ABX AIR INC
Form SC 13D/A
September 24, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 13D

Under the Securities Exchange Act of 1934

(Amendment No. 1)*

ABX AIR, INC.

(Name of Issuer)

Common Stock, par value $0.01 per share

(Title of Class of Securities)

00080S101

(CUSIP Number)

Red Mountain Capital Partners LLC

Attn: Willem Mesdag

10100 Santa Monica Boulevard, Suite 925

Los Angeles, California 90067

Telephone (310) 432-0200

(Name, Address and Telephone Number of Person Authorized to Receive Notices and Communications)

September 24, 2007

(Date of Event Which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of Rule 13d-1(e), 13d-1(f) or 13d-1(g), check the following box. ¨

Note. Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See Rule 13d-7 for other parties to whom copies are to be sent.

* The remainder of this cover page shall be filled out for a reporting person s initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be filed for the purpose of Section 18 of the Securities Exchange Act of 1934 (Act) or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

1	**NAME OF REPORTING PERSONS** **I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)** Red Mountain Capital Partners LLC 73-1726370
2	**CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*** (a) x (b) ¨
3	**SEC USE ONLY**
4	**SOURCE OF FUNDS*** AF (See Item 3)
5	**CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e)** ¨
6	**CITIZENSHIP OR PLACE OF ORGANIZATION** Delaware

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	**SOLE VOTING POWER** 3,623,154 shares (See Item 5)
	8	**SHARED VOTING POWER** None (See Item 5)
	9	**SOLE DISPOSITIVE POWER** 3,623,154 shares (See Item 5)
	10	**SHARED DISPOSITIVE POWER**

None (See Item 5)

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

3,623,154 shares (See Item 5)

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES* ¨

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

6.2% (See Item 5)

14 TYPE OF REPORTING PERSON*

OO Limited Liability Company

* See Instructions

1 NAME OF REPORTING PERSONS

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)

Red Mountain Capital Partners II, L.P.

20-4117535

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*

(a) x

(b) ¨

3 SEC USE ONLY

4 SOURCE OF FUNDS*

WC (See Item 3)

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e) ¨

6 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	
7 SOLE VOTING POWER	1,192,170 shares (See Item 5)
8 SHARED VOTING POWER	None (See Item 5)
9 SOLE DISPOSITIVE POWER	1,192,170 shares (See Item 5)
10 SHARED DISPOSITIVE POWER	

None (See Item 5)

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

1,192,170 shares (See Item 5)

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES* ¨

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

2.0% (See Item 5)

14 TYPE OF REPORTING PERSON*

PN Limited Partnership

* See Instructions

1 NAME OF REPORTING PERSONS

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)

Red Mountain Capital Partners III, L.P.

20-5329858

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*

(a) x

(b) ¨

3 SEC USE ONLY

4 SOURCE OF FUNDS*

WC, OO (See Item 3)

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e) ¨

6 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH		
	7	**SOLE VOTING POWER** 2,430,984 shares (See Item 5)
	8	**SHARED VOTING POWER** None (See Item 5)
	9	**SOLE DISPOSITIVE POWER** 2,430,984 shares (See Item 5)
	10	**SHARED DISPOSITIVE POWER**

None (See Item 5)

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

2,430,984 shares (See Item 5)

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES* ¨

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

4.1% (See Item 5)

14 TYPE OF REPORTING PERSON*

PN Limited Partnership

* See Instructions

1 NAME OF REPORTING PERSONS

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)

RMCP GP LLC

20-4442412

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*

(a) x

(b) ¨

3 SEC USE ONLY

4 SOURCE OF FUNDS*

AF (See Item 3)

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e) ¨

6 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH		
	7	**SOLE VOTING POWER** 3,623,154 shares (See Item 5)
	8	**SHARED VOTING POWER** None (See Item 5)
	9	**SOLE DISPOSITIVE POWER** 3,623,154 shares (See Item 5)
	10	**SHARED DISPOSITIVE POWER**

None (See Item 5)

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

3,623,154 shares (See Item 5)

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES* ¨

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

6.2% (See Item 5)

14 TYPE OF REPORTING PERSON*

OO Limited Liability Company

* See Instructions

1 NAME OF REPORTING PERSONS

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)

Red Mountain Capital Management, Inc.

