00 at September 30, 2007. The facility also includes a minimum interest coverage ratio of no less than 3.0 to 1.0, measured quarterly. This ratio was 61.38 to 1.00 at September 30, 2007. At September 30, 2007, the CNX Gas credit agreement had no borrowings outstanding and \$14,933 of letters of credit outstanding, leaving \$185,067 of capacity available for borrowings and the issuance of letters of credit.

NOTE 10 COMMITMENTS AND CONTINGENCIES:

CONSOL Energy and its subsidiaries is subject to various lawsuits and claims with respect to such matters as personal injury, wrongful death, damage to property, exposure to hazardous substances, governmental regulations including environmental remediation, employment and contract disputes, and other claims and actions arising out of the normal course of business. Our current estimates related to these pending claims, individually and in the aggregate, are immaterial to the financial position, results of operations or cash flows of

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CONSOL Energy. However, it is reasonably possible that the ultimate liabilities in the future with respect to these lawsuits and claims may be material to the financial position, results of operations or cash flows of CONSOL Energy.

One of our subsidiaries, Fairmont Supply Company (Fairmont), which distributes industrial supplies, currently is named as a defendant in approximately 25,000 asbestos claims in state courts in Pennsylvania, Ohio, West Virginia, Maryland, Mississippi and New Jersey. Because a very small percentage of products manufactured by third parties and supplied by Fairmont in the past may have contained asbestos and many of the pending claims are part of mass complaints filed by hundreds of plaintiffs against a hundred or more defendants, it has been difficult for Fairmont to determine how many of the cases actually involve valid claims or plaintiffs who were actually exposed to asbestos-containing products supplied by Fairmont. In addition, while Fairmont may be entitled to indemnity or contribution in certain jurisdictions from manufacturers of identified products, the availability of such indemnity or contribution is unclear at this time and, in recent years, some of the manufacturers named as defendants in these actions have sought protection from these claims under bankruptcy laws. Fairmont has no insurance coverage with respect to these asbestos cases. For the three and nine months ended September 30, 2007, payments by Fairmont with respect to asbestos cases have not been material. Our current estimates related to these asbestos claims, individually and in the aggregate, are immaterial to the financial position, results of operations and cash flows of CONSOL Energy. However, it is reasonably possible that payments in the future with respect to pending or future asbestos cases may be material to the financial position, results of operations or cash flows of CONSOL Energy.

In October 2005, CDX Gas, LLC (CDX) alleged that certain of CNX Gas' vertical to horizontal CBM drilling methods infringe several patents which they own. CDX demanded that CNX Gas enter into a business arrangement with them to use its patented technology. Alternatively, CDX informally demanded a royalty of nine to ten percent of the gross production from the wells CNX Gas drilled utilizing the technology allegedly covered by their patents. A number of our wells, particularly in Northern Appalachia, could be covered by their claim. CNX Gas denies all of these allegations and we are vigorously contesting them. On November 14, 2005, CNX Gas filed a complaint for declaratory judgment in the U.S. District Court for the Western District of Pennsylvania, seeking a judicial determination that we do not infringe any claim of any valid and enforceable CDX patent. CDX filed an answer and counterclaim denying our allegations of invalidity and alleging that CNX Gas infringe certain claims of their patents. A hearing was held before a Court-appointed Special Master with regard to the scope of the asserted CDX patents and the Special Master's report and recommendations was adopted by order of the Court on October 13, 2006. As a result of that order and subject to appellate review, certain of CNX Gas wells may be found to infringe certain of the CDX claims of the patents in suit, if those patents are ultimately determined to be valid and enforceable. The report of CDX's damages expert suggests that CDX will seek (i) reasonable royalty damages on production from allegedly infringing wells at a royalty rate of 10%, or approximately \$1,900 based on projected production through June 2007, and (ii) lost profits damages of approximately \$23,600 for allegedly infringing wells drilled through August 2006, which assumes that CNX Gas would have no choice but to have entered into a joint operating arrangement with CDX. CNX Gas believes that there is no valid basis in the law as applied to the facts of this case for this lost profits theory. Further, if infringement were to be found of a valid, enforceable claim of a CDX patent, the report of CNX Gas' damages expert indicates that any potential damages award would be based on a royalty of 5%, or approximately \$400. Cross-motion for summary judgment as to infringement, invalidity and unenforceability have been filed and briefed by CNX Gas and CDX and are before a Special Master for decision in the form of a report and recommendation to the District Court. CNX Gas continues to believe that it did not infringe any properly construed claim of any valid, enforceable patent. However, it is reasonably possible that the ultimate liabilities in the future with respect to these lawsuits and claims may be material to the financial position, results of operations or cash flows of CONSOL Energy.

CONSOL Energy was notified in November 2004 by the United States Environmental Protection Agency (EPA) that it is a potentially responsible party (PRP) under Superfund legislation with respect to the Ward Transformer site in Wake County, North Carolina. At that time, the EPA also identified 38 other PRPs for the Ward

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Transformer site. On September 16, 2005, the EPA, CONSOL Energy and two other PRPs entered into an administrative Settlement Agreement and Order of Consent, requiring those PRPs to undertake and complete a PCB soil removal action, at and in the vicinity of the Ward Transformer property. In December 2005, the EPA approved the PRPs' work plan, and field work began the first week of January 2006. On March 12, 2007, another party joined the participating PRPs and reduced CONSOL Energy's interim allocation from 46% to 32%. Accordingly, CONSOL Energy recognized a reduction in the previously recognized liability related to this matter. The current estimated cost of remedial action including payment of the EPA's past and future cost is approximately \$20,000. There was no expense recognized in the three months ended September 30, 2007 and \$1,420 reduction of expense recognized in the nine months ended September 30, 2007 related to this matter. CONSOL Energy funded \$520 in the three and nine months ended September 30, 2007 to an independent trust established for this remediation. CONSOL Energy has funded \$3,023 since inception of the independent trust established for this remediation. The remaining liability of \$3,378 is included in other accrued liabilities at September 30, 2007. CONSOL Energy and the other participating PRPs are investigating contribution claims against other, non-participating PRPs, and such claims will be brought to recover a share of the costs incurred. To date, CONSOL Energy's portion of probable recoveries are estimated to be \$3,420, of which \$16 has been collected to date. Accordingly, an asset has been included in other assets for these claims. The net cost of the liability and the asset has been included in Cost of Goods Sold and Other Charges. CONSOL Energy expects the majority of payments related to this liability to be made over the next twelve months. In addition, the EPA has advised the PRPs that it has completed its investigation of additional areas of potential contamination allegedly related to the Ward Transformer site and published the proposed remedial action plan for public comment. Special notice letters to PRPs have not yet been completed. We are currently working with the EPA in an effort to have special notice letters sent to a large group of PRPs, of which it is probable we will be named. There was \$1,000 of expense recognized in the three and nine months ended September 30, 2007 related to the additional areas of Ward Transformer. The related liability is included in other accrued liabilities at September 30, 2007. Until the remediation determination is completed, a specific range of potential exposure is not possible to estimate. There may be some delay in negotiating settlements with other PRPs who may want settlement of all Ward-related claims.

As part of conducting mining activities at the Buchanan Mine, our subsidiary, Consolidation Coal Company (CCC), has to remove water from the mine. Several actions have arisen with respect to the removal of naturally accumulating water from the Buchanan Mine:

Yukon Pocahontas Coal Company, Buchanan Coal Company, and Sayers-Pocahontas Coal Company filed an action on March 22, 2004 against CCC which is presently pending in the Circuit Court of Buchanan County, Virginia (the Yukon Action). The action is related to untreated water in connection with mining activities at CCC's Buchanan Mine being deposited in the void spaces of nearby mines of one of our other subsidiaries, Island Creek Coal Company (ICCO). The plaintiffs are seeking to stop CCC from depositing any additional water in these areas, to require CCC to remove the water that is stored there along with any remaining impurities, to recover \$300,000 of compensatory and trebled damages and to recover punitive damages. Plaintiffs have amended the original complaint to assert additional damage claims of up to \$3,252,000, and punitive damages in the amount of \$350,000, plus interest, costs, and attorneys' fees, against CCC and have added CONSOL Energy, CNX Gas Company, LLC and ICCO as additional defendants asserting additional damage claims of \$150,000 against those defendants. The plaintiffs in the Yukon Action have moved to amend their Complaint again, and the amendment likely will be permitted by the Court. The amendment seeks primarily to correct defects in the current version of their Complaint and to add a count seeking a declaratory judgment that certain agreements between ICCO and CCC are void. With respect to this action, we believe we had, and continue to have, the right to store water in these areas. The named defendants deny liability and intend to vigorously defend this action; consequently, we have not recognized any liability related to these claims. However, it is reasonably possible that payments in the future, or the issuance of an injunction, with respect to the pending claims may be material to the financial position, results of operations or cash flows of CONSOL Energy.

Levisa Coal Company filed an action on July 10, 2006 against CCC in the Circuit Court of Buchanan County, Virginia (the Levisa Action). The action is for injunctive relief and declaratory judgment and sought a

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court order prohibiting CCC from depositing water from its Buchanan Mine into the void spaces of ICCO's VP3 mine, part of which is under lease from Levisa Coal Company. The plaintiff claimed the water would adversely affect its remaining coal reserves and coalbed methane production, thereby impacting the plaintiff's future royalties. In mid-November 2006, Levisa Coal Company petitioned the Court for a temporary restraining order prohibiting the further depositing of water into the void spaces which, after a two-day hearing, the Court denied. Subsequently, the court entered an order declaring the parties' rights under lease, deciding that CCC has the right to store water in the VP3 mine void and dismissed the action. The Virginia Supreme Court has allowed an appeal of that order. We believe that CCC has the right to deposit the water in that void area. CCC intends to vigorously defend any appeal of this action; consequently, we have not recognized any liability related to this action. However, if an injunction were to be issued, the result may be material to the financial position, results of operations or cash flows of CONSOL Energy.

CCC has obtained revisions to its environmental permit from the Division of Mined Land Reclamation (DMLR) of the Virginia Department of Mines, Minerals and Energy (DMME) to deposit water from its Buchanan Mine into void spaces of VP3, and to permit it in the future to discharge mine water into the nearby Levisa River under controlled conditions. Plaintiffs in the Yukon Action and the Levisa Action along with the Town of Grundy, Virginia, Buchanan County, and others have requested the DMME to reconsider the permit revision issued by DMLR. Requests for temporary relief to prevent CCC from constructing and operating pursuant to the permit revisions pending a final hearing before the DMME have been rejected by the Director of DMME. The hearing to be conducted by the Director of the DMME through a Hearing Officer appointed by the Supreme Court of Virginia has not yet been scheduled. In addition, the Virginia Marine Resources Commission (the VMRC) conducted a public hearing and issued a permit authorizing CCC to install a diffuser buried on the bottom of the Levisa River, which was the last permit required before the discharge could commence, consistent with the conditions of CCC's DMLR permit revisions. The diffuser and related project elements have been constructed and no appeal was taken from the decision of the VMRC. The plaintiffs in the Yukon Action on June 13, 2006 also filed an action against the DMME in the Circuit Court of Buchanan County, Virginia seeking to enjoin DMLR and DMME from issuing the permit revisions, which were ultimately issued in September 2006 and are the subject of the administrative appeal to the Director of DMME described above. The Levisa Action plaintiff filed a nearly identical action. In addition, both the Levisa and Yukon Plaintiffs filed suits against DMME and CCC after the DMLR permit revisions were issued in September 2006. After motions to dismiss were filed, the Plaintiffs' actions were subsequently nonsuited. However, by letter of December 31, 2006 the plaintiffs in the Yukon action notified DMME that they may file a similar action challenging DMME's issuance of the revised permit and the VP3 permit. To date, no action has been filed; however, should one be filed, CONSOL will likely seek to intervene in any such action unless it is also named as a defendant. In addition, Buchanan County, Virginia on August 31, 2006 commenced an action against CCC in the Circuit Court of Buchanan County, Virginia seeking to enjoin any discharge by CCC of mine water into the Levisa River notwithstanding the permit issued to CCC by DMME. That action was removed to the United States District Court for the Western District of Virginia and was subsequently dismissed without prejudice and has not been refiled.

We believe that CCC had and continues to have the right to deposit mine water from Buchanan Mine into void spaces at nearby mines, including VP3. We also believe DMME properly issued environmental permits to CCC authorizing it to deposit naturally accumulating water from the Buchanan Mine into VP3 as well as discharging water into the Levisa River under the controlled conditions established by the permits. CCC and the other CONSOL defendants deny all liability and intend to vigorously defend the actions filed against them. CCC also intends to vigorously defend the environmental permits issued to it. Consequently, we have not recognized any liability related to these actions. However, if a temporary restraining order or an injunction were to be issued against CCC, if the environmental permits were temporarily suspended or revoked, or if damages were awarded to plaintiffs, the result may be material to the financial position, results of operations or cash flows of CONSOL Energy.

On October 24, 2006 CONSOL Energy and CCC were served with a summons in the name of the Commonwealth of Virginia with the Circuit Court of Buchanan County, Virginia regarding a special grand jury presentment in response to citizens' complaints that noise resulting from the ventilation fan at the Buchanan

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Mine constitutes a public nuisance. CONSOL Energy and CCC deny that the operation of the ventilation fan is a public nuisance and intend to vigorously defend this proceeding. However, if the operation of the ventilation fan is ordered to be stopped, the result may be material to the financial position, results of operations or cash flows of CONSOL Energy.

CNX Gas Company LLC is a party to a case captioned Geomet Operating Company, Inc. and Pocahontas Mining Limited Liability Company v. CNX Gas Company LLC in the Circuit Court for Buchanan County, Virginia. CNX Gas has a coal seam gas lease with Pocahontas Mining in southwest Virginia and southern West Virginia. With the agreement of Pocahontas Mining, GeoMet constructed a pipeline on the property. CNX Gas sought a judicial determination that under the terms of the lease, CNX Gas has the exclusive right to construct and operate pipelines on the property. On May 23, 2007, the Circuit Court entered an Order granting CNX Gas' motion for summary judgment against GeoMet and Pocahontas Mining. The Order provided that CNX Gas has exclusive rights to construct and operate pipelines on the property and prohibited GeoMet from owning, operating, or maintaining its pipeline on the property. The Court stayed the portion of its Order that required GeoMet to remove its pipeline, pending GeoMet's appeal of the decision to the Virginia Supreme Court. GeoMet filed an emergency appeal to the Virginia Supreme Court, which on June 20, 2007, overturned the provision of the Circuit Court's Order requiring GeoMet to remove its pipeline, as well as the related stay and the conditions thereof. The remaining portions of the May 23, 2007 order have been certified for interlocutory appeal to the Virginia Supreme Court. Pocahontas Mining has amended its complaint to seek rescission or reformation of the lease. We cannot predict the ultimate outcome of this litigation; however, payments in the future with respect to this lawsuit may be material to the financial position, results of operations or cash flows of CONSOL Energy.

On February 14, 2007, GeoMet, Inc. and certain of its affiliates filed a lawsuit against CNX Gas Company LLC and Island Creek Coal Company, subsidiaries of CONSOL Energy, in the Circuit Court for the County of Tazewell, Virginia. The lawsuit alleges that CNX Gas conspired with Island Creek and has violated the Virginia Antitrust Act and has tortiously interfered with GeoMet's contractual relations, prospective contracts and business expectancies. GeoMet seeks injunctive relief, actual damages of \$561,000, treble damages and punitive damages in the amount of \$350. CNX Gas and Island Creek have filed motions to dismiss all counts of the complaint. CONSOL Energy believes this lawsuit to be without merit and intends to vigorously defend it. However, it is reasonably possible that payments in the future with respect to this lawsuit may be material to the financial position, results of operations or cash flows of CONSOL Energy.

We expensed and paid approximately \$28,000 to the Combined Fund for the plan year beginning October 1, 2003 as a result of the higher per beneficiary premium rate calculated by the Commissioner of Social Security and retroactively imposed by the Combined Benefit Fund for beneficiaries assigned to CONSOL Energy and its subsidiaries. Additionally, CONSOL Energy expensed approximately \$2,000 related to the higher per beneficiary premium rate for the plan year beginning October 1, 2004. The higher per beneficiary premium rate was imposed as a result of court decisions issued prior to June 10, 2003 arising from litigation over the formula used in the calculation of the annual per beneficiary premium rate owed by assigned operators, including subsidiaries of CONSOL Energy, to the Combined Benefit Fund. In August 2005, after additional litigation cases had been filed concerning the calculation and imposition of the higher per beneficiary premium rate, the United States District Court for the District of Maryland ruled that the calculation by the Commissioner of Social Security was improper, arbitrary and capricious. Subsequently, on December 31, 2006, the United States Court of Appeals for the Fourth Circuit affirmed the decision of the District Court.

On March 28, 2007, the assigned operators, including the subsidiaries of CONSOL Energy, and the Combined Benefit Fund entered into a settlement agreement that resolved all issues relating to the calculation and imposition of the higher per beneficiary premium rate. The settlement agreement provides for full reimbursement of the higher per beneficiary premium rate calculated and imposed on the subsidiaries of CONSOL Energy and for the payment of interest on all amounts to be reimbursed. CONSOL Energy received reimbursement of approximately \$33,400, which includes the reduction of \$2,255 related to the unassigned beneficiary premium liability previously accrued.

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In January 2003, Mine 84, near Washington, Pennsylvania experienced a fire along several hundred feet of the conveyor belt servicing the longwall section of the mine. The fire was extinguished approximately two weeks later. Recognized insurance recovery for damages of approximately \$1,034 was reflected in Other Receivables at September 30, 2007 and December 31, 2006. CONSOL Energy received \$1,785 of insurance proceeds related to this incident in the year ended December 31, 2005. CONSOL Energy has filed suit against one of the underwriter insurance carriers for insurance proceeds and bad faith settlement practices.

Certain excise taxes paid on export sales of coal were determined to be unconstitutional. CONSOL Energy subsidiaries filed claims with the Internal Revenue Service (IRS) seeking refunds of these excise taxes that were paid during the period 1991 through 1999. Accordingly, CONSOL Energy subsidiaries recognized receivables for these claims in 2001. The IRS completed an audit of CONSOL Energy's refund claims and confirmed the validity of the claim filed for the period 1994 through 1999. CONSOL Energy received the refunds for this portion of the claim in 2003 and 2002. The United States Supreme Court denied review of the refund claim under the Tucker Act, which allows refunds of taxes for the period 1991 through 1993. CONSOL Energy recorded a receivable of \$26,006, which excludes an interest component, for this portion of the claim classified in Other Assets at September 30, 2007 and December 31, 2006. CONSOL Energy also recorded a payable of \$1,914 related to this claim classified in Other Liabilities at September 30, 2007 and December 31, 2006. Litigation has been filed with the Department of Justice regarding interest on the claims for the 1991 through 1993 period. On January 2, 2007, a three-judge panel of the U.S. Court of Appeals for the Federal Circuit confirmed the previous court decision which allowed recovery of black lung excise taxes for the Tucker Act period, and granted interest on these claims. The Government filed a petition for a rehearing of the tax refund and applicable interest issues before the entire U.S. Court of Appeals on March 7, 2007 following the January 2, 2007 confirmation of the lower court's decision. During the three months ended June 30, 2007, the U.S. Court of Appeals confirmed the decision of its three-judge panel that the excise taxes and applicable interest were owing to claimants. The Government appealed the tax and interest issues by filing a Petition for Certiorari with the U.S. Supreme Court. The Court has the option to either hear the case or reject the Petition, thereby granting the refund of the excise tax and applicable interest. Although we believe it is probable the tax will be refunded, the timetable for receipt of the monies is not clear. There is no assurance that CONSOL Energy subsidiaries will receive interest on the tax refund.

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At September 30, 2007, CONSOL Energy and certain subsidiaries have provided the following financial guarantees. We believe that these guarantees will expire without being funded, and therefore, the commitments will not have a material adverse effect on financial condition. The fair value of all liabilities associated with these guarantees have been properly recorded and reported in the financial statements.

| | Total | | | | More |
|---------------------------|--------------|------------|------------|--------------|-----------------|
| | Amounts | Less Than | | 3-5 Years | Than 5 Years |
| | | Committed | 1 Year | | |
| Letters of Credit: | | | | | |
| Employee-Related | \$ 160,334 | \$ 87,494 | \$ 72,840 | \$ | \$ |
| Environmental | 76,643 | 73,850 | 2,793 | | |
| Gas | 14,933 | 14,913 | 20 | | |
| Other | 9,602 | 1,002 | 8,600 | | |
| Total Letters of Credit | \$ 261,512 | \$ 177,259 | \$ 84,253 | \$ | \$ |
| Surety Bonds: | | | | | |
| Employee-Related | \$ 214,449 | \$ 213,449 | \$ 1,000 | \$ | \$ |
| Environmental | 302,826 | 299,837 | 2,986 | 3 | |
| Gas | 22,308 | 22,308 | | | |
| Other | 8,704 | 8,667 | 37 | | |
| Total Surety Bonds | \$ 548,287 | \$ 544,261 | \$ 4,023 | \$ 3 | \$ |
| Guarantees: | | | | | |
| Coal | \$ 108,089 | \$ 36,566 | \$ 40,255 | \$ 26,965 | \$ 4,303 |
| Gas | 24,291 | 21,191 | | | 3,100 |
| Gas Firm Transportation | 50,655 | 7,392 | 14,554 | 10,482 | 18,227 |
| Other | 197,209 | 26,907 | 40,938 | 19,654 | 109,710 |
| Total Guarantees | \$ 380,244 | \$ 92,056 | \$ 95,747 | \$ 57,101 | \$ 135,340 |
| Total Commitments | \$ 1,190,043 | \$ 813,576 | \$ 184,023 | \$ 57,104 | \$ 135,340 |

Employee-related financial guarantees have primarily been extended to support various state workers' compensation self-insurance programs and the United Mine Workers of America's 1992 Benefit Plan. Environmental financial guarantees have primarily been extended to support various performance bonds related to reclamation and other environmental issues. Gas financial guarantees have primarily been provided to support various performance bonds related to land usage and restorative issues. Other contingent liabilities have been extended to support insurance policies, legal matters and various other items necessary in the normal course of business.

CONSOL Energy and certain of its subsidiaries have also provided guarantees for the delivery of specific quantities of coal and gas to various customers. These guarantees are several or joint and several. Other guarantees have also been provided to promise the full and timely payments to lessors of mining equipment and support various other items necessary in the normal course of business.

NOTE 11 FAIR VALUE OF FINANCIAL INSTRUMENTS:

The following methods and assumptions were used to estimate the fair values of financial instruments:

Cash and cash equivalents: The carrying amount reported in the balance sheets for cash and cash equivalents approximates its fair value due to the short-maturity of these instruments.

Short-term note payable: The carrying amount reported in the balance sheets for short-term notes payable approximate its fair value due to the short-term maturity of these instruments.

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Long-term debt: The fair values of long-term debt are estimated using discounted cash flow analyses, based on CONSOL Energy's current incremental borrowing rates for similar types of borrowing arrangements.

Capital Leases: The carrying amount reported in the balance sheet for capital leases approximates its fair value due to recording the obligation at the present value of minimum lease payments.

The carrying amounts and fair values of financial instruments, excluding derivative financial instruments disclosed in Item 3 Quantitative and Qualitative Disclosure About Market Risk, are as follows:

| | September 30, 2007 | | December 31, 2006 | |
|---------------------------|--------------------|--------------|-------------------|--------------|
| | Carrying | | Carrying | |
| | Amount | Fair Value | Amount | Fair Value |
| Cash and cash equivalents | \$ 78,696 | \$ 78,696 | \$ 223,883 | \$ 223,883 |
| Short-term notes payable | \$ (181,000) | \$ (181,000) | \$ | \$ |
| Long-term debt | \$ (405,267) | \$ (414,821) | \$ (442,232) | \$ (456,242) |
| Capital leases | \$ (101,395) | \$ (101,395) | \$ (110,031) | \$ (110,031) |

NOTE 12 SEGMENT INFORMATION:

CONSOL Energy has two principal business units: Coal and Gas. The principal activities of the Coal unit are mining, preparation and marketing of steam coal, sold primarily to power generators, and metallurgical coal, sold to metal and coke producers. The Coal unit includes four reportable segments. These reportable segments are Northern Appalachian, Central Appalachian, Metallurgical and Other Coal. Each of these reportable segments includes a number of operating segments (mines). For the three and nine months ended September 30, 2007, the Northern Appalachian aggregated segment includes the following mines: Blacksville #2, Robinson Run, McElroy, Loveridge, Bailey, Enlow Fork, Mine 84 and Mahoning Valley. For the three and nine months ended September 30, 2007, the Central Appalachian aggregated segment includes the following mines: Jones Fork, Mill Creek and Wiley-Mill Creek. For the three months ended September 30, 2007, the Central Appalachian aggregated segment also includes the following mines acquired with the AMVEST acquisition: Fola, Powellton, Little Eagle, Rock Lick and Lick Branch. For the three and nine months ended September 30, 2007, the Metallurgical aggregated segment includes the Buchanan and Amonate mines. The Other Coal segment includes our purchased coal activities, idled mine cost, coal segment business units not meeting aggregation criteria, as well as various other activities assigned to the coal segment but not allocated to each individual mine. The principal activity of the Gas unit is to produce pipeline quality methane gas for sale primarily to gas wholesalers. CONSOL Energy's All Other classification is made up of the Company's and its subsidiaries terminal services, river and dock services, industrial supply services and other business activities, including rentals of buildings and flight operations.

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Industry segment results for the three months ended September 30, 2007:

| | | | | | Corporate Adjustments | | | | | |
|---|-------------|-------------|---------------|-------------|--------------------------|--------------|------------|--------------|-----------------|--|
| | Northern | Central | | | | | | & | | |
| | Appalachian | Appalachian | Metallurgical | Other Coal | Total Coal | Gas | All Other | Eliminations | Consolidated | |
| Sales outside | \$ 456,869 | \$ 70,367 | \$ 44,373 | \$ 58,510 | \$ 630,119 | \$ 98,389 | \$ 63,473 | \$ | \$ 791,981 | |
| Sales gas royalty interests | | | | | | 10,175 | | | 10,175 | |
| Sales purchased gas | | | | | | 821 | | | 821 | |
| Freight outside | | | | 44,707 | 44,707 | | | | 44,707 | |
| Intersegment transfers | | | | | | 212 | 28,796 | (29,008) | | |
| Total Sales and Freight | \$ 456,869 | \$ 70,367 | \$ 44,373 | \$ 103,217 | \$ 674,826 | \$ 109,597 | \$ 92,269 | \$ (29,008) | \$ 847,684 | |
| Earnings (Loss) Before Income Taxes | \$ 50,675 | \$ 4,010 | \$ (6,662) | \$ (96,425) | \$ (48,402) | \$ 51,852 | \$ 5,025 | \$ (3,588) | \$ 4,887(A) | |
| Segment assets | | | | | \$ 4,011,887 | \$ 1,320,124 | \$ 219,235 | \$ 525,176 | \$ 6,076,422(B) | |
| Depreciation, depletion and amortization | | | | | \$ 65,550 | \$ 12,248 | \$ 4,604 | \$ | \$ 82,402 | |
| Capital Expenditures (Including acquisitions and additions to mineral leases) | | | | | \$ 380,704 | \$ 72,571 | \$ 24,429 | \$ | \$ 477,704 | |

(A) Includes equity in earnings of unconsolidated affiliates of \$304, \$927 and \$1,245 for Coal, Gas and All Other, respectively.

(B) Includes investments in unconsolidated equity affiliates of \$2,116, \$55,872 and \$34,474 for Coal, Gas and All Other, respectively. Also, included in the Coal segment is \$26,006 of receivables related to the Export Sales Excise Tax resolution.

Industry segment results for the three months ended September 30, 2006:

| | | | | | Corporate Adjustments | | | | | |
|---|-------------|-------------|---------------|-------------|--------------------------|--------------|------------|--------------|-----------------|--|
| | Northern | Central | | | | | | & | | |
| | Appalachian | Appalachian | Metallurgical | Other Coal | Total Coal | Gas | All Other | Eliminations | Consolidated | |
| Sales outside | \$ 423,502 | \$ 51,670 | \$ 75,509 | \$ 54,234 | \$ 604,915 | \$ 94,233 | \$ 48,750 | \$ | \$ 747,898 | |
| Sales gas royalty interests | | | | | | 13,221 | | | 13,221 | |
| Sales purchased gas | | | | | | 9,076 | | | 9,076 | |
| Freight outside | | | | 38,239 | 38,239 | | | | 38,239 | |
| Intersegment transfers | | | | | | 993 | 30,764 | (31,757) | | |
| Total Sales and Freight | \$ 423,502 | \$ 51,670 | \$ 75,509 | \$ 92,473 | \$ 643,154 | \$ 117,523 | \$ 79,514 | \$ (31,757) | \$ 808,434 | |
| Earnings (Loss) Before Income Taxes | \$ 18,071 | \$ (2,774) | \$ 43,744 | \$ (43,771) | \$ 15,270 | \$ 60,867 | \$ 1,971 | \$ (9,654) | \$ 68,454(C) | |
| Segment assets | | | | | \$ 3,451,670 | \$ 1,026,899 | \$ 204,408 | \$ 590,405 | \$ 5,273,382(D) | |
| Depreciation, depletion and amortization | | | | | \$ 58,924 | \$ 9,546 | \$ 4,354 | \$ | \$ 72,824 | |

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Capital Expenditures

(Including acquisitions and additions to mineral leases)

\$ 137,886 \$ 34,028 \$ 4,599 \$ 176,513

(C) Includes equity in earnings (losses) of unconsolidated affiliates of (\$45) and (\$5) for Gas and All Other, respectively.

(D) Includes investments in unconsolidated equity affiliates of \$51,658 and \$2,674 for Gas and All Other, respectively. Also, included in the Coal segment is \$26,006 of receivables related to the Export Sales Excise Tax resolution.

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Industry segment results for the nine months ended September 30, 2007:

| | | | | | Corporate Adjustments & Consolidated | | | | | | | |
|---|--------------|------------|-------------|-------------|---|--------------|------------|--------------|-----|-----------|--------------|-----------------|
| | Northern | Central | Appalachian | Appalachian | Metallurgical | Other | Coal | Total Coal | Gas | All Other | Eliminations | Consolidated |
| Sales outside | \$ 1,487,815 | \$ 174,386 | \$ 230,155 | \$ 132,780 | \$ 2,025,136 | \$ 310,967 | \$ 168,305 | \$ | \$ | \$ | \$ | \$ 2,504,408 |
| Sales gas royalty interests | | | | | | 36,841 | | | | | | 36,841 |
| Sales purchased gas | | | | | | 3,297 | | | | | | 3,297 |
| Freight outside | | | | 132,007 | 132,007 | | | | | | | 132,007 |
| Intersegment transfers | | | | | | 2,628 | 98,434 | (101,062) | | | | |
| Total Sales and Freight | \$ 1,487,815 | \$ 174,386 | \$ 230,155 | \$ 264,787 | \$ 2,157,143 | \$ 353,733 | \$ 266,739 | \$ (101,062) | \$ | \$ | \$ | \$ 2,676,553 |
| Earnings (Loss) Before Income Taxes | \$ 272,457 | \$ 15,283 | \$ 69,722 | \$ (77,079) | \$ 280,383 | \$ 169,761 | \$ 13,255 | \$ (55,880) | \$ | \$ | \$ | \$ 407,519(E) |
| Segment assets | | | | | \$ 4,011,887 | \$ 1,320,124 | \$ 219,235 | \$ 525,176 | \$ | \$ | \$ | \$ 6,076,422(F) |
| Depreciation, depletion and amortization | | | | | \$ 184,957 | \$ 36,325 | \$ 13,598 | \$ | \$ | \$ | \$ | \$ 234,880 |
| Capital Expenditures (Including acquisitions and additions to mineral leases) | | | | | \$ 571,254 | \$ 220,236 | \$ 30,813 | \$ | \$ | \$ | \$ | \$ 822,303 |

(E) Includes equity in earnings of unconsolidated affiliates of \$741, \$1,330 and \$3,138 for Coal, Gas and All Other, respectively.

(F) Includes investments in unconsolidated equity affiliates of \$2,116, \$55,872 and \$34,474 for Coal, Gas and All Other, respectively. Also, included in the Coal segment is \$26,006 of receivables related to the Export Sales Excise Tax resolution.

Industry segment results for the nine months ended September 30, 2006:

| | | | | | Corporate Adjustments & Consolidated | | | | | | | |
|--|--------------|------------|-------------|-------------|---|--------------|------------|--------------|-----|-----------|--------------|-----------------|
| | Northern | Central | Appalachian | Appalachian | Metallurgical | Other | Coal | Total Coal | Gas | All Other | Eliminations | Consolidated |
| Sales outside | \$ 1,392,625 | \$ 180,788 | \$ 249,789 | \$ 181,908 | \$ 2,005,110 | \$ 288,837 | \$ 147,202 | \$ | \$ | \$ | \$ | \$ 2,441,149 |
| Sales gas royalty interests | | | | | | 41,714 | | | | | | 41,714 |
| Sales purchased gas | | | | | | 41,206 | | | | | | 41,206 |
| Freight outside | | | | 113,007 | 113,007 | | | | | | | 113,007 |
| Intersegment transfers | | | | | | 3,410 | 101,241 | (104,651) | | | | |
| Total Sales and Freight | \$ 1,392,625 | \$ 180,788 | \$ 249,789 | \$ 294,915 | \$ 2,118,117 | \$ 375,167 | \$ 248,443 | \$ (104,651) | \$ | \$ | \$ | \$ 2,637,076 |
| Earnings (Loss) Before Income Taxes | \$ 228,251 | \$ 8,253 | \$ 122,841 | \$ (79,671) | \$ 279,674 | \$ 195,749 | \$ 8,011 | \$ (38,809) | \$ | \$ | \$ | \$ 444,625(G) |
| Segment assets | | | | | \$ 3,451,670 | \$ 1,026,899 | \$ 204,408 | \$ 590,405 | \$ | \$ | \$ | \$ 5,273,382(H) |
| Depreciation, depletion and amortization | | | | | \$ 178,577 | \$ 27,437 | \$ 13,074 | \$ | \$ | \$ | \$ | \$ 219,088 |

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Capital Expenditures

(Including acquisitions and additions to mineral leases)

\$ 341,356 \$ 117,037 \$ 41,444 \$ 499,837

(G) Includes equity in earnings (losses) of unconsolidated affiliates of \$727 and (\$58) for Gas and All Other, respectively.

(H) Includes investments in unconsolidated equity affiliates of \$51,658 and \$2,674 for Gas and All Other, respectively. Also, included in the Coal segment is \$26,006 of receivables related to the Export Sales Excise Tax resolution.

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Reconciliation of Segment Information to Consolidated Amounts:

Earnings Before Income Taxes:

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|------------------|--|-------------------|
| | 2007 | 2006 | 2007 | 2006 |
| Segment earnings before income taxes for total reportable business segments | \$ 3,450 | \$ 76,137 | \$ 450,144 | \$ 475,423 |
| Segment earnings before income taxes for all other businesses | 5,025 | 1,971 | 13,255 | 8,011 |
| Incentive compensation (A) | 5,736 | (1,410) | (20,237) | (14,448) |
| Stock Based Compensation (A) | (2,947) | (3,190) | (18,081) | (8,248) |
| Interest income (expense), net and other non-operating activity (A) | (6,377) | (5,054) | (17,562) | (16,113) |
| Earnings Before Income Taxes | \$ 4,887 | \$ 68,454 | \$ 407,519 | \$ 444,625 |

(A) Excludes amounts specifically related to the Gas segment.

Total Assets:

| | September 30, | |
|---|---------------------|---------------------|
| | 2007 | 2006 |
| Segment assets for total reportable business segments | \$ 5,332,011 | \$ 4,478,569 |
| Segment assets for all other businesses | 219,235 | 204,408 |
| Items excluded from segment assets: | | |
| Cash and other investments (A) | 20,628 | 109,296 |
| Deferred tax assets | 502,999 | 479,282 |
| Bond issuance costs | 1,549 | 1,827 |
| Total Consolidated Assets | \$ 6,076,422 | \$ 5,273,382 |

(A) Excludes amounts specifically related to the gas segment.

NOTE 13 GUARANTOR SUBSIDIARIES FINANCIAL INFORMATION:

The payment obligations under the \$250,000, 7.875 percent Notes due 2012 issued by CONSOL Energy in 2002 are jointly and severally, and also fully and unconditionally guaranteed by several subsidiaries of CONSOL Energy. In accordance with positions established by the Securities and Exchange Commission, the following financial information sets forth separate financial information with respect to the parent, CNX Gas, an 81.7% owned guarantor subsidiary, the remaining guarantor subsidiaries and the non-guarantor subsidiaries. CNX Gas is presented in a separate column in accordance with SEC Regulation S-X Rule 3-10. CNX Gas Corporation is a reporting company under Section 12(b) of the Securities Exchange Act of 1933, and as such, CNX Gas Corporation files its own financial statements with the Securities and Exchange Commission and those financial statements, when filed, are publicly available on EDGAR. The principal elimination entries includes investments in subsidiaries and certain intercompany balances and transactions. CONSOL Energy, the parent and a guarantor subsidiary manage several assets and liabilities of all of their 100% owned subsidiaries. These include, for example, deferred tax assets, cash and other post-employment liabilities. These assets and liabilities are reflected as parent company or guarantor company amounts for purposes of this presentation.

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Income Statement for the Three Months Ended September 30, 2007:

| | Other | | | | | Consolidated |
|---|------------|-----------|-------------|------------|-------------|--------------|
| | Parent | CNX Gas | Subsidiary | Non- | Elimination | |
| | Issuer | Guarantor | Guarantors | Guarantors | Guarantors | |
| Sales Outside | \$ | \$ 98,601 | \$ 641,475 | \$ 56,469 | \$ (4,564) | \$ 791,981 |
| Sales Purchased Gas | | 821 | | | | 821 |
| Sales Gas Royalty Interests | | 10,175 | | | | 10,175 |
| Freight Outside | | | 44,707 | | | 44,707 |
| Other Income (including equity earnings) | 1,833 | 208 | 9,967 | 9,585 | (901) | 20,692 |
| Total Revenue and Other Income | 1,833 | 109,805 | 696,149 | 66,054 | (5,465) | 868,376 |
| Cost of Goods Sold and Other Operating Charges | 1,172 | 22,507 | 537,784 | 25,771 | 47,618 | 634,852 |
| Purchased Gas Costs | | 496 | | | | 496 |
| Gas Royalty Interests Costs | | 8,543 | 55 | | (73) | 8,525 |
| Related Party Activity | (599) | | 15,077 | 29,540 | (44,018) | |
| Freight Expense | | | 44,707 | | | 44,707 |
| Selling, General and Administrative Expense | | 12,793 | 12,990 | 840 | | 26,623 |
| Depreciation, Depletion and Amortization | 1,929 | 12,248 | 65,485 | 2,813 | (73) | 82,402 |
| Interest Expense | 6,079 | 1,221 | (1,622) | 142 | | 5,820 |
| Taxes Other Than Income | 1,433 | | 56,861 | 1,770 | | 60,064 |
| Total Costs | 10,014 | 57,808 | 731,337 | 60,876 | 3,454 | 863,489 |
| Earnings (Loss) Before Income Taxes and Minority Interest | (8,181) | 51,997 | (35,188) | 5,178 | (8,919) | 4,887 |
| Income Tax Expense (Benefit) | (2,797) | 20,701 | (15,566) | 2,168 | | 4,506 |
| Earnings (Loss) before Minority Interest | (5,384) | 31,296 | (19,622) | 3,010 | (8,919) | 381 |
| Minority Interest | | | | | (5,765) | (5,765) |
| Net Income (Loss) | \$ (5,384) | \$ 31,296 | \$ (19,622) | \$ 3,010 | \$ (14,684) | \$ (5,384) |