13-4057186

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*

(a) ¨

(b) x

3 SEC USE ONLY

4 SOURCE OF FUNDS*

AF (See Item 3)

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e) ¨

6 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH		
	7	**SOLE VOTING POWER** 3,623,154 shares (See Item 5)
	8	**SHARED VOTING POWER** None (See Item 5)
	9	**SOLE DISPOSITIVE POWER** 3,623,154 shares (See Item 5)
	10	**SHARED DISPOSITIVE POWER**

None (See Item 5)

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

3,623,154 shares (See Item 5)

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES* ¨

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

6.2% (See Item 5)

14 TYPE OF REPORTING PERSON*

CO Corporation

* See Instructions

1 NAME OF REPORTING PERSONS

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)

Willem Mesdag

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*

(a) ¨

(b) x

3 SEC USE ONLY

4 SOURCE OF FUNDS*

AF (See Item 3)

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e) ¨

6 CITIZENSHIP OR PLACE OF ORGANIZATION

U.S. Citizen

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	
	7 SOLE VOTING POWER 3,623,154 shares (See Item 5)
	8 SHARED VOTING POWER None (See Item 5)
	9 SOLE DISPOSITIVE POWER 3,623,154 shares (See Item 5)
	10 SHARED DISPOSITIVE POWER None (See Item 5)

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

3,623,154 shares (See Item 5)

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES* ¨

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

6.2% (See Item 5)

14 TYPE OF REPORTING PERSON*

IN Individual

* See Instructions

This Amendment No. 1 amends and supplements the Schedule 13D filed with the Securities and Exchange Commission (the SEC) on November 20, 2006 (as amended hereby, this Schedule 13D), by (i) Red Mountain Capital Partners LLC, a Delaware limited liability company (RMCP LLC), (ii) Red Mountain Capital Partners II, L.P., a Delaware limited partnership (RMCP II), (iii) Red Mountain Capital Partners III, L.P., a Delaware limited partnership (RMCP III), (iv) RMCP GP LLC, a Delaware limited liability company (RMCP GP), (v) Red Mountain Capital Management, Inc., a Delaware corporation (RMCM), and (vi) Willem Mesdag, a natural person and citizen of the United States of America, with respect to the common stock, par value $0.01 per share (the Common Stock), of ABX Air, Inc., a Delaware corporation (ABX Air). RMCP LLC, RMCP II, RMCP III and RMCP GP are sometimes collectively referred to herein as Red Mountain. Red Mountain, RMCM and Mr. Mesdag are sometimes collectively referred to herein as the Reporting Persons. The filing of any amendment to this Schedule 13D (including the filing of this Amendment No. 1) shall not be construed to be an admission by the Reporting Persons that a material change has occurred in the facts set forth in this Schedule 13D or that such amendment is required under Rule 13d-2 of the Securities Exchange Act of 1934, as amended (the Exchange Act).

ITEM 4. PURPOSE OF TRANSACTION.

Item 4 of this Schedule 13D is hereby amended to add the following information:

On September 24, 2007, Red Mountain sent the letter that is being filed herewith as Exhibit 2 to this Schedule 13D to the Chairman of the Board of Directors of ABX Air. The contents of such letter are hereby incorporated by reference in their entirety in response to this Item 4.

ITEM 5. INTEREST IN SECURITIES OF THE ISSUER.

Items 5(a) and 5(b) of this Schedule 13D are hereby amended and restated as follows:

(a)-(b) RMCP II beneficially owns, in the aggregate, 1,192,170 shares of Common Stock, which represent approximately 2.0% of the outstanding Common Stock. [(1)] RMCP II has the sole power to vote or direct the vote, and the sole power to dispose or direct the disposition, of all such 1,192,170 shares of Common Stock.

RMCP III beneficially owns, in the aggregate, 2,430,984 shares of Common Stock, which represent approximately 4.1% of the outstanding Common Stock. RMCP III has the sole power to vote or direct the vote, and the sole power to dispose or direct the disposition, of all such 2,430,984 shares of Common Stock.

The shares of Common Stock beneficially owned by RMCP II and RMCP III, when aggregated together, total 3,623,154 shares, which represent approximately 6.2% of the outstanding Common Stock.

Because each of RMCP GP, RMCP LLC, RMCM and Mr. Mesdag may be deemed to control RMCP II and RMCP III, each of RMCP GP, RMCP LLC, RMCM and Mr. Mesdag may be deemed to beneficially own, and to have the power to vote or direct the vote, or dispose or direct the disposition of, all of the Common Stock beneficially owned by RMCP II and RMCP III.

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(1) All calculations of percentage ownership in this Schedule 13D are based on 58,678,437 shares of Common Stock estimated to be outstanding as of August 9, 2007, as reported in the Quarterly Report on Form 10-Q for the Quarterly Period ended June 30, 2007, which was filed by ABX Air with the SEC on August 14, 2007.

Other than shares of Common Stock beneficially owned by RMCP II or RMCP III, none of the Reporting Persons or J. Christopher Teets may be deemed to beneficially own any shares of Common Stock.

Each of RMCP LLC, RMCP II, RMCP III and RMCP GP affirms membership in a group with each other but disclaims membership in a group with RMCM or Mr. Mesdag. Each of RMCM and Mr. Mesdag disclaims membership in a group with any person.

The filing of this Schedule 13D shall not be construed as an admission that any Reporting Person is the beneficial owner of any of the shares of Common Stock that such Reporting Person may be deemed to beneficially own. Without limiting the foregoing sentence, each of RMCM and Mr. Mesdag disclaims beneficial ownership of all shares of Common Stock reported in this Schedule 13D. In addition, the filing of this Schedule 13D shall not be construed as an admission that any partner, member, director, officer or affiliate of any Reporting Person is the beneficial owner of any of the shares of Common Stock that such partner, member, director, officer or affiliate may be deemed to beneficially own. Without limiting the foregoing sentence, Mr. Teets disclaims beneficial ownership of all shares of Common Stock reported in this Schedule 13D.

Item 5(c) of this Schedule 13D is hereby amended to add the following information:

(c) On August 17, 2007, RMCP III sold 34,600 shares of Common Stock on the open market at an average price of $7.0095 per share.

ITEM 7. MATERIALS TO BE FILED AS EXHIBITS.
Item 7 of this Schedule 13D is hereby amended to add the following information:

Exhibit No.	Description of Exhibit
2	Letter, dated as of September 24, 2007, by Red Mountain to the Chairman of the Board of the Directors of ABX Air (filed herewith).

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Dated: September 24, 2007

RED MOUNTAIN CAPITAL PARTNERS LLC

/s/ Willem Mesdag
By: Willem Mesdag
Title: Authorized Signatory

RED MOUNTAIN CAPITAL PARTNERS II, L.P.

By: RMCP GP LLC, its general partner

/s/ Willem Mesdag
By: Willem Mesdag
Title: Authorized Signatory

RED MOUNTAIN CAPITAL PARTNERS III, L.P.

By: RMCP GP LLC, its general partner

/s/ Willem Mesdag
By: Willem Mesdag
Title: Authorized Signatory

RMCP GP LLC

/s/ Willem Mesdag
By: Willem Mesdag
Title: Authorized Signatory

RED MOUNTAIN CAPITAL MANAGEMENT, INC.

/s/ Willem Mesdag
By: Willem Mesdag
Title: President

WILLEM MESDAG

/s/ Willem Mesdag

EXHIBIT INDEX

Exhibit No.	Description of Exhibit
1	Joint Filing Agreement, dated as of November 20, 2006, by and among the Reporting Persons (incorporated by reference to Exhibit 1 to the Schedule 13D filed by the Reporting Persons with the SEC on November 20, 2006).
2	Letter, dated as of September 24, 2007, by Red Mountain to the Chairman of the Board of Directors of ABX Air (filed herewith).

isks associated with having our gas production concentrated in one area.

The vast majority of our gas producing properties are geographically concentrated in three counties in Virginia. As a result of this concentration, we may be disproportionately exposed to the impact of delays or interruptions of gas production from these wells caused by significant governmental regulation, transportation capacity constraints, curtailment of production, natural disasters or interruption of transportation of natural gas produced from the wells in this basin or other events which impact this 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.