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Balance Sheet for September 30, 2007:

| | Other | | | | | |
|---|---------------------|---------------------|---------------------|-------------------|-----------------------|---------------------|
| | Parent | CNX Gas | Subsidiary | Non- | | |
| | Issuer | Guarantor | Guarantors | Guarantors | Elimination | Consolidated |
| Assets: | | | | | | |
| Current Assets: | | | | | | |
| Cash and Cash Equivalents | \$ 14,412 | \$ 58,403 | \$ | \$ 5,881 | \$ | \$ 78,696 |
| Accounts and Notes Receivable: | | | | | | |
| Trade | | 31,143 | | 159,817 | | 190,960 |
| Other | 4,661 | 1,452 | 26,448 | 25,897 | | 58,458 |
| Inventories | | | 133,708 | 31,819 | | 165,527 |
| Deferred Income Taxes | 126,024 | (2,432) | | | | 123,592 |
| Prepaid Expenses | 16,340 | 16,287 | 47,444 | 1,053 | | 81,124 |
| Total Current Assets | 161,437 | 104,853 | 207,600 | 224,467 | | 698,357 |
| Property, Plant and Equipment: | | | | | | |
| Property, Plant and Equipment | 101,396 | 1,384,908 | 7,210,916 | 85,024 | | 8,782,244 |
| Less-Accumulated Depreciation, Depletion and Amortization | 50,102 | 237,630 | 3,656,465 | 36,592 | | 3,980,789 |
| Property, Plant and Equipment Net | 51,294 | 1,147,278 | 3,554,451 | 48,432 | | 4,801,455 |
| Other Assets: | | | | | | |
| Deferred Income Taxes | 552,629 | (173,222) | | | | 379,407 |
| Investment in Affiliates | 2,841,411 | 55,872 | 1,434,041 | | (4,238,862) | 92,462 |
| Other | 31,566 | 9,689 | 45,363 | 18,123 | | 104,741 |
| Total Other Assets | 3,425,606 | (107,661) | 1,479,404 | 18,123 | (4,238,862) | 576,610 |
| Total Assets | \$ 3,638,337 | \$ 1,144,470 | \$ 5,241,455 | \$ 291,022 | \$ (4,238,862) | \$ 6,076,422 |
| Liabilities and Stockholders Equity: | | | | | | |
| Current Liabilities: | | | | | | |
| Accounts Payable | \$ 71,546 | \$ 16,794 | \$ 133,634 | \$ 17,632 | \$ | \$ 239,606 |
| Accounts Payable (Recoverable) Related Parties | 1,638,228 | 152 | (1,792,919) | 154,539 | | |
| Short-Term Notes Payable | 181,000 | | | | | 181,000 |
| Current Portion of Long-Term Debt | | 4,680 | 10,284 | 2,000 | | 16,964 |
| Accrued Income Taxes | 36,933 | 1,385 | | | | 38,318 |
| Other Accrued Liabilities | 88,017 | 20,705 | 346,123 | 8,492 | | 463,337 |
| Total Current Liabilities | 2,015,724 | 43,716 | (1,302,878) | 182,663 | | 939,225 |
| Long-Term Debt: | 258,795 | 69,007 | 152,411 | 9,485 | | 489,698 |
| Deferred Credits and Other Liabilities: | | | | | | |
| Postretirement Benefits Other Than Pensions | | 2,436 | 2,257,560 | | | 2,259,996 |
| Pneumoconiosis | | | 199,151 | | | 199,151 |
| Mine Closing | | | 399,309 | 9,241 | | 408,550 |
| Workers' Compensation | | | 135,614 | | | 135,614 |
| Deferred Revenue | | | 4,636 | | | 4,636 |
| Salary Retirement | 39,102 | 105 | | | | 39,207 |
| Reclamation | | | 10,662 | 16,458 | | 27,120 |
| Other | 83,201 | 34,121 | 39,527 | 17,759 | | 174,608 |

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| | | | | | | |
|--|--------------|--------------|--------------|------------|----------------|--------------|
| Total Deferred Credits and Other Liabilities | 122,303 | 36,662 | 3,046,459 | 43,458 | | 3,248,882 |
| Minority Interest | | | | | 157,102 | 157,102 |
| Stockholders' Equity | 1,241,515 | 995,085 | 3,345,463 | 55,416 | (4,395,964) | 1,241,515 |
| Total Liabilities and Stockholders' Equity | \$ 3,638,337 | \$ 1,144,470 | \$ 5,241,455 | \$ 291,022 | \$ (4,238,862) | \$ 6,076,422 |

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Income Statement for the Three Months Ended September 30, 2006:

| | Other | | | | | Consolidated |
|--|-----------|-----------|------------|------------|-------------|--------------|
| | Parent | CNX Gas | Subsidiary | Non- | Elimination | |
| | Issuer | Guarantor | Guarantors | Guarantors | | |
| Sales Outside | \$ | \$ 95,226 | \$ 607,139 | \$ 45,512 | \$ 21 | \$ 747,898 |
| Sales Purchased Gas | | 9,076 | | | | 9,076 |
| Sales Gas Royalty Interests | | 13,221 | | | | 13,221 |
| Freight Outside | | | 38,239 | | | 38,239 |
| Other Income (including equity earnings) | 60,267 | 6,044 | 17,935 | 9,176 | (58,504) | 34,918 |
| Total Revenue and Other Income | 60,267 | 123,567 | 663,313 | 54,688 | (58,483) | 843,352 |
| Cost of Goods Sold and Other Operating Charges | 9,818 | 23,581 | 469,740 | 9,974 | 42,709 | 555,822 |
| Purchased Gas Costs | | 9,340 | | | | 9,340 |
| Gas Royalty Interests Costs | | 10,781 | | | | 10,781 |
| Related Party Activity | (809) | | 13,839 | 31,536 | (44,566) | |
| Freight Expense | | | 38,239 | | | 38,239 |
| Selling, General and Administrative Expense | | 8,522 | 15,578 | 962 | | 25,062 |
| Depreciation, Depletion and Amortization | 1,737 | 9,546 | 59,693 | 1,984 | (136) | 72,824 |
| Interest Expense | 5,060 | | 480 | 145 | | 5,685 |
| Taxes Other Than Income | 860 | | 54,371 | 1,914 | | 57,145 |
| Total Costs | 16,666 | 61,770 | 651,940 | 46,515 | (1,993) | 774,898 |
| Earnings (Loss) Before Income Taxes | 43,601 | 61,797 | 11,373 | 8,173 | (56,490) | 68,454 |
| Income Tax Expense (Benefit) | (4,683) | 24,204 | (9,173) | 2,860 | | 13,208 |
| Earnings (Loss) before Minority Interest | 48,284 | 37,593 | 20,546 | 5,313 | (56,490) | 55,246 |
| Minority Interest | | | | | (6,962) | (6,962) |
| Net Income (Loss) | \$ 48,284 | \$ 37,593 | \$ 20,546 | \$ 5,313 | \$ (63,452) | \$ 48,284 |

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Balance Sheet at December 31, 2006:

| | Other | | | | Elimination | Consolidated |
|---|---------------------|---------------------|---------------------|-------------------|-----------------------|---------------------|
| | Parent | CNX Gas | Subsidiary | Non- | | |
| | Issuer | Guarantor | Guarantors | Guarantors | | |
| Assets: | | | | | | |
| Current Assets: | | | | | | |
| Cash and Cash Equivalents | \$ 111,545 | \$ 107,173 | \$ 121 | \$ 5,044 | \$ | \$ 223,883 |
| Accounts and Notes Receivable: | | | | | | |
| Trade | | 46,062 | 10,073 | 247,040 | | 303,175 |
| Other | 3,552 | 5,036 | 17,603 | 28,444 | (2,745) | 51,890 |
| Inventories | | 185 | 127,033 | 22,089 | | 149,307 |
| Deferred Income Taxes | 120,322 | (3,091) | | | | 117,231 |
| Recoverable Income Taxes | 3,469 | (2,191) | | | | 1,278 |
| Prepaid Expenses | 18,038 | 14,280 | 30,724 | 4,690 | | 67,732 |
| Total Current Assets | 256,926 | 167,454 | 185,554 | 307,307 | (2,745) | 914,496 |
| Property, Plant and Equipment: | | | | | | |
| Property, Plant and Equipment | 89,688 | 1,123,774 | 6,553,908 | 82,566 | | 7,849,936 |
| Less-Accumulated Depreciation, Depletion and Amortization | 44,563 | 203,121 | 3,531,594 | 30,371 | | 3,809,649 |
| Property, Plant and Equipment Net | 45,125 | 920,653 | 3,022,314 | 52,195 | | 4,040,287 |
| Other Assets: | | | | | | |
| Deferred Income Taxes | 628,004 | (120,008) | | | | 507,996 |
| Investment in Affiliates | 2,134,962 | 52,283 | 1,170,725 | | (3,273,751) | 84,219 |
| Other | 32,177 | 9,329 | 63,238 | 11,590 | | 116,334 |
| Total Other Assets | 2,795,143 | (58,396) | 1,233,963 | 11,590 | (3,273,751) | 708,549 |
| Total Assets | \$ 3,097,194 | \$ 1,029,711 | \$ 4,441,831 | \$ 371,092 | \$ (3,276,496) | \$ 5,663,332 |
| Liabilities and Stockholders' Equity: | | | | | | |
| Current Liabilities: | | | | | | |
| Accounts Payable | \$ 62,290 | \$ 27,872 | \$ 111,642 | \$ 26,001 | \$ (2,745) | \$ 225,060 |
| Accounts Payable (Recoverable) Related Parties | 1,482,497 | | (1,736,580) | 254,083 | | |
| Current Portion of Long-Term Debt | | 2,701 | 54,817 | 2,000 | | 59,518 |
| Other Accrued Liabilities | 80,839 | 21,057 | 343,657 | 9,993 | | 455,546 |
| Total Current Liabilities | 1,625,626 | 51,630 | (1,226,464) | 292,077 | (2,745) | 740,124 |
| Long-Term Debt | 258,666 | 64,793 | 158,301 | 10,985 | | 492,745 |
| Deferred Credits and Other Liabilities: | | | | | | |
| Postretirement Benefits Other Than Pensions | | 2,313 | 2,249,802 | | | 2,252,115 |
| Pneumoconiosis | | | 184,424 | | | 184,424 |
| Mine Closing | | | 379,153 | 10,743 | | 389,896 |
| Workers' Compensation | | | 121,337 | | | 121,337 |
| Deferred Revenue | | | 13,106 | | | 13,106 |
| Salary Retirement | 113,755 | 189 | | | | 113,944 |
| Reclamation | | | 8,728 | 17,733 | | 26,461 |
| Other | 32,996 | 30,571 | 44,786 | 19,017 | | 127,370 |
| Total Deferred Credits and Other Liabilities | 146,751 | 33,073 | 3,001,336 | 47,493 | | 3,228,653 |

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| | | | | | | |
|---|--------------|--------------|--------------|------------|----------------|--------------|
| Minority Interest | | | | | 135,659 | 135,659 |
| Stockholders Equity | 1,066,151 | 880,215 | 2,508,658 | 20,537 | (3,409,410) | 1,066,151 |
| Total Liabilities and Stockholders Equity | \$ 3,097,194 | \$ 1,029,711 | \$ 4,441,831 | \$ 371,092 | \$ (3,276,496) | \$ 5,663,332 |

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Income Statement for the Nine Months Ended September 30, 2007:

| | Other | | | | | Consolidated |
|--|-------------------|-------------------|-------------------|------------------|---------------------|-------------------|
| | Parent | CNX Gas | Subsidiary | Non- | Elimination | |
| | Issuer | Guarantor | Guarantors | Guarantors | | |
| Sales Outside | \$ | \$ 313,595 | \$ 2,054,368 | \$ 143,425 | \$ (6,980) | \$ 2,504,408 |
| Sales Purchased Gas | | 3,297 | | | | 3,297 |
| Sales Gas Royalty Interests | | 36,841 | | | | 36,841 |
| Freight Outside | | | 132,007 | | | 132,007 |
| Other Income (including equity earnings) | 309,404 | 4,675 | 127,052 | 29,382 | (303,507) | 167,006 |
| Total Revenue and Other Income | 309,404 | 358,408 | 2,313,427 | 172,807 | (310,487) | 2,843,559 |
| Cost of Goods Sold and Other | | | | | | |
| Operating Charges | 50,190 | 72,437 | 1,431,235 | 34,620 | 156,776 | 1,745,258 |
| Purchased Gas Costs | | 2,988 | | | | 2,988 |
| Gas Royalty Interests Costs | | 31,736 | | | (73) | 31,663 |
| Related Party Activity | (3,877) | | 46,644 | 103,187 | (145,954) | |
| Freight Expense | | | 132,007 | | | 132,007 |
| Selling, General and Administrative Expense | | 39,069 | 37,582 | 2,520 | | 79,171 |
| Depreciation, Depletion and Amortization | 5,666 | 36,325 | 187,172 | 7,790 | (2,073) | 234,880 |
| Interest Expense | 16,143 | 3,686 | (994) | 422 | | 19,257 |
| Taxes Other Than Income | 4,121 | | 181,658 | 5,037 | | 190,816 |
| Total Costs | 72,243 | 186,241 | 2,015,304 | 153,576 | 8,676 | 2,436,040 |
| Earnings (Loss) Before Income Taxes and Minority Interest | 237,161 | 172,167 | 298,123 | 19,231 | (319,163) | 407,519 |
| Income Tax Expense (Benefit) | (23,834) | 66,387 | 77,680 | 6,731 | | 126,964 |
| Earnings (Loss) before Minority Interest | 260,995 | 105,780 | 220,443 | 12,500 | (319,163) | 280,555 |
| Minority Interest | | | | | (19,560) | (19,560) |
| Net Income (Loss) | \$ 260,995 | \$ 105,780 | \$ 220,443 | \$ 12,500 | \$ (338,723) | \$ 260,995 |

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Income Statement for the Nine Months Ended September 30, 2006:

| | Other | | | | | Consolidated |
|---|------------|------------|--------------|------------|--------------|--------------|
| | Parent | CNX Gas | Subsidiary | Non- | Elimination | |
| | Issuer | Guarantor | Guarantors | Guarantors | Guarantors | |
| Sales Outside | \$ | \$ 292,247 | \$ 2,006,532 | \$ 149,052 | \$ (6,682) | \$ 2,441,149 |
| Sales Purchased Gas | | 41,206 | | | | 41,206 |
| Sales Gas Royalty Interests | | 41,714 | | | | 41,714 |
| Freight Outside | | | 113,007 | | | 113,007 |
| Other Income (including equity earnings) | 329,189 | 19,475 | 69,178 | 26,851 | (320,266) | 124,427 |
| Total Revenue and Other Income | 329,189 | 394,642 | 2,188,717 | 175,903 | (326,948) | 2,761,503 |
| Cost of Goods Sold and Other Operating Charges | 30,552 | 68,432 | 1,368,026 | 36,918 | 124,219 | 1,628,147 |
| Purchased Gas Costs | | 42,091 | | | | 42,091 |
| Gas Royalty Interests Costs | | 34,400 | | | | 34,400 |
| Related Party Activity | (4,164) | | 25,950 | 103,162 | (124,948) | |
| Freight Expense | | | 113,007 | | | 113,007 |
| Selling, General and Administrative Expense | | 23,228 | 40,796 | 3,029 | | 67,053 |
| Depreciation, Depletion and Amortization | 5,043 | 27,437 | 182,462 | 6,440 | (2,294) | 219,088 |
| Interest Expense | 15,144 | | 2,212 | 435 | | 17,791 |
| Taxes Other Than Income | 3,950 | | 184,953 | 6,398 | | 195,301 |
| Total Costs | 50,525 | 195,588 | 1,917,406 | 156,382 | (3,023) | 2,316,878 |
| Earnings (Loss) Before Income Taxes | 278,664 | 199,054 | 271,311 | 19,521 | (323,925) | 444,625 |
| Income Tax Expense (Benefit) | (14,870) | 77,432 | 59,173 | 6,832 | | 128,567 |
| Earnings (Loss) before Minority Interest | 293,534 | 121,622 | 212,138 | 12,689 | (323,925) | 316,058 |
| Minority Interest | | | | | (22,524) | (22,524) |
| Net Income (Loss) | \$ 293,534 | \$ 121,622 | \$ 212,138 | \$ 12,689 | \$ (346,449) | \$ 293,534 |

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Cash Flow for the Nine Months Ended September 30, 2007:

| | Other | | | | | Consolidated |
|---|--------------|--------------|--------------|-------------|-------------|--------------|
| | Parent | CNX Gas | Subsidiary | Non- | Elimination | |
| | Issuer | Guarantor | Guarantors | Guarantors | | |
| Net Cash Provided by (Used In) Operating Activities | \$ (161,115) | \$ 211,075 | \$ 522,045 | \$ 24,030 | \$ | \$ 596,035 |
| Investing Activities: | | | | | | |
| Capital Expenditures | \$ (11,932) | \$ (265,116) | \$ (261,050) | \$ (21,693) | \$ 44,880 | \$ (514,911) |
| Acquisition of AMVEST | | | (296,659) | | | (296,659) |
| Net Investment in Equity Affiliates | | (2,259) | (775) | | | (3,034) |
| Other Investing Activities | | 187 | 88,247 | | (44,880) | 43,554 |
| Net Cash Provided by (Used In) Investing Activities | \$ (11,932) | \$ (267,188) | \$ (470,237) | \$ (21,693) | \$ | \$ (771,050) |
| Financing Activities: | | | | | | |
| Proceeds from Revolver | \$ 181,000 | \$ | \$ | \$ | \$ | \$ 181,000 |
| Tax Benefit from Stock-Based Compensation | 6,323 | 35 | | | | 6,358 |
| Dividends Paid | (38,282) | | | | | (38,282) |
| Purchase of Treasury Stock | (80,132) | | | | | (80,132) |
| Payments on Long Term Notes | | | (45,000) | | | (45,000) |
| Other Financing Activities | 7,005 | 7,308 | (6,929) | (1,500) | | 5,884 |
| Net Cash (Used in) Provided by Financing Activities | \$ 75,914 | \$ 7,343 | \$ (51,929) | \$ (1,500) | \$ | \$ 29,828 |

Cash Flow for the Nine Months Ended September 30, 2006:

| | Other | | | | | Consolidated |
|---|--------------|--------------|--------------|------------|-------------|--------------|
| | Parent | CNX Gas | Subsidiary | Non- | Elimination | |
| | Issuer | Guarantor | Guarantors | Guarantors | | |
| Net Cash Provided by (Used In) Operating Activities | \$ (97,485) | \$ 205,943 | \$ 330,711 | \$ 128 | \$ | \$ 439,297 |
| Investing Activities: | | | | | | |
| Capital Expenditures | \$ (7,660) | \$ (117,037) | \$ (339,692) | \$ (5,028) | \$ | \$ (469,417) |
| Acquisition of Mon River & JAR Barge | | | (24,750) | | | (24,750) |
| Net Investment in Equity Affiliates | | (1,403) | 1 | | | (1,402) |
| Other Investing Activities | | | 38,225 | 133 | | 38,358 |
| Net Cash Provided by (Used in) Investing Activities | \$ (7,660) | \$ (118,440) | \$ (326,216) | \$ (4,895) | \$ | \$ (457,211) |
| Financing Activities: | | | | | | |
| Tax Benefit from Stock-Based Compensation | \$ 37,878 | \$ | \$ | \$ | \$ | \$ 37,878 |
| Dividends Paid | (38,631) | | | | | (38,631) |
| Purchase of Treasury Stock | (116,450) | | | | | (116,450) |
| Other Financing Activities | 14,107 | | (3,546) | (515) | | 10,046 |
| Net Cash (Used in) Provided by Financing Activities | \$ (103,096) | \$ | \$ (3,546) | \$ (515) | \$ | \$ (107,157) |

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NOTE 14 RECENT ACCOUNTING PRONOUNCEMENTS:

In April 2007, the FASB issued FASB Staff Position (FSP) FIN 39-1, Amendment of FASB Interpretation No. 39. This FSP amends paragraph 10 of Interpretation 39 to permit entities to offset fair value amounts recognized for either a receivable representing the right to reclaim cash collateral or a payable representing an obligation to return cash collateral, if such receivable or payable arises from derivative instruments executed with the same counterparty under the same master netting arrangement. FSP FIN 39-1 also requires entities to make an accounting policy decision to offset fair value amounts in accordance with FIN 39-1 and apply the policy consistently. An entity may not offset fair value amounts recognized for derivative instruments without offsetting fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral. FSP FIN 39-1 is effective for financial statements issued for fiscal years beginning after November 15, 2007, however earlier application is permitted. We do not expect this guidance to have a significant impact on CONSOL Energy.

In November 2006, the FASB ratified Emerging Issues Task Force (EITF) Issue No. 06-11, Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards. EITF 06-11 states that companies should recognize the income tax benefit realized from dividends that are paid to employees holding equity-classified nonvested shares, equity-classified nonvested share units, or equity-classified outstanding share options and charged to retained earnings under Statement 123(R) as additional paid-in capital. EITF 06-11 is effective for financial statements issued for fiscal years beginning after September 15, 2007, however earlier application is permitted. We do not expect this guidance to have a significant impact on CONSOL Energy.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and requires additional disclosures about fair value measurements. SFAS 157 aims to improve the consistency and comparability of fair value measurements by creating a single definition of fair value. The Statement emphasizes that fair value is not entity-specific, but instead is a market-based measurement of an asset or liability. SFAS 157 upholds the requirements of previously issued pronouncements concerning fair value measurements and expands the required disclosures. In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 (SFAS 159). SFAS 159 permits all entities to choose to measure certain eligible assets and liabilities at fair value and would enable entities to mitigate volatility in earnings caused by measuring related assets and liabilities differently. The Statement attempts to improve financial reporting as it establishes presentation and disclosure requirements specific to the fair value method. The required disclosures are aimed at enhancing the comparability of financial information between entities. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. Earlier application is permitted provided the entity also elects to apply the provisions of SFAS 157. We do not expect this guidance to have a significant impact on CONSOL Energy.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS 158), which requires the recognition of the funded status of defined benefit postretirement plans and related disclosures. CONSOL Energy adopted SFAS 158 for its December 31, 2006 year-end. Additionally, SFAS 158 requires an employer to measure the funded status of each of its plans as of the date of its year-end statement of financial position. This provision becomes effective for CONSOL Energy in its December 31, 2008 year-end. The funded status of CONSOL Energy's pension and other postretirement benefit plans are currently measured as of September 30.