Although we believe that we hold sufficient rights to all of our advanced gas extraction techniques, other persons could contest our rights and claim ownership of one or more of our advanced techniques for extracting coalbed methane. For example, a third party has asserted that several of our drilling techniques infringed several patents that they hold. A successful challenge to one or more of our advanced extraction techniques could adversely impact our financial performance and results of operation. We might have to pay a royalty which would increase our production costs or cease using that technique which could raise our production costs or decrease our production of coalbed methane. In addition, we could incur substantial costs in defending patent infringement claims, obtaining patent licenses, engaging in interference and opposition proceedings or other challenges to our patent rights or intellectual property rights made by third parties or in bringing such proceedings.

The coal beds and other strata from which we produce methane gas frequently contain water and the gas often contains impurities, both of which may hamper our ability to produce gas in commercial quantities or economically.

Coal beds and other strata frequently contain water that must be removed in order for the gas to detach from the coal and flow to the well bore. Our ability to remove and dispose of sufficient quantities of water from the coal seam will determine whether or not we can produce gas in commercial quantities. The cost of water disposal may affect our profitability. Further, a substantial amount of our gas needs to be processed in order to make it salable to our intended customers. At times, the cost of processing this gas relative to the quantity of gas from a particular well, or group of wells, may outweigh the economic benefit of selling that gas, and our profitability may decrease due to the reduced production and sale of gas.

Our hedging activities may prevent us from benefiting from price increases and may expose us to other risks.

To manage our exposure to fluctuations in the price of natural gas, we enter into hedging arrangements with respect to a portion of our expected production. As of December 31, 2007, we had hedges on approximately 24.5 billion cubic feet of our targeted 2008 natural gas production. To the extent that we engage in hedging activities, we may be prevented from realizing the benefits of price increases above the levels of the hedges.

In addition, such transactions may expose us to the risk of financial loss in certain circumstances, including instances in which our production is less than expected, the counterparties to our futures contracts fail to perform the contracts, or if our gas hedges would no longer qualify for hedge accounting, we will be required to mark them to market. This may result in more volatility in our income in the future periods.

Item 1B. ***Unresolved Staff Comments.***

None.

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Item 2. ***Properties.***

See Coal Operations and Gas Operations in Item 1 of this 10-K for a description of CONSOL Energy s properties.

Item 3. ***Legal Proceedings.***

The first through eighteenth paragraphs of Note 26 of the Notes to the Audited Consolidated Financial Statements included as Item 8 in Part II of this Form 10-K are incorporated herein by reference.

Item 4. ***Submission of Matters to a Vote of Security Holders.***

None.

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PART II

Item 5. ***Market for Registrant s Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities.***

Common Stock Market Prices and Dividends

Our common stock is listed on the New York Stock Exchange under the symbol CNX. The following table sets forth for the periods indicated the range of high and low sales prices per share of our common stock as reported on the New York Stock Exchange and the cash dividends declared on the common stock for the periods indicated. Information presented reflects the 2 for 1 stock split that occurred in May 2006.

	High	Low	Dividends
Year Period Ended December 31, 2007:			
Quarter Ended March 31, 2007	$ 39.90	$ 29.15	$ 0.07
Quarter Ended June 30, 2007	$ 49.85	$ 38.37	$ 0.07
Quarter Ended September 30, 2007	$ 50.21	$ 34.37	$ 0.07
Quarter Ended December 31, 2007	$ 74.18	$ 45.04	$ 0.10
Year Period Ended December 31, 2006:			
Quarter Ended March 31, 2006	$ 37.70	$ 30.00	$ 0.07
Quarter Ended June 30, 2006	$ 49.09	$ 35.12	$ 0.07
Quarter Ended September 30, 2006	$ 48.90	$ 28.07	$ 0.07
Quarter Ended December 31, 2006	$ 38.71	$ 28.69	$ 0.07

As of January 30, 2008, there were approximately 71,800 holders of record of our common stock. The computation of the approximate number of shareholders is based upon a broker search.

The following performance graph compares the yearly percentage change in the cumulative total shareholder return on the common stock of CONSOL Energy to the cumulative shareholder return for the same period of a peer group and the Standard & Poor s 500 Stock Index. The peer group has changed from last year in order to be consistent with the peer group that is utilized for executive compensation benchmarking. The peer group is comprised of CONSOL Energy, Alliance Resource Partners, Alpha Natural Resources, Inc., Anadarko Petroleum Corp., Apache Corp., Cabot Oil & Gas Corp., Callon Petroleum Co., Comstock Resources, Inc., Denbury Resources, Inc., Devon Energy Corp., Encana Corp., EOG Resources, Inc., Foundation Coal Holdings, Inc., International Coal Group, Inc., James River Coal Co., Massey Energy Co., Newfield Exploration Co., Nexen Inc., Noble Energy Inc., Peabody Energy Corp., Penn Virginia Corp., Pioneer Natural Resources Co., Rio Tinto PLC (ADR), St. Mary Land & Exploration, Stone Energy Corp., Ultra Petroleum Corp., and Westmorland Coal Co. The previous peer group included CONSOL Energy, Allegheny Energy, Inc., Alpha Natural Resources, Inc., Apache Corp., Arch Coal, Inc., Barrick Gold Corp., Equitable Resources, Inc., Foundation Coal Holdings, Inc., Massey Energy Co., Peabody Energy Corp., and Vectren Corp. The graph assumes that the value of the investment in CONSOL Energy common stock and each index was $100 at December 31, 2002. The graph also assumes that all dividends were reinvested and that the investments were held through December 31, 2007.

	2002	2003	2004	2005	2006	2007
CONSOL Energy Inc.	100.0	153.1	213.8	273.9	273.3	396.9
Peer Group	100.0	139.3	171.4	229.0	231.4	293.0
Previous Peer Group	100.0	140.4	168.6	208.8	210.4	261.1
S&P 500 Stock Index	100.0	128.4	139.1	143.9	159.5	164.9

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Cumulative Total Shareholder Return Among CONSOL Energy Inc., Peer Group and

S&P 500 Stock Index

The above information is being furnished pursuant to Regulation S-K, Item 201 (e) (Performance Graph).

On January 30, 2008, CONSOL Energy s board of directors declared a dividend of $0.10 per share, payable on February 22, 2008, to shareholders of record on February 7, 2008.

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 Energy, planned investments by CONSOL Energy and such other factors as the board of directors deems relevant.

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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. The program was not renewed. We repurchased common stock in each of the quarters of 2007 and 2006 as follows:

Period	Total Number of Shares Purchased	Average Price Paid Per Share
January 1, 2007 March 31, 2007	730,000	$ 35.05
April 1, 2007 June 30, 2007	1,357,800	$ 39.80
July 1, 2007 September 30, 2007		$
October 1, 2007 December 31, 2007		$
Total 2007 Purchases	2,087,800	$ 38.14
January 1, 2006 March 31, 2006	2,391,800	$ 32.22
April 1, 2006 June 30, 2006	158,000	$ 41.28
July 1, 2006 September 30, 2006	965,000	$ 33.97
October 2, 2006 December 31, 2006		$
Total 2006 Purchases	3,514,800	$ 33.11
Total Purchases Under Program	5,602,600	$ 34.98

See Part III, Item 12. Security ownership of Certain Beneficial Owners and Management and Related Stockholders Matters for information relating to CONSOL Energy s equity compensation plans.

Item 6. ***Selected Financial Data.***

The following table presents our selected consolidated financial and operating data for, and as of the end of, each of the periods indicated. The selected consolidated financial data for, and as of the end of, each of the years ended December 31, 2007, 2006, 2005, 2004 and 2003 are derived from our audited consolidated financial statements. The selected consolidated financial and operating data are not necessarily indicative of the results that may be expected for any future period. The selected consolidated financial and operating data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and related notes included in this report.