Table of Contents**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****General**

CONSOL Energy had a net loss of \$5 million for the three months ended September 30, 2007 compared to net income of \$48 million in the 2006 period. Net income for the 2007 period decreased in comparison to the 2006 period primarily due to several roof falls which suspended production at the Buchanan Mine in early July, 2007. Production was suspended after several roof falls in previously mined areas damaged some of the ventilation controls inside the mine, requiring a general evacuation of the mine. We have drilled bore holes and injected nitrogen in order to stabilize and evaluate the mine atmosphere. In the three months ended September 30, 2007, we have incurred expenses of \$72 million, primarily classified as cost of goods sold and depreciation, depletion and amortization, in relation to these activities. Net income was also adversely affected by reduced sales of coal from the Buchanan Mine. Customers who purchase coal from the mine were notified that a *force majeure* condition exists and deliveries under their sales agreements for coal from the mine were reduced during the three months ended September 30, 2007. CNX Gas production was also adversely impacted by the idling of Buchanan Mine. We intend to file an insurance claim under our existing policies. Insurance coverage, after certain deductibles have been reached including a 90 day waiting period for business interruption, includes property damage and cost recoveries as well as business interruption recoveries. There is no guarantee a recovery will be received under our policies. Also, the 2006 period included proceeds from the insurance company of \$13 million; the coal segment recognized \$11 million and the gas segment recognized \$2 million, related to the 2005 fire at the Buchanan Mine. There have been no insurance recoveries in the 2007 period. Net income in the 2007 period was also impacted by a lower volume of produced coal sales and higher cost per ton sold. The 2007 period net income also reflects a \$4 million expense adjustment for actualization of the 2006 federal income tax accrual to the filed 2006 federal income tax return. The adjustment primarily related to differences in the percentage depletion deduction. These reductions to net income were offset, in part, by lower salary pension costs. The 2006 period included an acceleration of previously unrecognized actuarial losses related to salary pension. Our defined benefit pension plan for salaried employees allows such employees to receive a lump-sum distribution in lieu of annual payments when they retire from CONSOL Energy and its subsidiaries. Statement of Financial Accounting Standards (SFAS) No. 88,

Employers Accounting for Settlement & Curtailments of Defined Benefit Pension Plans and for Termination Benefits, requires that when the lump-sum distributions made for a plan year, which for CONSOL Energy is October 1 to September 30, exceed the total of the service cost and interest cost for the plan year, an adjustment equaling the unrecognized actuarial gain or loss resulting from each individual who received a lump sum in that year be recognized. The threshold for recognition of this pension adjustment was not reached for the plan year ended September 30, 2007.

Total coal sales for the three months ended September 30, 2007 were 15.2 million tons, of which 15.0 million tons were produced by CONSOL Energy operations, our subsidiaries operations, our equity affiliates, consolidated variable interest entities, or sold from inventory of company-produced coal. This compares with total coal sales of 15.6 million tons for the three months ended September 30, 2006, of which 15.4 million tons were produced by CONSOL Energy operations, consolidated variable interest entities, or sold from inventory of company-produced coal. Company-produced coal production was 14.6 million tons, including our portion of equity affiliates and consolidated variable interest entities, in the 2007 period compared to 15.3 million tons in the 2006 period. The 2007 period production was lower primarily due to the idling of the Buchanan Mine as previously discussed and the idling of certain Central Appalachian mines.

Produced coalbed methane gas sales volumes, including a percentage of the sales of equity affiliates equal to our interest in these affiliates, increased 0.7% to 14.4 billion cubic feet in the 2007 period compared with 14.3 billion cubic feet in the 2006 period. Sales volumes in the 2007 period increased as a result of additional wells coming online from our on-going drilling program, offset by reduced active and sealed gob production related to the idling of the Buchanan Mine. Our average sales price for coalbed methane gas, including sales of equity affiliates increased 3.8% to \$6.87 per thousand cubic feet in the 2007 period compared with \$6.62 per thousand cubic feet in the 2006 period. The increase in average sales price is the result of realizing higher hedging gains.

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In July 2007, production at the Buchanan Mine was suspended after several roof falls in previously mined areas damaged some of the ventilation controls inside the mine, requiring a general evacuation of the mine by employees. Efforts to eliminate carbon monoxide in the mine have been narrowed to an underground area about 400 feet in diameter into which the company is continuing to pump inert gas through a number of bore holes that have been drilled. The underground area of the Buchanan Mine encompasses about five square miles. Based on the analysis of gases sampled from the area, the company believes the data continues to support the conclusion that no active combustion is in the area. When the company determines that it is appropriate to stop injecting inert gas into the area, it will work with the federal Mine Safety and Health Administration, MSHA, and the state of Virginia Department of Mines, Minerals and Energy, DMME to jointly monitor progress as the area becomes ambient. In the interim, the company continues to work with federal and state agencies on various components of a re-entry plan, and will seek approval to reenter the mine when it determines it is safe to do so. An insurance claim will be filed related to this incident. Business interruption insurance coverage recoveries, which became effective after a 90 day waiting period, are estimated to be approximately \$640,000 per day.

On July 31, 2007, CONSOL Energy acquired AMVEST Corporation and certain subsidiaries and affiliates (AMVEST) for a cash payment, net of cash acquired, of approximately \$297 million in a transaction accounted for under Statement of Financial Accounting Standards No. 141 (SFAS 141), Business Combinations. The coal reserves acquired consist of approximately 200 million tons of high quality, low sulfur steam and high-volatile metallurgical coal. Also included in the acquisition were four coal preparation plants, several fleets of modern mining equipment and a common short-line railroad that connects the coal preparation plants to the CSX and Norfolk and Southern rail interchanges. The results of operations of the acquired entities are included in CONSOL Energy's Consolidated Statement of Income as of August 1, 2007. The AMVEST acquisition, when combined with CONSOL Energy's subsidiaries' adjacent coal reserves, creates a large contiguous block of coal reserves in the Central Appalachian region. Also, included in the acquisition was a highly-skilled workforce proficient in Central Appalachian surface mining. This workforce combined with CONSOL Energy's and its subsidiaries' underground mining expertise will allow us to build and transfer knowledge among operations to focus the best skill sets to development requirements of the various parts of this reserve block. See Note 2 Acquisitions and Dispositions in Item 1, Condensed Consolidated Financial Statements of this Form 10-Q.

In August 2007, the Board of Directors of CONSOL Energy amended the company's dividend policy, allowing the company to increase its dividend from \$0.28 per share to \$0.40 per share on an annualized basis, an increase of 43 percent.

In September 2007, CONSOL Energy entered into an agreement to investigate the development of coal-based gasification facilities to produce feedstock for various industrial chemical manufacturers. CONSOL Energy and Synthesis Energy Systems will also investigate the feasibility of producing substitute natural gas to meet the demand for clean, affordable energy.

During the three months ended September 30, 2007, CONSOL Energy subsidiaries entered into multi-year, multi-million dollar coal supply agreements with scrubbed utilities in the Midwest and the Southeast. The transactions consist of an aggregate of 9.3 million tons of Northern Appalachia coal to be supplied to new electricity generating units owned by We Energies and Santee Cooper.

In September 2007, a CONSOL Energy subsidiary issued notice under the Worker Adjustment and Retraining Notification Act (WARN) of a layoff at Mine 84, near Washington, PA, that may occur during a 14-day period beginning November 7, 2007. Up to 111 workers at Mine 84 may be affected by the layoff. Analysis of mine performance has led CONSOL Energy to the conclusion that Mine 84 is not meeting the current internal rate of return target for capital deployment. As a result, suspension of longwall development at Mine 84 is planned for November. Mine 84 will only produce coal that has been previously developed. Current plans envision the depletion of longwall-mined coal in the second quarter of 2008.

CNX Gas, our 81.7% subsidiary, became a registered offset provider on the Chicago Climate Exchange (CCX) within the current quarter. CCX is a rules-based Greenhouse Gas (GhG) allowance trading system. CCX

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emitting members make a voluntary but legally binding commitment to meet annual GhG emission reduction targets. Those emitting members who reduce below the targets have surplus allowances to sell or bank; those who emit above targets comply by purchasing offsets which are called CCX Carbon Financial Instruments (CFI) contracts. As a CCX offset provider, CNX Gas is not bound to any emissions reduction targets. An offset provider is an owner of an offset project that registers and sells offsets on its own behalf. In order to sell or trade CFI s, approval must be received by the CCX Committee on Offsets and approved projects must then be validated by an independent CCX verifier. Once verified, CCX then issues CFI s for each specific project. As of September 30, 2007, we have initiated the verification process for several projects to convert captured coal mine methane into tradable credits. Credits are granted on the basis of avoiding methane emissions by diverting gas into gas pipelines for commercial sale. No CFI s have been issued or received as of September 30, 2007, however we expect approval for these projects will be received during the fourth quarter. Sales of these credits will be reflected in income as they occur. CNX Gas management is currently formulating its carbon credit strategy.

In June 2007, CONSOL Energy and certain of its subsidiaries completed a \$1 billion Senior Secured Loan Agreement, effective June 27, 2007, to replace an existing facility of \$750 million. The new agreement, which includes more-favorable pricing and flexibility, provides a five-year revolving credit facility.

In June 2007, CONSOL Energy, through a subsidiary, exchanged certain coal assets in Northern Appalachia to Peabody Energy in exchange for coalbed methane and gas rights. This transaction was accounted for as a non-monetary exchange under Statement of Financial Accounting Standards No. 153 resulting in a pretax gain of \$50 million.

In June 2007, CONSOL Energy, through a subsidiary, sold the rights to certain western Kentucky coal in the Illinois Basin to Alliance Resource Partners, L.P. for \$53 million. This transaction resulted in a pretax gain of approximately \$50 million.

In April 2007, the company amended its trade accounts receivable facility to allow CONSOL Energy to receive up to \$150 million, an increase in capacity of \$25 million from the previous facility. The amended facility also provides the ability to issue letters of credit and has reduced the associated fees.

Mine accidents involving multiple fatalities occurred during the calendar year 2006 and 2007 in West Virginia and Utah at mines operated by other coal companies. These accidents continue to attract widespread public attention and have resulted in both federal government and some state government changes to statutory and regulatory control of mine safety, particularly for underground mines. Because nearly all of our mines are underground, these legislative and regulatory changes could affect our performance.

The actions taken thus far by federal and state governments include requiring: the caching of additional supplies of self-contained self rescuer (SCSR) devices underground; providing breathable air for all underground miners for 96 hours; the purchase and installation during the next several years of electronic communication and personal tracking devices underground; the placement, in various mine areas, of rescue chambers, structures designed to provide refuge for groups of miners for long periods of time during a mine emergency when evacuation from the mine is not possible; the possible reconstruction of existing seals in worked-out areas of mines; and additional training and testing requirements that created the need to hire additional employees.

In reviewing actions taken to date, we estimate that implementation of these new requirements could cost \$35 million to \$45 million during the period from 2006 until the end of 2009. The actual costs will depend primarily on: the number of additional SCSR oxygen units purchased, the design requirements as well as the extent of deployment of rescue chambers, final guidelines regarding sealed areas, final interpretation of other regulatory requirements, and final approval of mine-by-mine implementation plans.

We did incur costs related to these regulatory requirements during the reporting period. We have reviewed our coal sales agreements to determine the degree to which costs related to these regulatory requirements may be

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passed through to customers. While the amount will vary by contract, we have begun billing the cost of implementation to customers in most of our existing sales agreements. Responses from customers have varied.

In December 2006, the Surface Mining Act was amended. The Surface Mining Act amendments have several impacts on CONSOL Energy, including: the reduction over time in the production tax paid to fund the reclamation of abandoned mining sites; and the assumption of responsibility by the federal government by 2011 for so-called orphan miners who receive retirement benefits from several multi-employer funds into which CONSOL Energy contributes.

Results of Operations**Three Months Ended September 30, 2007 Compared with Three Months Ended September 30, 2006****Net Income**

Net income changed primarily due to the following items (table in millions):

| | 2007 Period | 2006 Period | Dollar Variance | Percentage Change |
|--|----------------|----------------|--------------------|----------------------|
| Coal Sales-Produced and Purchased | \$ 630 | \$ 605 | \$ 25 | 4.1% |
| Produced Gas Sales | 98 | 94 | 4 | 4.3% |
| Gas Royalty Interest | 10 | 13 | (3) | (23.1)% |
| Purchased Gas Sales | 1 | 9 | (8) | (88.9)% |
| Other Sales and Other Income | 129 | 122 | 7 | 5.7% |
| Total Revenue and Other Income | 868 | 843 | 25 | 3.0% |
| Coal Cost of Goods Sold Produced and Purchased | 455 | 446 | 9 | 2.0% |
| Produced Gas Cost of Goods Sold | 30 | 27 | 3 | 11.1% |
| Gas Royalty Interest Cost of Goods Sold | 9 | 11 | (2) | (18.2)% |
| Purchased Gas Cost of Goods Sold | | 9 | (9) | (100.0)% |
| Other Cost of Goods Sold | 150 | 83 | 67 | 80.7% |
| Total Cost of Goods Sold | 644 | 576 | 68 | 11.8% |
| Other | 219 | 199 | 20 | 10.1% |
| Total Costs | 863 | 775 | 88 | 11.4% |
| Earnings Before Income Taxes and Minority Interest | 5 | 68 | (63) | (92.6)% |
| Income Tax Expense | 5 | 13 | (8) | (61.5)% |
| Earnings Before Minority Interest | | 55 | (55) | (100.0)% |
| Minority Interest | (5) | (7) | 2 | 28.6% |
| Net Income (Loss) | \$ (5) | \$ 48 | \$ (53) | (110.4)% |

CONSOL Energy had a net loss of \$5 million for the three months ended September 30, 2007 compared to net income \$48 million in the 2006 period. Net income for the 2007 period decreased in comparison to the 2006 period primarily due to several roof falls which suspended production at the Buchanan Mine in early July, 2007. Production was suspended after several roof falls in previously mined areas damaged some of the ventilation controls inside the mine, requiring a general evacuation of the mine. We have drilled bore holes and injected nitrogen in order to stabilize and evaluate the mine atmosphere. In the three months ended September 30, 2007, we have incurred expenses of \$72 million, primarily classified as cost of goods sold and depreciation, depletion and amortization, in relation to these activities. Net income was also adversely affected by reduced sales of coal from the Buchanan Mine. Customers who purchase coal from the mine were notified that a *force majeure* condition exists and deliveries under their sales agreements for coal from the mine were reduced during the three months ended September 30, 2007. CNX Gas production was also adversely impacted by the idling of the Buchanan Mine. We intend to file an insurance

claim under our existing policies. Insurance coverage, after

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certain deductibles have been reached including a 90 day waiting period for business interruption, includes property damage and cost recoveries as well as business interruption recoveries. There is no guarantee a recovery will be received under our policies. Also, the 2006 period included proceeds from the insurance company of \$13 million; the coal segment recognized \$11 million and the gas segment recognized \$2 million, related to the 2005 fire at the Buchanan Mine. There have been no insurance recoveries in the 2007 period. Net income in the 2007 period was also impacted by a lower volume of produced coal sales and higher cost per ton sold. The 2007 period net income also reflects a \$4 million expense adjustment for actualization of the 2006 federal income tax accrual to the filed 2006 federal income tax return. The adjustment primarily related to differences in the percentage depletion deduction. These reductions to net income were offset, in part, by lower salary pension costs. The 2006 period included an acceleration of previously unrecognized actuarial losses related to salary pension. Our defined benefit pension plan for salaried employees allows such employees to receive a lump-sum distribution in lieu of annual payments when they retire from CONSOL Energy and its subsidiaries. Statement of Financial Accounting Standards (SFAS) No. 88, Employers Accounting for Settlement & Curtailments of Defined Benefit Pension Plans and for Termination Benefits, requires that when the lump-sum distributions made for a plan year, which for CONSOL Energy is October 1 to September 30, exceed the total of the service cost and interest cost for the plan year, an adjustment equaling the unrecognized actuarial gain or loss resulting from each individual who received a lump sum in that year be recognized. The threshold for recognition of this pension adjustment was not reached for the plan year ended September 30, 2007.

Revenue

Revenue and other income increased due to the following items:

| | 2007 Period | 2006 Period | Dollar Variance | Percentage Change |
|---------------------------------------|----------------|----------------|--------------------|----------------------|
| Sales | | | | |
| Produced Coal | \$ 615 | \$ 591 | \$ 24 | 4.1% |
| Purchased Coal | 15 | 14 | 1 | 7.1% |
| Produced Gas | 98 | 94 | 4 | 4.3% |
| Industrial Supplies | 43 | 30 | 13 | 43.3% |
| Other | 21 | 19 | 2 | 10.5% |
| Total Sales Outside | 792 | 748 | 44 | 5.9% |
| Gas Royalty Interest | 10 | 13 | (3) | (23.1)% |
| Purchased Gas | 1 | 9 | (8) | (88.9)% |
| Freight Revenue | 45 | 38 | 7 | 18.4% |
| Other Income | 20 | 35 | (15) | (42.9)% |
| Total Revenue and Other Income | \$ 868 | \$ 843 | \$ 25 | 3.0% |

The increase in company produced coal sales revenue during the 2007 period was due mainly to the increase in average sales price per ton.

| | 2007 Period | 2006 Period | Variance | Percentage Change |
|----------------------------------|----------------|----------------|----------|----------------------|
| Produced Tons Sold (in millions) | 15.0 | 15.4 | (0.4) | (2.6)% |
| Average Sales Price Per Ton | \$ 40.99 | \$ 38.52 | \$ 2.47 | 6.4% |

The increase in average sales price primarily reflects the general increase in market prices in the period-to-period comparison and the sale of some steam coal into the metallurgical market. Sales of company produced coal decreased in the period-to-period comparison. Company coal production, excluding equity affiliates, was 14.5 million tons in the 2007 period compared to 15.3 million tons in the 2006 period. The 2007 period production was lower primarily due to the continued idling of the Buchanan Mine as previously discussed, poor geological conditions at McElroy and the idling of certain Central Appalachian mines. These decreases were offset, in part, by production from the AMVEST acquisition.

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Purchased coal sales consist of revenues from processing third party coal in our preparation plants for blending purposes to meet customer coal specifications, coal purchased from a third party and sold directly to our customer and revenues from processing third party coal in our preparation plants.

The increase in produced gas sales revenue in the 2007 period compared to the 2006 period was primarily due to a higher average sales price per thousand cubic feet sold.

| | 2007 Period | 2006 Period | Variance | Percentage Change |
|--|----------------|----------------|----------|----------------------|
| Produced Gas Sales Volumes (in billion cubic feet) | 14.3 | 14.2 | 0.1 | 0.7% |
| Average Sales Price Per thousand cubic feet | \$ 6.87 | \$ 6.62 | \$ 0.25 | 3.8% |

The increase in average sales price is the result of realizing higher hedging gains. CNX Gas periodically enters into various gas swap transactions that qualify as financial cash flow hedges for terms varying in length. These gas swap transactions exist parallel to the underlying physical transactions. For the three months ended September 30, 2007, these financial hedges represented approximately 4.7 Bcf of gas sales volumes at an average price of \$8.00 per Mcf, compared to approximately 4.7 Bcf at an average price of \$7.73 per Mcf for the three months ended September 30, 2006. Sales volumes increased slightly as a result of additional wells coming online from our on-going drilling program, offset by reduced active and sealed gob production due to the Buchanan Mine being idled for the majority of the period. Also included within the 2007 period are the non-operated net revenue interest volumes and revenues associated with royalty and working interests. These volumes were not available in the 2006 period. The associated revenues were included in other income in the prior period.

The \$13 million increase in revenues from the sale of industrial supplies was primarily due to increased sales volumes. Sales volumes have increased primarily due to the July acquisition of Piping & Equipment. See Note 2 Acquisitions and Dispositions in Item 1, Condensed Consolidated Financial Statements in this Form 10-Q.

The \$2 million increase in other sales was due to various transactions that occurred throughout both periods, none of which were individually material.

| | 2007 Period | 2006 Period | Variance | Percentage Change |
|--|----------------|----------------|-----------|----------------------|
| Gas Royalty Interest Sales Volumes (in billion cubic feet) | 1.8 | 1.9 | (0.1) | (5.3)% |
| Average Sales Price Per Thousand Cubic Feet | \$ 5.81 | \$ 6.85 | \$ (1.04) | (15.2)% |

Included in royalty interest gas sales are the revenues related to the portion of production belonging to royalty interest owners sold by CNX Gas on their behalf. The decreased average sales price relates to the volatility in the monthly volumes sold, contractual differences among leases, as well as the mix of average and index prices used in calculating royalties.

| | 2007 Period | 2006 Period | Variance | Percentage Change |
|---|----------------|----------------|-----------|----------------------|
| Purchased Gas Sales Volumes (in billion cubic feet) | 0.1 | 1.4 | (1.3) | (92.9)% |
| Average Sales Price Per Thousand Cubic Feet | \$ 6.14 | \$ 6.45 | \$ (0.31) | (4.8)% |

Purchased gas sales volumes in the current period represent volumes of gas we sell at market prices that were purchased from third party producers, less our gathering fees. In the 2006 period, purchased gas sales and volumes represented volumes of gas we simultaneously purchased from and sold to the same counterparties under contracts that were committed prior to January 1, 2006. Accordingly, Emerging Issues Task Force Issue No. 04-13 (EITF 04-13), which we adopted on January 1, 2006, did not apply to these transactions. All contracts entered into prior to January 1, 2006 have now expired and new contracts are reflected in transportation expense on a net basis.

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Freight revenue is based on weight of coal shipped, negotiated freight rates and method of transportation (i.e., rail, barge, truck, etc.) used for the customers to which CONSOL Energy contractually provides transportation services. Freight revenue is the amount billed to customers for transportation costs incurred.

Other income consists of interest income, gain or loss on the disposition of assets, equity in earnings of affiliates, service income, royalty income, derivative gains and losses, rental income and miscellaneous income.

| | 2007 Period | 2006 Period | Dollar Variance | Percentage Change |
|----------------------------------|----------------|----------------|--------------------|----------------------|
| Business Interruption Proceeds | \$ 2 | \$ 13 | \$ (13) | (100.0)% |
| Interest Income | 2 | 5 | (3) | (60.0)% |
| Equity in Earnings of Affiliates | 2 | | 2 | 100.0% |
| Gain on Sales of Assets | 3 | 2 | 1 | 50.0% |
| Other miscellaneous | 13 | 15 | (2) | (13.3)% |
| Total Other Income | \$ 20 | \$ 35 | \$ (15) | (42.9)% |

The Buchanan Mine experienced a fire in 2005 after a large rock fall behind our longwall mining section. The mine was temporarily sealed in order to extinguish the fire. CONSOL Energy filed an insurance claim for reimbursement of various costs and business interruption related to the fire at the mine. During the three months ended September 30, 2006, CONSOL Energy received proceeds from the insurance company of \$13 million; the coal segment recognized \$11 million and the gas segment recognized \$2 million. No insurance proceeds have been received in the 2007 period.

Interest income decreased \$3 million in the period-to-period comparison due to lower cash balances throughout the 2007 period compared to the 2006 period. Lower cash balances were primarily the result of the purchase price paid for the July 31, 2007 acquisition of AMVEST. See Note 2 Acquisitions and Dispositions in Item 1, Condensed Consolidated Financial Statements in this Form 10-Q.

Equity in Earnings of Affiliates increased \$2 million in the period-to-period comparison due to various activities of our joint ventures throughout both periods, none of which were individually material.

Gain on Sales of Assets increased \$1 million in the period-to-period comparison due to various transactions that occurred throughout both periods, none of which were individually material.

Other miscellaneous income decreased \$2 million in the period-to-period comparison due to various miscellaneous transactions that occurred throughout both periods, none of which were individually material.

Costs

| | 2007 Period | 2006 Period | Dollar Variance | Percentage Change |
|--|----------------|----------------|--------------------|----------------------|
| Cost of Goods Sold and Other Charges | | | | |
| Produced Coal | \$ 437 | \$ 430 | \$ 7 | 1.6% |
| Purchased Coal | 18 | 16 | 2 | 12.5% |
| Produced Gas | 30 | 27 | 3 | 11.1% |
| Industrial Supplies | 40 | 30 | 10 | 33.3% |
| Closed and Idle Mines | 23 | 28 | (5) | (17.9)% |
| Other | 87 | 25 | 62 | 248.0% |
| Total Cost of Goods Sold and Other Charges | 635 | 556 | 79 | 14.2% |
| Royalty Interest Gas | 9 | 11 | (2) | (18.2)% |
| Purchased Gas | | 9 | (9) | (100.0)% |

| | | | | |
|--------------------------|--------|--------|-------|-------|
| Total Cost of Goods Sold | \$ 644 | \$ 576 | \$ 68 | 11.8% |
|--------------------------|--------|--------|-------|-------|

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Increased cost of goods sold and other charges for company-produced coal was due mainly to higher average unit cost per ton sold, offset, in part, by lower sales volumes.

| | 2007 Period | 2006 Period | Variance | Percentage Change |
|--|------------------------|------------------------|-----------------|------------------------------|
| Produced Tons Sold (in millions) | 15.0 | 15.4 | (0.4) | (2.6)% |
| Average Cost of Goods Sold and Other Charges Per Ton | \$ 29.11 | \$ 28.03 | \$ 1.08 | 3.9% |

Average cost of goods sold and other charges for produced coal increased in the period-to-period comparison primarily due to higher labor costs, higher health and retirement costs, higher supply costs and the lower volume impact on fixed unit costs. Higher labor costs were due to the effects of wage increases at the union and non-union mines due to new contracts. Higher labor costs per ton were also attributable to additional costs incurred to comply with health and safety standards. Higher health and retirement costs were attributable to additional contributions required to be made into employee benefit funds as a result of the five-year labor agreement with the United Mine Workers of America (UMWA) that commenced January 1, 2007. The 2007 period contribution increase over the 2006 period was \$3.50 per UMWA hour worked. Supply costs increased due to increases in the cost for products and chemicals, such as roof control products and magnetite, used in the mining and coal preparation process. Supply costs also increased due to additional costs incurred to comply with new federal and state safety regulations. These regulations require additional supplies of self-contained self-rescuer devices and other safety items as previously discussed. These increases were offset, in part, by lower salary pension costs and lower contract mining fees. The 2006 period included an acceleration of previously unrecognized actuarial losses related to salary pension. Our defined benefit pension plan for salaried employees allows such employees to receive a lump-sum distribution in lieu of annual payments when they retire from CONSOL Energy and its subsidiaries. Statement of Financial Accounting Standards (SFAS) No. 88, Employers Accounting for Settlement & Curtailments of Defined Benefit Pension Plans and for Termination Benefits, requires that when the lump-sum distributions made for a plan year, which for CONSOL Energy is October 1 to September 30, exceed the total of the service cost and interest cost for the plan year, an adjustment equaling the unrecognized actuarial gain or loss resulting from each individual who received a lump sum in that year be recognized. The threshold for recognition of this pension adjustment was not reached for the plan year ended September 30, 2007. Contract mining fees were lower in the period-to-period comparison due to the idling of certain Central Appalachian contract mine locations.

Purchased coal cost of goods sold consists of costs from processing purchased coal in our preparation plants for blending purposes to meet customer coal specifications, coal purchased and sold directly to the customer and costs for processing third party coal in our preparation plants.

Produced gas cost of goods sold and other charges increased due primarily to an 11.2% increase in unit costs of goods sold.

| | 2007 Period | 2006 Period | Variance | Percentage Change |
|--|------------------------|------------------------|-----------------|------------------------------|
| Produced Gas Sales Volumes (in billion cubic feet) | 14.3 | 14.2 | 0.1 | 0.7% |
| Average Cost Per Thousand Cubic Feet | \$ 2.09 | \$ 1.88 | \$ 0.21 | 11.2% |

The increase in average cost per thousand cubic feet of gas sold was primarily attributable to increased salary labor and related employee costs, increased gas well maintenance costs and increased compressor rental costs. Salary labor and related employee costs increased due to the hiring of additional employees after the 2006 period. Gas well maintenance costs increased due to the increased number of wells in-service compared to the prior year period. Compressor rental costs increased due to the increased volume of rentals related to the infrastructure development in the gas operations. These increases in unit costs were offset, in part, by lower firm transportation costs per unit, lower power unit costs and lower gas well closing costs. Firm transportation costs per unit decreased in the period-to-period comparison. This improvement was due to the in-service of the Jewell Ridge Pipeline in October 2006. Power costs per unit have also decreased due to credits received from the power company in the 2007 period. Also, gas well closing costs decreased due to a change in the lives of the wells to coincide with the reserve reports.

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Industrial supplies cost of goods sold increased \$10 million primarily due to the July acquisition of Piping & Equipment. See Note 2 Acquisitions and Dispositions in Item 1, Condensed Consolidated Financial Statements in this Form 10-Q.

Closed and idle mine cost of goods sold and other charges decreased approximately \$5 million in the 2007 period compared to the 2006 period. Closed and idle mine cost of goods sold were improved \$2 million due to the idled Shoemaker Mine incurring lower costs in the 2007 period compared to the 2006 period. Closed and idle mine cost of goods sold and other charges were also improved \$1 million due to lower accretion expense related to mine closing liabilities. Closed and idle mine costs were also improved \$2 million due to various transactions that occurred throughout both periods, none of which were individually material.

Other cost of goods sold and other charges increased due to the following items:

| | 2007 Period | 2006 Period | Dollar Variance | Percentage Change |
|---|----------------|----------------|--------------------|----------------------|
| Buchanan roof collapse | \$ 69 | \$ | \$ 69 | 100.0% |
| Incentive compensation | (4) | 2 | (6) | (300.0)% |
| Stock-based compensation | 4 | 4 | | |
| Miscellaneous transactions | 18 | 19 | (1) | (5.3)% |
| Total Miscellaneous Cost of Goods Sold and Other Charges | \$ 87 | \$ 25 | \$ 62 | 248.0% |

In July 2007, production at the Buchanan Mine was suspended after several roof falls in previously mined areas damaged some of the ventilation controls inside the mine, requiring a general evacuation of the mine. We have drilled bore holes and injected nitrogen in order to stabilize and evaluate the mine atmosphere. In the three months ended September 30, 2007, we have incurred cost of goods sold expenses of \$69 million in relation to these activities. We intend to file an insurance claim under our existing policies. Insurance coverage, after certain deductibles have been reached including a 90 day waiting period, includes property damage and cost recoveries as well as business interruption recoveries. There is no guarantee a recovery will be received under our policies.

Incentive compensation expense decreased \$6 million due to a revised projected pay out estimate for the 2007 period. The adjustment caused a reduction in the projected amounts expected to be paid to employees for the 2007 period compared to the projected amounts expected to be paid out in the previous quarter. Incentive compensation expense also decreased due to the level of earnings achieved in the 2007 period compared to the projected 2007 annual earnings, compared to the level of earnings achieved in the 2006 period compared to the projected 2006 annual earnings. The incentive compensation program is designed to increase compensation to eligible employees when CONSOL Energy reaches predetermined earnings targets and the employees reach predetermined performance targets.

Stock-based compensation expense remained consistent in the period-to-period comparison.

Miscellaneous cost of goods sold and other charges decreased \$1 million due to various miscellaneous transactions that occurred throughout both periods, none of which were individually material.

| | 2007 Period | 2006 Period | Variance | Percentage Change |
|--|----------------|----------------|-----------|----------------------|
| Gas Royalty Interest Sales Volumes (in billion cubic feet) | 1.8 | 1.9 | (0.1) | (5.3)% |
| Average Cost Per Thousand Cubic Feet | \$ 4.87 | \$ 5.59 | \$ (0.72) | (12.9)% |

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Included in royalty interest gas costs are the expenses related to the portion of production belonging to royalty interest owners sold by CNX Gas, a 81.7% subsidiary, on their behalf. The decreased average sales price relates to the volatility in the monthly volumes sold, contractual differences among leases, as well as the mix of average and index prices used in calculating royalties.

| | 2007 Period | 2006 Period | Variance | Percentage Change |
|---|------------------------|------------------------|-----------------|------------------------------|
| Purchased Gas Sales Volumes (in billion cubic feet) | 0.1 | 1.4 | (1.3) | (92.9)% |
| Average Cost Per Thousand Cubic Feet | \$ 4.78 | \$ 6.64 | \$ (1.86) | (28.0)% |

Purchased gas sales volumes in the current period represent volumes of gas we sell at market prices that were purchased from third party producers, less our gathering and marketing fees. In the 2006 period, purchased gas costs and volumes represented volumes of gas we simultaneously purchased from and sold to the same counterparties under contracts that were committed prior to January 1, 2006. Accordingly, Emerging Issues Task Force Issue No. 04-13 (EITF 04-13), which we adopted on January 1, 2006, did not apply to these transactions. All contracts entered into prior to January 1, 2006 have now expired and new contracts are reflected in transportation expense on a net basis. Purchased gas costs also include the reversing affect of a June 2007 pipeline imbalance. Because contracted quantities of gas delivered to the pipeline rarely equal physical deliveries to customers, monitoring and adjusting the imbalance is necessary. As of June 30, 2007, an under-delivered position to the pipeline existed resulting in the inclusion of the imbalance in purchased gas costs. As of September 30, 2007, an over-delivered position existed resulting in the inclusion of the imbalance in outside sales.

Freight expense is based on weight of coal shipped, negotiated freight rates and method of transportation (i.e., rail, barge, truck, etc.) used for the customers to whom CONSOL Energy subsidiaries contractually provide transportation. Freight expense is billed to customers and the revenue from such billing equals the transportation expense.

| | 2007 Period | 2006 Period | Dollar Variance | Percentage Change |
|-----------------|------------------------|------------------------|----------------------------|------------------------------|
| Freight expense | \$ 45 | \$ 38 | \$ 7 | 18.4% |

Selling, general and administrative costs have increased due to the following items:

| | 2007 Period | 2006 Period | Dollar Variance | Percentage Change |
|---|------------------------|------------------------|----------------------------|------------------------------|
| Wages and salaries | \$ 9 | \$ 8 | \$ 1 | 12.5% |
| Professional, consulting and other purchased services | 5 | 5 | | % |
| Advertising and promotion | 1 | | 1 | 100.0% |
| Employee benefits | 2 | 4 | (2) | (50.0)% |
| Other | 10 | 8 | 2 | 25.0% |
| Total Selling, General and Administrative | \$ 27 | \$ 25 | \$ 2 | 8.0% |

Wages and salaries have increased \$1 million due to additional employees being hired after the 2006 period.

Costs of professional, consulting and other purchased services remained consistent in the period-to-period comparison.

Advertising and promotion expenses were \$1 million higher in the 2007 period compared to the 2006 period due to an advertising campaign launched in 2007 to raise corporate awareness and recruit the next generation of employees.

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Employee benefits decreased due mainly to an acceleration of previously unrecognized actual losses related to our salary pension plan. Our defined benefit pension plan for salaried employees allows such employees to receive a lump-sum distribution in lieu of annual payments when they retire from CONSOL Energy. Statement of Financial Accounting Standards (SFAS) No. 88, Employers Accounting for Settlement & Curtailments of Defined Benefit Pension Plans and for Termination Benefits, requires that when the lump-sum distributions made for a plan year, which for CONSOL Energy is October 1 to September 30, exceed the total of the service cost and interest cost for the plan year, an adjustment equaling the unrecognized actuarial gain or loss resulting from each individual who received a lump sum in that year be recognized. The total accelerated actuarial amortization recognized in the 2006 period was \$21.8 million, of which \$2.4 million impacted selling, general and administrative expense. The threshold for recognition was not met in the 2007 period.

Other selling, general and administrative costs have increased \$2 million due to various miscellaneous transactions that occurred throughout both periods, none of which are individually material.

Depreciation, depletion and amortization increased due to the following items:

| | 2007 Period | 2006 Period | Dollar Variance | Percentage Change |
|---|----------------|----------------|--------------------|----------------------|
| Coal | \$ 65 | \$ 59 | \$ 6 | 10.2% |
| Gas: | | | | |
| Production | 8 | 7 | 1 | 14.3% |
| Gathering | 4 | 3 | 1 | 33.3% |
| Total Gas | 12 | 10 | 2 | 20.0% |
| Other | 5 | 4 | 1 | 25.0% |
| Total Depreciation, Depletion and Amortization | \$ 82 | \$ 73 | \$ 9 | 12.3% |

The increase in coal depreciation, depletion and amortization was primarily due to additional expense related to the assets received in the acquisition of AMVEST. See Note 2 Acquisitions and Dispositions in Item 1, Condensed Consolidated Financial Statements in this Form 10-Q. The increase was also attributable to assets placed in service after the 2006 period. Assets placed in service after the 2006 period include various airshafts, longwall assets, haulage assets and other projects completed at our mines.

The increase in gas production related depreciation, depletion and amortization was primarily due to an increase in units of production rates period-to-period. These rates, which are recalculated annually, increased due to the higher proportion of capital assets placed in service versus the proportion of proved developed reserve additions. Rates are generally calculated using the net book value of assets at the end of the year divided by either proved or proved developed reserves. Gathering depreciation, depletion and amortization is recorded on the straight-line method and increased primarily as a result of the effects of the Jewell Ridge lateral capital lease, which went into service in October 2006.

Other depreciation, depletion and amortization increased \$1 million primarily related to capitalized computer software being placed in service in after the 2006 period.

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Total interest expense remained consistent in the 2007 period compared to the 2006 period. The components of interest expense fluctuated due to the following items:

| | 2007 Period | 2006 Period | Dollar Variance | Percentage Change |
|-------------------------------|----------------|----------------|--------------------|----------------------|
| Long-term secured notes | \$ 5 | \$ 6 | \$ (1) | (16.7)% |
| Capitalized lease | 1 | 1 | | |
| Revolver | 1 | | 1 | 100.0% |
| Other | (1) | (1) | | |
| Total Interest Expense | \$ 6 | \$ 6 | \$ | |

Interest on long-term secured notes decreased \$1 million due to the planned June 2007 principal payment of our \$45 million secured note.

Capitalized lease interest expense remained consistent in the period-to-period comparison.

Interest expense increased \$1 million due to amounts being drawn on our revolving credit facility in the 2007 period. The facility had \$181 million outstanding at September 30, 2007. No amounts were drawn on the facility in the 2006 period.

Other interest expense remained consistent in the period-to-period comparison.

Taxes other than income increased primarily due to the following items:

| | 2007 Period | 2006 Period | Dollar Variance | Percentage Change |
|--------------------------------------|----------------|----------------|--------------------|----------------------|
| Production taxes: | | | | |
| Coal | \$ 33 | \$ 36 | \$ (3) | (8.3)% |
| Gas | 3 | 2 | 1 | 50.0% |
| Total Production Taxes | 36 | 38 | (2) | (5.3)% |
| Other taxes: | | | | |
| Coal | 20 | 15 | 5 | 33.3% |
| Gas | 1 | 1 | | % |
| Other | 3 | 3 | | % |
| Other | 24 | 19 | 5 | 26.3% |
| Total Taxes Other Than Income | \$ 60 | \$ 57 | \$ 3 | 5.3% |

Decreased coal production taxes are primarily due to lower severance taxes, reclamation fee taxes and black lung excise taxes attributable to decreased production. These improvements were offset, in part, by higher production taxes due to the increase in the average sales price for produced coal.

Gas production taxes increased \$1 million in the 2007 period compared to the 2006 period primarily due to higher severance taxes attributable to higher average sales price for gas and slightly higher gas sales volumes.

Other coal taxes have increased in the 2007 period due to higher property taxes related to additional property, plant & equipment and lower Virginia employment enhancement tax credits. Property taxes are based on current assessment values which have increased over the prior year. Virginia provides a tax credit based on employment figures attributable to operations in that state. Due to the previously discussed Buchanan situation, our employment figures have been temporarily reduced. The employment figure reduction has correspondingly reduced the tax credit that we earn.

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Other gas and other taxes have remained consistent in the period-to-period comparison.

| | 2007 Period | 2006 Period | Variance | Percentage Change |
|------------------------------|----------------|----------------|----------|----------------------|
| Earnings Before Income Taxes | \$ 5 | \$ 68 | \$ (63) | (92.6)% |
| Tax Expense | \$ 5 | \$ 13 | \$ (8) | (61.5)% |
| Effective Income Tax Rate | 92.2% | 19.3% | 72.9% | |

CONSOL Energy's effective tax rate is sensitive to changes in the relationship between pre-tax earnings and percentage depletion. The effective tax rate for the three months ended September 30, 2007 was calculated using the effective rate projection on recurring earnings and also includes discrete tax expense related to certain non-recurring transactions. The 2007 effective tax rate also includes a \$4 million expense adjustment for actualization of the 2006 federal income tax accrual to the filed 2006 federal income tax return. The adjustment primarily related to differences in the percentage depletion deduction. The effective tax rate for the three months ended September 30, 2006 was calculated using the effective rate projection on recurring earnings. See Note 5 Income Taxes in Item 1, Condensed Consolidated Financial Statements of this Form 10-Q.

Minority interest represents 18.3% of CNX Gas's net income for the two month period ended September 30, 2007 which CONSOL Energy does not own. It also represents 18.5% of Gas's net income for the one month period ended July 31, 2007 which CONSOL Energy does not own. During the three month period ended September 30, 2007, CONSOL Energy purchased \$10 million of CNX Gas shares on the open market. The purchase of the additional shares changed CONSOL Energy's ownership percentage in CNX Gas from 81.5% to 81.7%.