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STATEMENT OF INCOME DATA

(In thousands except per share data)

	Year Ended December 31,				
	2007	**2006**	**2005**	**2004**	**2003**
Revenue and Other Income:					
Sales Outside and Related Party	$ 3,324,346	$ 3,286,522	$ 2,935,682	$ 2,425,206	$ 2,009,880
Sales Purchased Gas	7,628	43,973	275,148	112,005	
Sales Gas Royalty Interests	46,586	51,054	45,351	41,858	32,442
Freight Outside and Related Party(A)	186,909	162,761	119,811	110,175	114,582
Other Income	196,728	170,861	107,131	87,505	65,562
Gain on Sale of 18.5% interest in CNX Gas			327,326		
Total Revenue and Other Income	3,762,197	3,715,171	3,810,449	2,776,749	2,222,466
Costs:					
Cost of Goods Sold and Other Operating Charges (exclusive of depreciation, depletion and amortization shown below)	2,351,507	2,249,776	2,122,259	1,855,033	1,599,816
Purchased Gas Costs	7,162	44,843	278,720	113,063	
Gas Royalty Interests Costs	39,921	41,879	36,501	32,914	24,200
Freight Expense	186,909	162,761	119,811	110,175	114,582
Selling, General and Administrative Expense	108,664	91,150	80,700	72,870	77,571
Depreciation, Depletion and Amortization	324,715	296,237	261,851	280,397	242,152
Interest Expense	30,851	25,066	27,317	31,429	34,451
Taxes Other Than Income	283,511	252,539	228,606	198,305	159,595
Restructuring Costs					3,606
Total Costs	3,333,240	3,164,251	3,155,765	2,694,186	2,255,973
Earnings (Loss) Before Income Taxes, Minority Interest and Cumulative Effect of Change in Accounting Principle	428,957	550,920	654,684	82,563	(33,507)
Income Taxes (Benefits)	136,137	112,430	64,339	(32,646)	(20,941)
Earnings (Loss) Before Minority Interest and Cumulative Effect of Change in Accounting principle	292,820	438,490	590,345	115,209	(12,566)
Minority Interest	(25,038)	(29,608)	(9,484)		
Cumulative Effect of Change in Accounting for Workers Compensation Liability, Net of Income Taxes of $53,080				83,373	
Cumulative Effect of Change in Accounting for Mine Closing, Reclamation and Gas Well Closing Costs, Net of Income Taxes of $3,035					4,768
Net Income (Loss)	$ 267,782	$ 408,882	$ 580,861	$ 198,582	$ (7,798)
Earnings (Loss) Per Share From Continuing Operations					
Basic	$ 1.47	$ 2.23	$ 3.17	$ 0.64	$ (0.08)
Dilutive	$ 1.45	$ 2.20	$ 3.13	$ 0.63	$ (0.08)
Earnings (Loss) Per Share From Net Income					
Basic(B)	$ 1.47	$ 2.23	$ 3.17	$ 1.10	$ (0.05)
Dilutive(B)	$ 1.45	$ 2.20	$ 3.13	$ 1.09	$ (0.05)
Weighted Average Number of Common Shares Outstanding:					
Basic(C)	182,050,627	183,354,732	183,489,908	180,461,386	163,465,178

Dilutive(C)	184,149,751	185,638,106	185,534,980	182,399,890	163,465,178
Dividend Per Share	$ 0.31	$ 0.28	$ 0.28	$ 0.28	$ 0.28

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BALANCE SHEET DATA

(In thousands)

	Year Ended December 31,				
	2007	2006	2005	2004	2003
Working (deficiency) capital	$ (333,242)	$ 174,372	$ 194,578	$ (243,275)	$ (358,459)
Total assets	6,208,090	5,663,332	5,071,963	4,195,611	4,318,978
Short-term debt	247,500			5,060	68,760
Long-term debt (including current portion)	507,208	552,263	442,996	429,645	495,242
Total deferred credits and other liabilities	3,325,231	3,228,653	2,726,563	2,582,318	2,757,130
Stockholders equity	1,214,419	1,066,151	1,025,356	469,021	290,637

OTHER OPERATING DATA

(Unaudited)