Nine Months Ended September 30, 2007 Compared with Nine Months Ended September 30, 2006**Net Income**

Net income changed primarily due to the following items (table in millions):

| | 2007 Year to Date Period | 2006 Year to Date Period | Dollar Variance | Percentage Change |
|--|-----------------------------------|-----------------------------------|--------------------|----------------------|
| Coal Sales-Produced and Purchased | \$ 2,026 | \$ 2,006 | \$ 20 | 1.0% |
| Produced Gas Sales | 311 | 289 | 22 | 7.6% |
| Gas Royalty Interest | 37 | 42 | (5) | (11.9)% |
| Purchased Gas Sales | 3 | 41 | (38) | (92.7)% |
| Other Sales and Other Income | 467 | 384 | 83 | 21.6% |
| Total Revenue and Other Income | 2,844 | 2,762 | 82 | 3.0% |
| Coal Cost of Goods Sold Produced and Purchased | 1,301 | 1,296 | 5 | 0.4% |
| Produced Gas Cost of Goods Sold | 93 | 75 | 18 | 24.0% |
| Gas Royalty Interest Cost of Goods Sold | 32 | 34 | (2) | (5.9)% |
| Purchased Gas Cost of Goods Sold | 3 | 42 | (39) | (92.9)% |
| Other Cost of Goods Sold | 352 | 257 | 95 | 37.0% |
| Total Cost of Goods Sold | 1,781 | 1,704 | 77 | 4.5% |
| Other | 655 | 613 | 42 | 6.9% |
| Total Costs | 2,436 | 2,317 | 119 | 5.1% |
| Earnings Before Income Taxes and Minority Interest | 408 | 445 | (37) | (8.3)% |
| Income Tax Expense | 127 | 129 | (2) | (1.6)% |
| Earnings Before Minority Interest | 281 | 316 | (35) | (11.1)% |
| Minority Interest | (20) | (22) | 2 | 9.1% |

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| | | | | |
|------------|--------|--------|---------|---------|
| Net Income | \$ 261 | \$ 294 | \$ (33) | (11.2)% |
|------------|--------|--------|---------|---------|

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CONSOL Energy had net income of \$261 million for the nine months ended September 30, 2007 compared to \$294 million in the 2006 period. Net income for the 2007 period decreased in comparison to the 2006 period primarily due to several roof falls which suspended production at the Buchanan Mine in early July 2007. Production was suspended after several roof falls in previously mined areas damaged some of the ventilation controls inside the mine, requiring a general evacuation of the mine. We have drilled bore holes and injected nitrogen in order to stabilize and evaluate the mine atmosphere. In the nine months ended September 30, 2007, we have incurred expenses of \$72 million, primarily classified as cost of goods sold and depreciation, depletion and amortization, in relation to these activities. Net income was also adversely affected by reduced sales of coal from the Buchanan Mine. Customers who purchase coal from the mine were notified that a *force majeure* condition exists and deliveries under their sales agreements for coal from the mine were reduced during the nine months ended September 30, 2007. CNX Gas production was also adversely impacted by the idling of the Buchanan Mine. We intend to file an insurance claim under our existing policies. Insurance coverage, after certain deductibles have been reached including a 90 day waiting period, includes property damage and cost recoveries as well as business interruption recoveries. There is no guarantee a recovery will be received under our policies. Also, the 2006 period included proceeds from the insurance company of \$60 million related to the 2005 fire at the Buchanan Mine. There have been no insurance recoveries in the 2007 period. Net income in the 2007 period was also impacted by a lower volume of produced coal sales and higher cost per ton sold. The 2007 period net income also reflects a \$4 million expense adjustment for actualization of the 2006 federal income tax accrual to the filed 2006 federal income tax return. The adjustment primarily related to differences in the percentage depletion deduction. These reductions to net income were offset, in part, by lower salary pension costs. The 2006 period included an acceleration of previously unrecognized actuarial losses related to salary pension. Our defined benefit pension plan for salaried employees allows such employees to receive a lump-sum distribution in lieu of annual payments when they retire from CONSOL Energy and its subsidiaries. Statement of Financial Accounting Standards (SFAS) No. 88, Employers Accounting for Settlement & Curtailments of Defined Benefit Pension Plans and for Termination Benefits, requires that when the lump-sum distributions made for a plan year, which for CONSOL Energy is October 1 to September 30, exceed the total of the service cost and interest cost for the plan year, an adjustment equaling the unrecognized actuarial gain or loss resulting from each individual who received a lump sum in that year be recognized. The threshold for recognition of this pension adjustment was not reached for the plan year ended September 30, 2007. Reductions to net income were also offset, in part, by two transactions which occurred in the 2007 period; an asset exchange and an asset sale that resulted in pretax income of approximately \$100 million and net income of approximately \$59 million. Net income reductions were also offset, in part, by the March 2007 settlement agreement with the Combined Fund that resolved all previous issues relating to the calculation of payments to the Fund. Total pre-tax income, including interest, recognized related to the Combined Fund settlement was approximately \$33 million.

Revenue

Revenue and other income increased due to the following items:

| | 2007 Year to Date Period | 2006 Year to Date Period | Dollar Variance | Percentage Change |
|---------------------------------------|-----------------------------------|-----------------------------------|--------------------|----------------------|
| Sales | | | | |
| Produced Coal | \$ 1,996 | \$ 1,951 | \$ 45 | 2.3% |
| Purchased Coal | 30 | 55 | (25) | (45.5)% |
| Produced Gas | 311 | 289 | 22 | 7.6% |
| Industrial Supplies | 104 | 93 | 11 | 11.8% |
| Other | 63 | 54 | 9 | 16.7% |
| Total Sales Outside | 2,504 | 2,442 | 62 | 2.5% |
| Gas Royalty Interest | 37 | 42 | (5) | (11.9)% |
| Purchased Gas | 3 | 41 | (38) | (92.7)% |
| Freight Revenue | 132 | 113 | 19 | 16.8% |
| Other Income | 168 | 124 | 44 | 35.5% |
| Total Revenue and Other Income | \$ 2,844 | \$ 2,762 | \$ 82 | 3.0% |

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The increase in company-produced coal sales revenue during the 2007 period was due to an increase in the average sales price per ton, partially offset by a decrease in sales volumes.

| | 2007 Year to Date Period | 2006 Year to Date Period | Variance | Percentage Change |
|----------------------------------|---|---|-----------------|------------------------------|
| Produced Tons Sold (in millions) | 49.0 | 50.3 | (1.3) | (2.6)% |
| Average Sales Price Per Ton | \$ 40.74 | \$ 38.76 | \$ 1.98 | 5.1% |

The increase in average sales price primarily reflects the general increase in market prices in the period-to-period comparison and the sale of some steam coal into the metallurgical market. Sales of company produced-coal decreased in the period-to-period comparison. Company coal production, excluding equity affiliates, was 48.8 million tons in the 2007 period compared to 51.5 million tons in the 2006 period. The 2007 period production was lower primarily due the idling of the Buchanan Mine as previously discussed, poor geological conditions at McElroy and the idling of certain Central Appalachian mines. These decreases were offset, in part, by production from the AMVEST acquisition.

Purchased coal sales consist of revenues from processing third party coal in our preparation plants for blending purposes to meet customer coal specifications, coal purchased from a third party and sold directly to our customer and revenues from processing third party coal in our preparation plants. The decrease of \$25 million in company-purchased coal sales revenue was primarily due to lower sales volumes.

The increase in produced gas sales revenue in the 2007 period compared to the 2006 period was primarily due to increased sales volumes and the higher average sales price per thousand cubic feet sold.

| | 2007 Year to Date Period | 2006 Year to Date Period | Variance | Percentage Change |
|--|---|---|-----------------|------------------------------|
| Produced Gas Sales Volumes (in billion cubic feet) | 43.0 | 41.2 | 1.8 | 4.4% |
| Average Sales Price Per Thousand Cubic Feet | \$ 7.23 | \$ 7.01 | \$ 0.22 | 3.1% |

Sales volumes increased as a result of additional wells coming online from our on-going drilling program, offset, in part, by decreased active and sealed gob production as a result of the idled Buchanan Mine. The increase in average sales price is the result of realizing higher hedging gains. We periodically enter into various gas swap transactions that qualify as financial cash flow hedges. These gas swap transactions exist parallel to the underlying physical transactions. For the nine months ended September 30, 2007, these physical and financial hedges represented approximately 12.7 Bcf of our gas sales volumes at an average price of \$7.95 per Mcf, compared to approximately 13.0 Bcf at an average price of \$7.49 per Mcf for the nine months ended September 30, 2006. Also included within the 2007 period are the non-operated net revenue interest volumes and revenues associated with royalty and working interests. These volumes were not available in the 2006 period. The associated revenues were included in other income in the prior period.

The \$11 million increase in revenues from the sale of industrial supplies was primarily due to increased sales volumes. Sales volumes have increased primarily due to the July acquisition of Piping & Equipment. See Note 2 Acquisitions and Dispositions in Item 1, Condensed Consolidated Financial Statements in this Form 10-Q.

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The \$9 million increase in other sales was due to various transactions that occurred throughout both periods, none of which were individually material.

| | 2007 Year to Date Period | 2006 Year to Date Period | Variance | Percentage Change |
|--|-----------------------------------|-----------------------------------|-----------|----------------------|
| Gas Royalty Interest Sales Volumes (in billion cubic feet) | 5.4 | 5.6 | (0.2) | (3.6)% |
| Average Sales Price Per Thousand Cubic Feet | \$ 6.77 | \$ 7.42 | \$ (0.65) | (8.8)% |

Included in royalty interest gas sales are the revenues related to the portion of production belonging to royalty interest owners sold by CNX Gas on their behalf. The decreased average sales price relates to the volatility in the monthly volumes, contractual differences among leases, as well as the mix of average and index prices used in calculating royalties.

| | 2007 Year to Date Period | 2006 Year to Date Period | Variance | Percentage Change |
|---|-----------------------------------|-----------------------------------|-----------|----------------------|
| Purchased Gas Sales Volumes (in billion cubic feet) | 0.5 | 5.4 | (4.9) | (90.7)% |
| Average Sales Price Per Thousand Cubic Feet | \$ 6.91 | \$ 7.67 | \$ (0.76) | (9.9)% |

Purchased gas sales volumes in the current period represent volumes of gas we sell at market prices that were purchased from third party producers, less our gathering and marketing fees. In the 2006 period, purchased gas sales and volumes represented volumes of gas we simultaneously purchased from and sold to the same counterparties under contracts that were committed prior to January 1, 2006. Accordingly, Emerging Issues Task Force Issue No. 04-13 (EITF 04-13), which we adopted on January 1, 2006, did not apply to these transactions. All contracts entered into prior to January 1, 2006 have now expired and new contracts are reflected in transportation expense on a net basis.

Freight revenue is based on weight of coal shipped, negotiated freight rates and method of transportation (i.e., rail, barge, truck, etc.) used for the customers to which CONSOL Energy contractually provides transportation services. Freight revenue is the amount billed to customers for transportation costs incurred.

Other income consists of interest income, gain or loss on the disposition of assets, equity in earnings of affiliates, service income, royalty income, derivative gains and losses, rental income and miscellaneous income.

| | 2007 Year to Date Period | 2006 Year to Date Period | Dollar Variance | Percentage Change |
|----------------------------------|-----------------------------------|-----------------------------------|--------------------|----------------------|
| Gain on Sales of Assets | \$ 110 | \$ 5 | \$ 105 | 2,100.0% |
| Litigation Settlement | 5 | | 5 | 100.0% |
| Equity in Earnings of Affiliates | 5 | 1 | 4 | 400.0% |
| Interest Income | 12 | 12 | | % |
| Business Interruption Proceeds | | 60 | (60) | (100.0)% |
| Royalty Income | 10 | 21 | (11) | (52.4)% |
| Other miscellaneous | 26 | 25 | 1 | 4.0% |
| Total Other Income | \$ 168 | \$ 124 | \$ 44 | 35.5% |

Gain on sales of assets increased \$105 million primarily due to two transactions that occurred in the 2007 period. In June 2007, CONSOL Energy, through a subsidiary, exchanged certain coal assets in Northern Appalachia to Peabody Energy in exchange for coalbed methane and gas rights. This transaction was accounted for as a non-monetary exchange under Statement of Financial Accounting Standards No. 153 resulting in a pretax

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gain of \$50 million. Also, in June 2007, CONSOL Energy, through a subsidiary, sold the rights to certain western Kentucky coal in the Illinois Basin to Alliance Resource Partners, L.P. for \$53 million. This transaction resulted in a pretax gain of approximately \$50 million. Gain on sales of assets also increased \$5 million in the period-to-period comparison due to various miscellaneous transactions that occurred throughout both periods, none of which were individually material.

A litigation settlement with a coal customer in the 2007 period resulted in an additional \$5 million of income.

Equity in Earnings of Affiliates increased \$4 million in the period-to-period comparison due to various activities of our joint ventures, none of which were individually material.

Interest income remained consistent in the period-to-period comparison.

During the 2006 period, CONSOL Energy received notice from the insurance companies that \$60 million would be paid to CONSOL Energy for reimbursement of various costs and business interruption related to the 2005 fire at the Buchanan Mine. Approximately \$39 million was recognized as other income attributable to the 2005 fire, coal segment recognized \$30 million and gas segment recognized \$9 million. Also, in the 2006 period CONSOL Energy received a \$21 million advance from the insurance companies for business interruption claims resulting from the 2005 skip hoist incident at the Buchanan Mine. The \$21 million advance was recognized as coal segment other income in the 2006 period.

Royalty income decreased \$11 million primarily due to royalties received from third party gas sales now being classified in outside gas sales versus royalty income. Royalties also decreased due to third parties producing less coal tonnage from CONSOL Energy subsidiary owned property in the period-to-period comparison.

Other miscellaneous income increased \$1 million due to various transactions that occurred throughout both periods, none of which were individually material.

Costs

| | 2007 Year to Date Period | 2006 Year to Date Period | Dollar Variance | Percentage Change |
|---|---|---|----------------------------|------------------------------|
| Cost of Goods Sold and Other Charges | | | | |
| Produced Coal | \$ 1,261 | \$ 1,237 | \$ 24 | 1.9% |
| Purchased Coal | 40 | 59 | (19) | (32.2)% |
| Produced Gas | 93 | 75 | 18 | 24.0% |
| Industrial Supplies | 100 | 92 | 8 | 8.7% |
| Closed and Idle Mines | 79 | 76 | 3 | 3.9% |
| Other | 173 | 89 | 84 | 94.4% |
| Total Cost of Goods Sold and Other Charges | 1,746 | 1,628 | 118 | 7.2% |
| Royalty Interest Gas | 32 | 34 | (2) | (5.9)% |
| Purchased Gas | 3 | 42 | (39) | (92.9)% |
| Total Cost of Goods Sold | \$ 1,781 | \$ 1,704 | \$ 77 | 4.5% |

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Increased cost of goods sold and other charges for company-produced coal was due mainly to an increase in the average unit cost per ton sold, partially offset by lower sales volumes.

| | 2007 Year to Date Period | 2006 Year to Date Period | Variance | Percentage Change |
|--|-----------------------------------|-----------------------------------|----------|----------------------|
| Produced Tons Sold (in millions) | 49.0 | 50.3 | (1.3) | (2.6)% |
| Average Cost of Goods Sold and Other Charges Per Ton | \$ 25.74 | \$ 24.58 | \$ 1.16 | 4.7% |

Average costs of goods sold and other charges for produced coal increased in the period-to-period comparison primarily due to higher health and retirement costs, higher labor costs, higher supply costs, higher subsidence costs and the lower volume impact on fixed unit costs. Higher health and retirement costs were attributable to additional contributions required to be made into employee benefit funds as a result of the five-year labor agreement with the United Mine Workers of America (UMWA) that commenced January 1, 2007. The contribution increase over the 2006 period was \$3.50 per UMWA hour worked. Higher labor costs were due to the effects of wage increases at the union and non-union mines due to new labor contracts. Higher labor unit costs were also due to additional costs incurred to comply with health and safety standards. Supply costs increased due to increases in the cost for products and chemicals, such as roof control products and magnetite, used in the mining and coal preparation process. Supply costs also increased due to additional costs incurred to comply with new federal and state safety regulations. These regulations require additional supplies of self-contained self rescuer devices and other safety items as previously discussed. Higher subsidence costs reflect higher costs related to the Pennsylvania Department of Environmental Protection regulation titled Surface Water Protection-Underground Bituminous Coal Mining Operation. The application of this regulation requires additional costs when mining may affect perennial and intermittent streams. These increases were offset, in part, by income recorded as a result of the Combined Fund settlement. In March 2007, CONSOL Energy entered into a settlement agreement with the Combined Fund that resolved all previous issues relating to the calculation of the payments. The total income, including interest, as a result of this settlement was approximately \$33.4 million, of which approximately \$28.1 million impacted cost of goods sold and other charges for produced coal. Decreased costs also reflect the prior year adjustment which accelerated previously unrecognized actuarial losses related to our salary pension plan. Our defined benefit pension plan for salaried employees allows such employees to receive a lump-sum distribution in lieu of annual payments when they retire from CONSOL Energy and its subsidiaries. Statement of Financial Accounting Standard (SFAS) No. 88, Employers Accounting for Settlements & Curtailments of Defined Benefit Pension Plans and for Termination Benefits, requires that when the lump-sum distributions made for a plan year, which for CONSOL is October 1 to September 30, exceed the total of the service cost and interest cost for the plan year, an adjustment equaling the unrecognized actuarial gain or loss resulting from each individual who received a lump sum in that year be recognized. The total prior year accelerated actuarial amortization was \$21.8 million, of which \$17.4 million impacted costs of goods sold and other charges for produced coal. The settlement threshold was not triggered in the 2007 period. Decreased costs also resulted from lower contract mining fees due to the idling of certain Central Appalachia contract mine locations.

Purchased coal cost of goods sold consists of costs from processing purchased coal in our preparation plants for blending purposes to meet customer coal specifications, coal purchased and sold directly to the customer and costs for processing third party coal in our preparation plants. The decrease of \$19 million in purchased coal cost of goods sold and other charges in the 2007 period was primarily due to lower volumes purchased.

Produced gas cost of goods sold and other charges increased due primarily to an 18.6% increase in unit costs of goods sold and other charges and a 4.4% increase in volumes of produced gas sold.

| | 2007 Year to Date Period | 2006 Year to Date Period | Variance | Percentage Change |
|--|-----------------------------------|-----------------------------------|----------|----------------------|
| Produced Gas Sales Volumes (in billion cubic feet) | 43.0 | 41.2 | 1.8 | 4.4% |
| Average Cost Per Thousand Cubic Feet | \$ 2.17 | \$ 1.83 | \$ 0.34 | 18.6% |

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The increase in average cost per thousand cubic feet of gas sold was primarily attributable to increased salary labor and related employee costs, increased gas well maintenance costs, increased compressor rental costs, and increased power costs. Salary labor and related employee costs increased due to the hiring of additional employees in the 2007 period. Gas well maintenance costs increased due to the increased number of wells in-service compared to the prior year period. Compressor rental costs increased due to the increased volume of rentals. Power costs per unit were higher due to increased megawatt hour rates charged by the power companies in the 2007 period, offset, in part, by credits received from the power company in the 2007 period. These increases in unit costs were offset, in part, by lower firm transportation costs per unit and lower gas well closing costs. The firm transportation improvement was due to the in-service of the Jewell Ridge Pipeline in October 2006. Also, gas well closing costs decreased due to a change in the lives for the wells to coincide with the reserve reports.

Industrial supplies cost of goods sold increased \$8 million primarily due to the July acquisition of Piping & Equipment. See Note 2 Acquisitions and Dispositions in Item 1, Condensed Consolidated Financial Statements in this Form 10-Q.

Closed and idle mine cost of goods sold and other charges increased approximately \$3 million in the 2007 period compared to the 2006 period. This increase was primarily due to \$5 million of increased expense in the 2007 period due to Shoemaker Mine being idled in the Spring of 2006. Also, the increase is attributable to higher expenses related to mine closing, perpetual care water treatment and reclamation liability adjustments that were the result of updated engineering surveys. Survey adjustments resulted in \$2 million of additional expense in the 2007 period for closed and idled locations compared to the results of the survey adjustments in the 2006 period. Increases were partially offset by \$4 million of decreased expense due to various miscellaneous transactions that occurred throughout both periods, none of which were individually material.

Other cost of goods sold and other charges increased due to the following items:

| | 2007 Year to Date Period | 2006 Year to Date Period | Dollar Variance | Percentage Change |
|---|---|---|----------------------------|------------------------------|
| Buchanan roof collapse | \$ 69 | \$ | \$ 69 | 100.0% |
| Stock-based compensation | 20 | 10 | 10 | 100.0% |
| Incentive compensation | 25 | 17 | 8 | 47.1% |
| Miscellaneous transactions | 59 | 62 | (3) | (4.8)% |
| Total Miscellaneous Cost of Goods Sold and Other Charges | \$ 173 | \$ 89 | \$ 84 | 94.4% |

In July 2007, production at the Buchanan Mine was suspended after several roof falls in previously mined areas damaged some of the ventilation controls inside the mine, requiring a general evacuation of the mine. We have drilled bore holes and injected nitrogen in order to stabilize and evaluate the mine atmosphere. In the nine months ended September 30, 2007, we have incurred cost of goods sold expenses of \$69 million in relation to these activities. We intend to file an insurance claim under our existing policies. Insurance coverage, after certain deductibles have been reached including a 90 day waiting period, includes property damage and cost recoveries as well as business interruption recoveries. There is no guarantee a recovery will be received under our policies.

Stock-based compensation expense increased \$10 million primarily as a result of additional awards granted in the 2007 period.

Incentive compensation expense increased \$8 million due to higher projected amounts expected to be paid to employees for the 2007 period compared to the projected amounts expected for the 2006 period. The increase was offset, in part, by a lower level of earnings achieved in the 2007 period compared to the projected 2007 annual earnings, versus the level of earnings achieved in the 2006 period compared to the projected 2006 annual

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earnings. The incentive compensation program is designed to increase compensation to eligible employees when CONSOL Energy reaches predetermined earnings targets and the employees reach predetermined performance targets.

Miscellaneous cost of goods sold and other charges decreased \$3 million due to various transactions that occurred throughout both periods, none of which were individually material.

| | 2007 Year to Date Period | 2006 Year to Date Period | Variance | Percentage Change |
|--|-----------------------------------|-----------------------------------|-----------|----------------------|
| Gas Royalty Interest Sales Volumes (in billion cubic feet) | 5.4 | 5.6 | (0.2) | (3.6)% |
| Average Cost Per Thousand Cubic Feet | \$ 5.82 | \$ 6.12 | \$ (0.30) | (4.9)% |

Included in royalty interest gas costs are the expenses related to the portion of production belonging to royalty interest owners sold by CONSOL Energy on their behalf. The decrease in average cost per unit relates to the volatility in the monthly volumes, contractual differences among leases, as well as the mix of average and index prices used in calculating royalties.

| | 2007 Year to Date Period | 2006 Year to Date Period | Variance | Percentage Change |
|---|-----------------------------------|-----------------------------------|-----------|----------------------|
| Purchased Gas Sales Volumes (in billion gross cubic feet) | 0.5 | 5.4 | (4.9) | (90.7)% |
| Average Cost Per Thousand Cubic Feet | \$ 6.10 | \$ 7.84 | \$ (1.74) | (22.2)% |

Purchased gas sales volumes in the current period represent volumes of gas we sell at market prices that were purchased from third party producers, less our gathering and marketing fees. In the 2006 period, purchased gas costs and volumes represented volumes of gas we simultaneously purchased from and sold to the same counterparties under contracts that were committed prior to January 1, 2006. Accordingly, Emerging Issues Task Force Issue No. 04-3 (EITF 04-13), which we adopted on January 1, 2006, did not apply to these transactions. All contracts entered into prior to January 1, 2006 have now expired and new contracts are reflected in transportation expense on a net basis.

Freight expense is based on weight of coal shipped, negotiated freight rates and method of transportation (i.e., rail, barge, truck, etc.) used for the customers to whom CONSOL Energy contractually provides transportation. Freight expense is billed to customers and the revenue from such billing equals the transportation expense.

| | 2007 Year to Date Period | 2006 Year to Date Period | Dollar Variance | Percentage Change |
|-----------------|-----------------------------------|-----------------------------------|--------------------|----------------------|
| Freight expense | \$ 132 | \$ 113 | \$ 19 | 16.8% |

Selling, general and administrative costs have increased due to the following items:

| | 2007 Year to Date Period | 2006 Year to Date Period | Dollar Variance | Percentage Change |
|---|-----------------------------------|-----------------------------------|--------------------|----------------------|
| Wages and salaries | \$ 25 | \$ 24 | \$ 1 | 4.2% |
| Professional, consulting and other purchased services | 21 | 16 | 5 | 31.3% |
| Advertising and promotion | 3 | 1 | 2 | 200.0% |
| Employee benefits | 6 | 9 | (3) | (33.3)% |
| Other | 24 | 17 | 7 | 41.2% |

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| | | | | |
|---|-------|-------|-------|-------|
| Total Selling, General and Administrative | \$ 79 | \$ 67 | \$ 12 | 17.9% |
|---|-------|-------|-------|-------|

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Wages and salaries have increased due to additional employees being hired after the 2006 period.

Costs of professional, consulting and other purchased services were higher in the 2007 period compared to the 2006 period primarily due to \$4 million of additional costs incurred by our 81.7% subsidiary, CNX Gas, related to a new computer system and legal fees associated with outstanding legal cases. The remaining \$1 million increase is due to various transactions that occurred throughout both periods, none of which are individually material.

Advertising and promotion expenses were \$2 million higher in the 2007 period compared to the 2006 period due to an advertising campaign launched in the 2007 period to raise corporate awareness and recruit the next generation of employees.

Employee benefits decreased due mainly to an acceleration of previously unrecognized actual losses related to our salary pension plan. Our defined benefit pension plan for salaried employees allows such employees to receive a lump-sum distribution in lieu of annual payments when they retire from CONSOL Energy. Statement of Financial Accounting Standards (SFAS) No. 88, Employers Accounting for Settlement & Curtailments of Defined Benefit Pension Plans and for Termination Benefits, requires that when the lump-sum distributions made for a plan year, which for CONSOL Energy is October 1 to September 30, exceed the total of the service cost and interest cost for the plan year, an adjustment equaling the unrecognized actuarial gain or loss resulting from each individual who received a lump sum in that year be recognized. The total accelerated actuarial amortization recognized in the 2006 period was \$21.8 million, of which \$2.4 million impacted selling, general and administrative expense. The threshold for recognition was not met in the 2007 period. Employee benefits also improved \$1 million due to various transactions that occurred throughout both periods, none of which were individually material.

Other selling, general and administrative costs increased \$7 million due to miscellaneous increased costs related to CNX Gas being a separate publicly traded company and various transactions that occurred throughout both periods, none of which were individually material.

Depreciation, depletion and amortization increased due to the following items:

| | 2007 Year to Date Period | 2006 Year to Date Period | Dollar Variance | Percentage Change |
|---|---|---|----------------------------|------------------------------|
| Coal | \$ 185 | \$ 179 | \$ 6 | 3.4% |
| Gas: | | | | |
| Production | 23 | 18 | 5 | 27.8% |
| Gathering | 13 | 9 | 4 | 44.4% |
| Total Gas | 36 | 27 | 9 | 33.3% |
| Other | 14 | 13 | 1 | 7.7% |
| Total Depreciation, Depletion and Amortization | \$ 235 | \$ 219 | \$ 16 | 7.3% |

The increase in coal depreciation, depletion and amortization was primarily due to additional expense related to the assets received in the acquisition of AMVEST. The increase was also attributable to assets placed in service after the 2006 period. Assets placed in service after the 2006 period include various airshafts, longwall assets, haulage assets and other projects completed at our mines. These increases were offset, in part, by a reduction in depletion expense due to depletion of economic reserves at VP#8 Mine and decreased amortization due to decreased production in the 2007 period compared to the 2006 period.

The increase in gas production related depreciation, depletion and amortization was primarily due to an increase in units of production rates and increased production volumes period-to-period. These rates, which are recalculated annually, increased due to the higher proportion of capital assets placed in service versus the proportion of proved developed reserve additions. Rates are generally calculated using the net book value of

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assets at the end of the year divided by either proved or proved developed reserves. Gathering depreciation, depletion and amortization is recorded on the straight-line method and increased primarily as a result of the effects of the Jewell Ridge lateral capital lease, which went into service in October 2006.

Other depreciation, depletion and amortization increased \$1 million primarily related to capitalized computer software being placed in service in after the 2006 period.

Interest expense increased in the 2007 period compared to the 2006 period due to the following items:

| | 2007 Year to Date Period | 2006 Year to Date Period | Dollar Variance | Percentage Change |
|---------------------------------------|-----------------------------------|-----------------------------------|--------------------|----------------------|
| Capitalized lease | \$ 5 | \$ 1 | \$ 4 | 400.0% |
| Interest on unrecognized tax benefits | 2 | | 2 | 100.0% |
| Long-term secured notes | 17 | 18 | (1) | (5.6)% |
| Other | (5) | (1) | (4) | (400.0)% |
| Total Interest Expense | \$ 19 | \$ 18 | \$ 1 | 5.6% |

In conjunction with the completion of the Jewell Ridge lateral pipeline in October 2006, CNX Gas entered into a 15-year firm transportation agreement with ETNG, a subsidiary of Duke Energy. Also, in April 2006, CONSOL Energy entered into an agreement for the acquisition of longwall equipment. These agreements were required to be treated as capital leases under Statement of Financial Accounting Standards No. 13, Accounting for Leases and accordingly incur interest expense each period.

CONSOL Energy began recording interest on unrecognized tax benefits as a result of the adoption of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement 109 (FIN 48) in the 2007 period. See Note 5 Income Taxes in Item 1, Condensed Consolidated Financial Statements of this Form 10-Q.

Interest on long-term debt decreased \$1 million due to the planned June 2007 principal payment of our \$45 million secured note.

Other reductions in interest expense were related to higher amounts of interest capitalized in the 2007 period compared to the 2006 period. Higher capitalized interest was attributable to the higher level of capital projects funded from operating cash flow in the 2007 period compared to the 2006 period.

Taxes other than income decreased primarily due to the following items:

| | 2007 Year to Date Period | 2006 Year to Date Period | Dollar Variance | Percentage Change |
|-------------------------------|-----------------------------------|-----------------------------------|--------------------|----------------------|
| Production taxes: | | | | |
| Coal | \$ 112 | \$ 121 | \$ (9) | (7.4)% |
| Gas | 9 | 9 | | % |
| Total Production Taxes | 121 | 130 | (9) | (6.9) % |
| Other taxes: | | | | |
| Coal | 58 | 53 | 5 | 9.4% |
| Gas | 3 | 3 | | % |
| Other | 9 | 9 | | % |
| Other | 70 | 65 | 5 | 7.7% |

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| | | | | |
|-------------------------------|--------|--------|--------|--------|
| Total Taxes Other Than Income | \$ 191 | \$ 195 | \$ (4) | (2.1)% |
|-------------------------------|--------|--------|--------|--------|

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Decreased coal production taxes are primarily due to lower severance taxes, black lung excise taxes and reclamation fee taxes attributable to decreased production. These improvements were offset, in part, by higher production taxes due to the increase in the average sales price for produced coal.

Gas production taxes remained consistent in the period to period comparison.

The increase in Other coal taxes is attributable to higher property taxes. Higher property taxes are related to additional property, plant & equipment and higher assessment values compared to the prior year.

Other gas and other taxes have remained consistent in the period-to-period comparison.

| | 2007 Year to Date Period | 2006 Year to Date Period | Variance | Percentage Change |
|------------------------------|-----------------------------------|-----------------------------------|----------|----------------------|
| Earnings Before Income Taxes | \$ 408 | \$ 445 | \$ (37) | (8.3)% |
| Tax Expense | \$ 127 | \$ 129 | \$ (2) | (1.6)% |
| Effective Income Tax Rate | 31.2% | 28.9% | 2.3% | |

CONSOL Energy's effective tax rate is sensitive to changes to the relationship between pre-tax earnings and percentage depletion. The effective tax rate for the nine months ended September 30, 2007 was calculated using the effective rate projection on recurring earnings and also includes discrete tax expense related to certain non-recurring transactions. The 2007 effective tax rate also includes a \$4 million expense adjustment for actualization of the 2006 federal income tax accrual to the filed 2006 federal income tax return. The adjustment primarily related to differences in the percentage depletion deduction. The effective tax rate for the nine months ended September 30, 2006 was calculated using the effective rate projection on recurring earnings. See Note 5 Income Taxes in Item 1, Condensed Consolidated Financial Statements of this Form 10-Q.

Minority interest represents 18.3% of CNX Gas net income for the two month period ended September 30, 2007 which CONSOL Energy does not own. It also represents 18.5% of Gas's net income for the seven month period ended July 31, 2007 which CONSOL Energy does not own. During the period ended September 30, 2007, CONSOL Energy purchased \$10 million of CNX Gas shares on the open market. The purchase of the additional shares changed CONSOL Energy's ownership percentage in CNX Gas from 81.5% to 81.7%.

Liquidity and Capital Resources

CONSOL Energy generally has satisfied our working capital requirements and funded our capital expenditures and debt service obligations with cash generated from operations and proceeds from borrowings. On June 27, 2007, CONSOL Energy entered into an Amended and Restated five-year \$1 billion senior secured credit facility, which replaced the \$750 million credit facility. The facility is secured by substantially all of the assets of CONSOL Energy and certain of its subsidiaries and is shared equally and ratably with the holders of CONSOL Energy Inc. 7.875% bonds maturing in 2012. The Agreement provides for the release of collateral upon the achievement of certain credit ratings. Fees and interest rate spreads are based on a ratio of financial covenant debt to twelve month trailing earnings before interest, taxes, depreciation, depletion and amortization (EBITDA), measured quarterly. The facility includes a minimum interest coverage ratio of no less than 4.50 to 1.00, measured quarterly. The interest coverage ratio was 15.95 to 1.00 at September 30, 2007. The facility also includes a maximum leverage ratio of not more than 3.25 to 1.00, measured quarterly. The leverage ratio was 1.18 to 1.00 at September 30, 2007. Affirmative and negative covenants in the facility limit our ability to dispose of assets, make investments, purchase or redeem CONSOL Energy common stock, pay dividends and merge with another corporation. At September 30, 2007, the facility had \$181 million outstanding and \$247 million of letters of credit outstanding, leaving \$572 million of unused capacity.

In April 2007, CONSOL Energy and certain of our U.S. subsidiaries amended their existing trade accounts receivable facility with financial institutions for the sale on a continuous basis of eligible trade accounts receivable. The amended facility allows CONSOL Energy to receive on a revolving basis, up to \$150 million, a

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\$25 million increase over the previous facility. The amended facility also allows for the issuance of letters of credit against the \$150 million capacity. At September 30, 2007, eligible accounts receivable totaled approximately \$131 million. The subordinated retained interest at September 30, 2007 was \$18 million. Accounts receivable totaling \$113 million were removed from the consolidated balance sheet related at September 30, 2007. There were no letters of credit outstanding against the facility at September 30, 2007. In accordance with the facility agreement, CONSOL Energy is able to receive proceeds based upon total eligible accounts receivable at the previous month-end. CONSOL Energy is in the process of amending the existing accounts receivable facility. The amendment is expected to increase the capacity of the facility to \$165 million.

CONSOL Energy's letters of credit issued under the revolving facility have decreased by approximately \$146 million at September 30, 2007 compared to December 31, 2006. This decrease was primarily due to a reduction of \$118 million to the financial security required by the 1992 Fund. The reduction of security was due to the legislative change included in The Surface Mining Control and Reclamation Act Amendments of 2006. The new legislation requires certain annual transfers to be made from the Abandoned Mine Land (AML) program to the Combined Fund, 1992 Fund and the 1993 Fund. The current law was amended so that after a phase-in period, the new legislation removes the annual cap on the amount of interest to be transferred and requires annual transfers of AML Fund interest to the Combined Benefit Fund, 1992 Fund and 1993 Fund to pay the health care benefits of retirees whose employers have gone out of business. Previous to the legislative change, benefits of retirees whose employers have gone out of business have been paid by the surviving companies participating in the funds. Because this funding requirement will be eliminated after the phase-in period, security required by the funds has been reduced.

In October 2005, CNX Gas, an 81.7% controlled and consolidated subsidiary of CONSOL Energy, entered into a credit agreement with a group of commercial lenders. The credit agreement provides for a revolving credit facility providing an initial aggregate outstanding principal amount of up to \$200 million, including borrowings and letters of credit. CNX Gas also has the ability to request an increase in aggregate outstanding principal amount of up to \$300 million, including borrowings and letters of credit. This facility includes a leverage ratio covenant of not more than 3.00 to 1.00, measured quarterly. This ratio was 0.08 to 1.00 at September 30, 2007. The facility also includes an interest coverage ratio covenant of no less than 3.00 to 1.00, measured quarterly. This ratio was 61.38 to 1.00 at September 30, 2007. At September 30, 2007, this facility had approximately \$15 million of letters of credit issued and had no outstanding borrowings, leaving approximately \$185 million of unused capacity. As a result of entering into the credit agreement, CNX Gas and their subsidiaries executed a Supplemental Indenture and as of October 21, 2005 are also guarantors of CONSOL Energy's 7.875% bonds.

CONSOL Energy believes that cash generated from operations and our borrowing capacity will be sufficient to meet our working capital requirements, anticipated capital expenditures (other than major acquisitions), scheduled debt payments, anticipated dividend payments and to provide required letters of credit. Nevertheless, the ability of CONSOL Energy to satisfy our working capital requirements, debt service obligations, to fund planned capital expenditures or pay dividends will depend upon future operating performance, which will be affected by prevailing economic conditions in the coal and gas industries and other financial and business factors, some of which are beyond CONSOL Energy's control.

In order to manage the market risk exposure of volatile natural gas prices in the future, CONSOL Energy enters into various physical gas supply transactions with both gas marketers and end users for terms varying in length. CONSOL Energy has also entered into various gas swap transactions that qualify as financial cash flow hedges, which exist parallel to the underlying physical transactions. The fair value of these contracts was a net asset of \$13 million at September 30, 2007. The ineffective portion of the changes in the fair value of these contracts was insignificant to earnings in the nine months ended September 30, 2007 and 2006.

CONSOL Energy frequently evaluates potential acquisitions. CONSOL Energy has funded acquisitions primarily with cash generated from operations and a variety of other sources, depending on the size of the transaction, including debt financing. There can be no assurance that additional capital resources, including debt financing, will be available to CONSOL Energy on terms which CONSOL Energy finds acceptable, or at all.

Table of Contents*Cash Flows (in millions)*

| | 2007 | 2006 | Change |
|---|----------|----------|----------|
| Cash flows from operating activities | \$ 596 | \$ 439 | \$ 157 |
| Cash used in investing activities | \$ (771) | \$ (457) | \$ (314) |
| Cash provided by (used in) financing activities | \$ 30 | \$ (107) | \$ 137 |

Cash flows from operating activities have increased primarily due to the following items:

Operating cash flows increased by approximately \$113 million due to proceeds received in the 2007 period from the accounts receivable securitization program. The accounts receivable program had no activity during the 2006 period.

Operating cash flows increased by approximately \$51 million due to coal inventories. Coal inventories remained consistent compared to December 31, 2006 at 1.4 million tons. These tons include 0.3 million tons of coal inventory acquired in the July 31, 2007 AMVEST acquisition. Coal inventories increased 1.1 million tons in the nine months ended September 30, 2006.

Operating cash flows decreased due to lower net income in the period-to-period comparison.

Operating cash flows also fluctuated due to various changes in operating assets, operating liabilities, other assets and other liabilities which occurred throughout both periods.

Net cash used in investing activities changed primarily due to the following items:

Capital expenditures were \$498 million in the 2007 period compared to \$494 million in the 2006 period. Capital expenditures were higher in the 2007 period primarily due to the acquisition of certain coalbed methane and gas rights from Peabody Energy for \$16 million plus various other acquisition costs, our enhanced gas well drilling program, and various other projects being completed. Capital expenditures also include \$17 million related to the August 2007 acquisition of Piping & Equipment. See Note 2 Acquisitions and Dispositions in Item 1, Condensed Consolidated Financial Statements of this Form 10-Q. These increases were offset, in part, by a \$25 million cash payment in the 2006 period related to the January 2006 acquisition of Mon River Towing and J.A.R. Barge Lines, LLC, from The Guttman Group. Increased capital expenditures were also offset by lower expenditures related to the overland belt and new preparation plant at our Robinson Run Mine in the 2007 period compared to the 2006 period.

Cash used in investing activities includes \$297 million related to the July 2007 acquisition of AMVEST. See Note 2 Acquisitions and Dispositions in Item 1, Condensed Consolidated Financial Statements of this Form 10-Q.

In the 2007 period, CONSOL Energy purchased 372,000 shares of CNX Gas, a majority owned subsidiary, on the open market at an average price of \$26.87, or \$10 million.

Proceeds from the sale of assets were \$64 million in the 2007 period compared to \$44 million in the 2006 period. Proceeds in the 2007 period were primarily due to \$53 million of proceeds from the sale of certain western Kentucky coal to Alliance Resource Partners, L.P. Proceeds in the 2006 period were primarily due to the sale and subsequent lease-back of longwall mining equipment. The lease has been reported as a capital lease, and accordingly a liability for the present value of the lease payments has been recognized.

Net cash used in financing activities changed primarily due to the following items:

In the 2007 period, CONSOL Energy received proceeds of \$181 million from our revolving credit facility. There was no activity under the revolving credit facility in the nine months ended September 30, 2006.

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In the 2007 period, CONSOL Energy paid \$45 million to redeem its medium-term notes that were due in June 2007. There was no long term debt repayment in the 2006 period.

In the 2007 period, \$6 million of cash was retained, compared to \$38 million in the 2006 period, as a result of the tax deductibility of increases in the value of equity instruments issued under share-based payment arrangements.

In the 2007 period, approximately \$80 million of CONSOL Energy stock was repurchased under the share repurchase program that was approved in December 2005. As of September 30, 2007, we have repurchased 5,602,600 shares at an average price of \$34.98 under this program. In the 2006 period, approximately \$116 million of CONSOL Energy stock was repurchased.

\$7 million of stock was issued in the 2007 period compared to \$13 million issued in the 2006 period. Stock issuances in both periods were a result of stock option exercises.

The following is a summary of our significant contractual obligations at September 30, 2007 (in thousands):

Payments due by Year

| | Less Than 1 Year | 1 - 3 Years | 3-5 Years | More Than 5 Years | Total |
|------------------------------------|---------------------|----------------|--------------|----------------------|--------------|
| Short-Term Notes Payable | \$ 181,000 | \$ | \$ | \$ | \$ 181,000 |
| Gas Firm Transportation Obligation | 7,392 | 14,554 | 10,482 | 18,227 | 50,655 |
| Purchase Order Firm Commitments | 7,300 | | | | 7,300 |
| Long-Term Debt | 7,104 | 16,817 | 361,542 | 20,758 | 406,221 |
| Capital Lease Obligations (a) | 9,860 | 21,807 | 11,289 | 48,732 | 91,688 |
| Operating Lease Obligations | 39,377 | 72,885 | 37,032 | 128,028 | 277,322 |
| Other Long-Term Liabilities (b) | 318,697 | 559,440 | 514,773 | 2,075,917 | 3,468,827 |
| Total Contractual Obligations (c) | \$ 570,730 | \$ 685,503 | \$ 935,118 | \$ 2,291,662 | \$ 4,483,013 |

- (a) In conjunction with the completion of the Jewell Ridge lateral pipeline in October 2006, CNX Gas entered into a 15-year firm transportation agreement with ETNG, a subsidiary of Duke Energy, at pre-determined fixed rates. In addition to providing us with transportation flexibility, the Jewell Ridge lateral will provide access for our production to alternate and growing Southeastern and East Coast markets. Capital Lease Obligations include the lease arrangement related to the Jewell Ridge lateral pipeline.
- (b) Long-term liabilities include other post-employment benefits, work-related injuries and illnesses, defined benefit pension plans, mine reclamation and closure, and other long-term liability costs.
- (c) The significant obligation table does not include obligations to taxing authorities due to the uncertainty surrounding the ultimate settlement of amounts and timing of these obligations.

Debt

At September 30, 2007, CONSOL Energy had total long-term debt of \$507 million outstanding, including current portion of long-term debt of \$17 million. This long-term debt consisted of:

An aggregate principal amount of \$249 million of 7.875% notes (\$250 million of 7.875% notes due in 2012, net of \$1 million unamortized debt discount). The notes were issued at 99.174% of the principal amount. Interest on the notes is payable March 1 and September 1 of each year. Payment of the principal and premium, if any, and interest on the notes are guaranteed by most of CONSOL Energy's subsidiaries. The notes are senior secured obligations and rank equally with all other secured indebtedness of the guarantors;

An aggregate principal amount of \$103 million of two series of industrial revenue bonds which were issued to finance the Baltimore port facility and bear interest at 6.50% per annum and mature in 2010 and 2011;

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\$32 million in advance royalty commitments with an average interest rate of 7.21% per annum;

An aggregate principal amount of \$11 million on a variable rate note that bears interest at the prime rate, or 7.75% at September 30, 2007. This note was incurred by a variable interest entity that is fully consolidated in which CONSOL Energy holds a 49% ownership interest;

An aggregate principal amount of \$9 million on a rate note that bears interest at 8.16% at September 30, 2007. This note was incurred by a variable interest entity that is fully consolidated in which our 81.7% subsidiary, CNX Gas, holds no ownership interest;

An aggregate principal amount of \$101 million of capital leases with an interest rate of 7.11% per annum.

An aggregate principal amount of \$2 million of variable rate notes with a weighted average interest rate of 8.53% due at various dates ranging from 2007 through 2031.

At September 30, 2007, CONSOL Energy had \$181 million of borrowings and approximately \$247 million of letters of credit outstanding under the revolving credit facility.

At September 30, 2007, CNX Gas, an 81.7 % subsidiary, had no aggregate principal amounts of borrowings and approximately \$15 million of letters of credit outstanding under its revolving credit facility.

Stockholders Equity and Dividends

CONSOL Energy had stockholders' equity of \$1,242 million at September 30, 2007 and \$1,066 million at December 31, 2006. The increase was primarily attributable to net income for the nine months ended September 30, 2007 and the amortization of unearned compensation associated with stock-based compensation awards. This increase was partially offset by repurchases under the CONSOL Energy share repurchase program, payment of dividends during the nine months ended September 30, 2007 and the cumulative effect of adopting FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement 109 (FIN 48). See Consolidated Statements of Stockholders Equity.

In December 2005, CONSOL Energy announced that we would begin a share repurchase program of up to \$300 million of the company's common stock during a 24-month period beginning January 1, 2006 and ending December 31, 2007. As of September 30, 2007, we have repurchased 5,602,600 shares at an average price of \$34.98 under this program.

In August, the Board of Directors of CONSOL Energy amended the company's dividend policy, allowing the company to increase its dividend from \$0.28 per share to \$0.40 per share on an annualized basis, an increase of 43 percent.

Dividend information for the current year to date is as follows:

| Declaration Date | Amount Per Share | Record Date | Payment Date |
|------------------|------------------|------------------|-------------------|
| October 26, 2007 | \$ 0.10 | November 7, 2007 | November 23, 2007 |
| July 27, 2007 | \$ 0.07 | August 9, 2007 | August 27, 2007 |
| April 27, 2007 | \$ 0.07 | May 8, 2007 | May 29, 2007 |
| January 26, 2007 | \$ 0.07 | February 8, 2007 | February 23, 2007 |

The declaration and payment of dividends by CONSOL Energy is subject to the discretion of CONSOL Energy's board of directors, and no assurance can be given that CONSOL Energy will pay dividends in the future. CONSOL Energy's board of directors determines whether dividends will be paid quarterly. The determination to pay dividends will depend upon, among other things, general business conditions, CONSOL Energy's financial results, contractual and legal restrictions regarding the payment of dividends by CONSOL

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Energy, planned investments by CONSOL Energy and such other factors as the board of directors deems relevant. Our credit facility limits our ability to pay dividends when our leverage ratio covenant is 2.50 to 1.00 or more and our availability is less than \$100 million. The leverage ratio was 1.18 to 1.00 and our availability was approximately \$572 million at September 30, 2007. The credit facility does not permit dividend payments in the event of default. There were no defaults in the three or nine months ended September 30, 2007.

Off-Balance Sheet Transactions

CONSOL Energy does not maintain any off-balance sheet transactions, arrangements, obligations or other relationships with unconsolidated entities or others that are reasonably likely to have a material current or future effect on CONSOL Energy's condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources which are not disclosed in the Notes to the Consolidated Financial Statements.

Recent Accounting Pronouncements

In April 2007, the FASB issued FASB Staff Position (FSP) FIN 39-1, Amendment of FASB Interpretation No. 39. This FSP amends paragraph 10 of Interpretation 39 to permit entities to offset fair value amounts recognized for either a receivable representing the right to reclaim cash collateral or a payable representing an obligation to return cash collateral, if such receivable or payable arises from derivative instruments executed with the same counterparty under the same master netting arrangement. FSP FIN 39-1 also requires entities to make an accounting policy decision to offset fair value amounts in accordance with FIN 39-1 and apply the policy consistently. An entity may not offset fair value amounts recognized for derivative instruments without offsetting fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral. FSP FIN 39-1 is effective for financial statements issued for fiscal years beginning after November 15, 2007, however earlier application is permitted. We do not expect this guidance to have a significant impact on CONSOL Energy.

In November 2006, the FASB ratified Emerging Issues Task Force (EITF) Issue No. 06-11, Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards. EITF 06-11 states that companies should recognize the income tax benefit realized from dividends that are paid to employees holding equity-classified nonvested shares, equity-classified nonvested share units, or equity-classified outstanding share options and charged to retained earnings under Statement 123(R) as additional paid-in capital. EITF 06-11 is effective for financial statements issued for fiscal years beginning after September 15, 2007, however earlier application is permitted. We do not expect this guidance to have a significant impact on CONSOL Energy.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and requires additional disclosures about fair value measurements. SFAS 157 aims to improve the consistency and comparability of fair value measurements by creating a single definition of fair value. The Statement emphasizes that fair value is not entity-specific, but instead is a market-based measurement of an asset or liability. SFAS 157 upholds the requirements of previously issued pronouncements concerning fair value measurements and expands the required disclosures. In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FAS 115 (SFAS 159). SFAS 159 permits all entities to choose to measure certain eligible assets and liabilities at fair value and would enable entities to mitigate volatility in earnings caused by measuring related assets and liabilities differently. The Statement attempts to improve financial reporting as it establishes presentation and disclosure requirements specific to the fair value method. The required disclosures are aimed at enhancing the comparability of financial information between entities. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. Earlier application is permitted provided the entity also elects to apply the provisions of SFAS 157. We do not expect this guidance to have a significant impact on CONSOL Energy.

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In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (SFAS 158), which requires the recognition of the funded status of defined benefit postretirement plans and related disclosures. CONSOL Energy adopted SFAS 158 for its December 31, 2006 year-end. Additionally, SFAS 158 requires an employer to measure the funded status of each of its plans as of the date of its year-end statement of financial position. This provision becomes effective for CONSOL Energy in its December 31, 2008 year-end. The funded status of CONSOL Energy's pension and other postretirement benefit plans are currently measured as of September 30.

Forward-Looking Statements

We are including the following cautionary statement in this document to make applicable and take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 for any forward-looking statements made by, or on behalf, of us. With the exception of historical matters, various statements in this document, including those that express a belief, expectation, or intention, as well as those that are not statements of historical fact, are forward-looking statements (as defined in Section 21E of the Securities Exchange Act of 1934) that involve risks and uncertainties that could cause actual results to differ materially from projected results. Accordingly, investors should not place undue reliance on forward-looking statements as a prediction of actual results. The forward-looking statements may include projections and estimates concerning the timing and success of specific projects and our future production, revenues, income and capital spending. When we use the words believe, intend, expect, may, should, anticipate, could, would, will, estimate, plan, predict, project, or their negatives expressions, the statements which include those words are usually forward-looking statements. When we describe strategy that involves risks or uncertainties, we are making forward-looking statements. The forward-looking statements in this document speak only as of the date of this document; we disclaim any obligation to update these statements unless required by securities law, and we caution you not to rely on them unduly. We have based these forward-looking statements on our current expectations and assumptions about future events. While our management considers these expectations and assumptions to be reasonable, they are inherently subject to significant business, economic, competitive, regulatory and other risks, contingencies and uncertainties, most of which are difficult to predict and many of which are beyond our control. These risks, uncertainties and contingencies include, but are not limited to, the following:

an extended decline in prices we receive for our coal and gas affecting our operating results and cash flows;

reliance on customers extending existing contracts or entering into new long-term contracts for coal;

reliance on major customers;

our inability to collect payments from customers if their creditworthiness declines;

the disruption of rail, barge and other systems that deliver our coal;

a loss of our competitive position because of the competitive nature of the coal industry and the gas industry, or a loss of our competitive position because of overcapacity in these industries impairing our profitability;

our inability to hire qualified people to meet replacement or expansion needs;

coal users switching to other fuels in order to comply with various environmental standards related to coal combustion;

the inability to produce a sufficient amount of coal to fulfill our customers' requirements which could result in our customers initiating claims against us;

the risks inherent in coal mining being subject to unexpected disruptions, including geological conditions, equipment failure, timing of completion of significant construction or repair of equipment, fires, accidents and weather conditions which could cause our results to deteriorate;

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increases in the price of commodities used in our mining operations could impact our cost of production;

obtaining governmental permits and approvals for our operations;

the effects of government regulation;

the effects of stringent federal and state safety regulations;

the effects of mine closing, reclamation and certain other liabilities;

uncertainties in estimating our economically recoverable coal and gas reserves;

we do not insure against all potential operating risks;

the outcomes of various legal proceedings, which proceedings are more fully described in our reports filed under the Securities Exchange Act of 1934;

increased exposure to employee related long-term liabilities;

our participation in multi-employer pension plans may expose us to obligations beyond the obligation to our employees;

lump sum payments made to retiring salaried employees pursuant to our defined benefit pension plan;

our ability to comply with laws or regulations requiring that we obtain surety bonds for workers' compensation and other statutory requirements;

acquisitions that we recently have made or may make in the future including the accuracy of our assessment of the acquired businesses and their risks, achieving any anticipated synergies, integrating the acquisitions and unanticipated changes that could affect assumptions we may have made;

the anti-takeover effects of our rights plan could prevent a change of control;

risks in exploring for and producing gas;

new gas development projects and exploration for gas in areas where we have little or no proven gas reserves;

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the disruption of pipeline systems which deliver our gas;

the availability of field services, equipment and personnel for drilling and producing gas;

replacing our natural gas reserves which if not replaced will cause our gas reserves and gas production to decline;

costs associated with perfecting title for gas rights in some of our properties;

we need to use unproven technologies to extract coalbed methane on some of our properties;

location of a vast majority of our gas producing properties in three counties in southwestern Virginia, making us vulnerable to risks associated with having our gas production concentrated in one area;

other persons could have ownership rights in our advanced gas extraction techniques which could force us to cease using those techniques or pay royalties;

the coalbeds from which we produce methane gas frequently contain water that may hamper production; and

other factors discussed in our 2006 Form 10-K under Risk Factors, as updated by any subsequent Form 10-Qs, which are on file at the Securities and Exchange Commission.

Table of Contents**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

In addition to the risks inherent in operations, CONSOL Energy is exposed to financial, market, political and economic risks. The following discussion provides additional detail regarding CONSOL Energy's exposure to the risks of changing natural gas prices.

CONSOL Energy is exposed to market price risk in the normal course of selling natural gas production and to a lesser extent in the sale of coal. CONSOL Energy sells coal under both short-term and long-term contracts with fixed price and/or indexed price contracts that reflect market value. CONSOL Energy uses fixed-price contracts, collar-price contracts and derivative commodity instruments that qualify as cash-flow hedges under Statement of Financial Accounting Standards No. 133 to minimize exposure to market price volatility in the sale of natural gas. Our risk management policy strictly prohibits the use of derivatives for speculative positions.

CONSOL Energy has established risk management policies and procedures to strengthen the internal control environment of the marketing of commodities produced from its asset base. All of the derivative instruments without other risk assessment procedures are held for purposes other than trading. They are used primarily to mitigate uncertainty and volatility and cover underlying exposures. CONSOL Energy's market risk strategy incorporates fundamental risk management tools to assess market price risk and establish a framework in which management can maintain a portfolio of transactions within pre-defined risk parameters.

CONSOL Energy believes that the use of derivative instruments along with the risk assessment procedures and internal controls does not expose CONSOL Energy to material risk. The use of derivative instruments could materially affect CONSOL Energy's results of operations depending on interest rates, exchange rates or market prices. However, we believe that use of these instruments will not have a material adverse effect on our financial position or liquidity.

For a summary of accounting policies related to derivative instruments, see Note 1 of the Notes to the Consolidated Financial Statements in our Annual Report Form 10-K for the year ended December 31, 2006.

Sensitivity analyses of the incremental effects on pre-tax income for the nine months ended September 30, 2007 of a hypothetical 10 percent and 25 percent change in natural gas prices for open derivative instruments as of September 30, 2007 are provided in the following table:

Incremental Decrease in Pre-tax Income Assuming a Hypothetical Price,

Exchange Rate or Interest Rate Change of:

| | 10% | 25% |
|-----------------|---------------|---------|
| | (in millions) | |
| Natural Gas (a) | \$ 27.8 | \$ 70.5 |

- (a) CONSOL Energy remains at risk for possible changes in the market value of these derivative instruments; however, such risk should be mitigated by price changes in the underlying hedged item. The effect of this offset is not reflected in the sensitivity analyses. CONSOL Energy entered into derivative instruments to convert the market prices related to portions of the 2007 through 2009 anticipated sales of natural gas to fixed prices. The sensitivity analyses reflect an inverse relationship between increases in commodity prices and a benefit to earnings. When commodity prices increase, pretax income decreases. The fair value of these contracts was a net gain of \$8.2 million (net of \$5.2 million of deferred tax) at September 30, 2007. We continually evaluate the portfolio of derivative commodity instruments and adjust the strategy to anticipated market conditions and risks accordingly.

CONSOL Energy is exposed to credit risk in the event of nonperformance by counterparties. The credit worthiness of counterparties is subject to continuing review.

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CONSOL Energy's interest expense is sensitive to changes in the general level of interest rates in the United States. At September 30, 2007, CONSOL Energy had \$496 million aggregate principal amount of debt outstanding under fixed-rate instruments and \$192 million aggregate principal amount of debt outstanding under variable-rate instruments. CONSOL Energy's primary exposure to market risk for changes in interest rates relates to our revolving credit facility. There was \$181 million outstanding under this facility at September 30, 2007. Due to the level of borrowings against this facility in the nine months ended September 30, 2007, a 100 basis-point increase in the average rate for CONSOL Energy's revolving credit facility would not have significantly decreased net income for the period.

Almost all of CONSOL Energy's transactions are denominated in U.S. dollars, and, as a result, it does not have material exposure to currency exchange-rate risks.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure controls and procedures. CONSOL Energy, under the supervision and with the participation of its management, including CONSOL Energy's principal executive officer and principal financial officer, evaluated the effectiveness of the Company's disclosure controls and procedures, as such term is defined in Rule 13a-15(e) under the Securities Act of 1934, as amended (the Exchange Act), as of the end of the period covered by this quarterly report on Form 10-Q. Based on that evaluation, CONSOL Energy's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures are effective as of September 30, 2007 to ensure that information required to be disclosed by CONSOL Energy in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by CONSOL Energy in such reports is accumulated and communicated to CONSOL Energy's management, including CONSOL Energy's principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in internal controls over financial reporting. There were no changes that occurred during the fiscal quarter covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents**PART II****OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

The first through twelfth paragraphs of Note 10 Commitments and Contingencies in the notes to the Condensed Consolidated Financial Statements included in Item 1 of this Form 10-Q are incorporated herein by reference.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer purchases of equity securities (1):

| | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Share Repurchase Program | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program (000 s omitted) (2) |
|--|---|---|--|---|
| As of June 30, 2007 | 4,244,800 | 33.44 | 4,244,800 | \$ 158,051 |
| July 1 through July 31, 2007 | 60,000 | 42.48 | 60,000 | \$ 155,502 |
| August 1 through August 31, 2007 | 1,297,800 | 39.68 | 1,297,800 | \$ 104,006 |
| September 1 through September 30, 2007 | | | | \$ 104,006 |
| July through September Total | 1,357,800 | 39.80 | 1,357,800 | \$ 104,006 |
| Total | 5,602,600 | 34.98 | 5,602,600 | \$ 104,006 |

- (1) On December 21, 2005, CONSOL Energy's Board of Directors announced a share repurchase program of up to \$300 million of the company's common stock during a 24-month period beginning January 1, 2006 and ending December 31, 2007.
- (2) Management cannot estimate the number of shares that will be repurchased prior to December 31, 2007 because purchases are made based on company outlook, business condition and current investment opportunity.

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ITEM 6. EXHIBITS

Exhibits filed as part of this Report:

- 4.11 Supplemental Indenture No. 9 dated as of September 6, 2007 among CONSOL Energy Inc., certain subsidiaries of CONSOL Energy Inc. and The Bank of Nova Scotia Trust Company of New York, as trustee.
- 10.110 Letter Agreement, dated August 24, 2007, by and between CONSOL Energy Inc. and Nicholas J. DeIuliis, incorporated by reference to Exhibit 10.1 to Form 8-K filed on August 24, 2007.
- 10.111 Summary of Non-Employee Director Compensation.
- 10.112 Agreement, dated September 12, 2007, by and between CONSOL Energy Inc. and Bart Hyita, regarding CONSOL Energy Inc. Supplemental Retirement Plan.
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

In accordance with SEC Release 33-8238, Exhibits 32.1 and 32.2 are being furnished and not filed.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CONSOL ENERGY INC.

Date: November 1, 2007

By: */s/* J. BRETT HARVEY
J. Brett Harvey,

President and Chief Executive Officer

(Duly Authorized Officer and Principal Executive Officer)

By: */s/* WILLIAM J. LYONS
William J. Lyons,

Chief Financial Officer and Executive Vice President

**(Duly Authorized Officer and Principal Financial and
Accounting Officer)**

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