	Year Ended December 31,				
	2007	2006	2005	2004	2003
Coal:					
Tons sold (in thousands)(D)(E)	65,462	68,920	70,401	69,537	63,962
Tons produced (in thousands)(E)	64,617	67,432	69,126	67,745	60,388
Productivity (tons per manday)(E)	41.29	38.41	37.95	40.51	41.26
Average production cost ($ per ton produced)(E)	$ 33.68	$ 32.53	$ 30.06	$ 27.54	$ 26.24
Average sales price of tons produced ($ per ton produced)(E)	$ 40.60	$ 38.99	$ 35.61	$ 30.06	$ 27.61
Recoverable coal reserves (tons in millions)(E)(F)	4,526	4,272	4,546	4,509	4,158
Number of active mining complexes (at period end)	15	14	17	16	15
Gas:					
Net sales volume produced (in billion cubic feet)(E)	58.25	56.14	48.39	48.56	44.46
Average sale price ($ per mcf)(E)(G)	$ 7.20	$ 7.04	$ 5.90	$ 4.90	$ 4.03
Average cost ($ per mcf)(E)	$ 3.37	$ 2.88	$ 2.69	$ 2.45	$ 2.35
Proved reserves (in billion cubic feet)(E)(H)	1,343	1,265	1,130	1,045	1,004

CASH FLOW STATEMENT DATA

(In thousands)

	Year Ended December 31,				
	2007	2006	2005	2004	2003
Net cash provided by operating activities	$ 684,033	$ 664,547	$ 409,086	$ 358,091	$ 381,127
Net cash used in investing activities	(972,104)	(661,546)	(74,413)	(400,542)	(204,614)
Net cash provided by (used in) financing activities	105,839	(119,758)	(455)	42,360	(181,517)

OTHER FINANCIAL DATA

(Unaudited)

(In thousands)

Capital expenditures	$ 1,039,838	$ 690,546	$ 532,796	$ 420,965	$ 300,848
EBIT(I)	421,978	531,009	664,451	108,616	(5,354)
EBITDA(I)	746,693	827,246	926,302	389,013	236,798
Ratio of earnings to fixed charges(J)	7.48	11.36	15.95	2.76	

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(A) See Note 27 of Notes to the Audited Consolidated Financial Statements for sales and freight by operating segment.

(B) Basic earnings per share are computed using weighted average shares outstanding. Differences in the weighted average number of shares outstanding for purposes of computing dilutive earnings per share are due to the inclusion of the weighted average dilutive effect of employee and non-employee director stock options granted, totaling 2,099,124 shares, 2,283,374 shares, 2,045,072 shares, 1,938,504 shares and no shares for the year ended December 31, 2007, 2006, 2005, 2004 and 2003, respectively.

(C) On May 4, 2006, CONSOL Energy s Board of Directors declared a two-for-one stock split of the common stock. The stock split resulted in the issuance of approximately 92.5 million additional shares of common stock. Shares and earnings per share for all periods presented are reflected on a post-split basis.

(D) Includes sales of coal produced by CONSOL Energy and purchased from third parties. Of the tons sold, CONSOL Energy purchased the following amount from third parties: 0.5 million tons in the year ended December 31, 2007, 1.3 million tons in the year ended December 31, 2006, 1.5 million tons in year ended December 31, 2005, 2.1 million tons in the year ended December 31, 2004 and 2.5 million tons in the year ended December 31, 2003. Also, includes 0.8 million and 1.1 million sales tons for the year ended December 31, 2007 and 2006, respectively, which is 100% of tons sold by our fully consolidated, 49% owned variable interest entity. Sales of coal produced by equity affiliates were 0.1 million ton in the year ended December 31, 2007, no tons in the year ended December 31, 2006, insignificant in the year ended December 31, 2005, 0.1 million tons in the year ended December 31, 2004 and 1.0 million tons in the year ended December 31, 2003.

(E) Amounts include intersegment transactions. For entities that are not wholly owned but in which CONSOL Energy owns at least 50% equity interest, includes a percentage of their net production, sales or reserves equal to CONSOL Energy s percentage equity ownership. For coal, amounts include 100% of our fully consolidated, 49% owned variable interest entity. Also for coal, Glennies Creek Mine is reported as an equity affiliate through February 2004. Glennies Creek Mine is reported as an equity affiliate for the entire 2003 period. Our proportionate share of the recoverable coal reserves for Glennies Creek Mine is 9.6 million tons at December 31, 2003. Line Creek was reported as an equity affiliate through February 2003. For gas, amounts include 100% of CNX Gas basis; they exclude the 18.3% minority interest reduction. Also for gas, Knox Energy makes up the equity earnings data in 2007, 2006, 2005, 2004 and 2003. Our proportionate share of proved reserves for gas equity affiliates is 3.6.x bcf, 2.2 bcf, 2.7 bcf, 2.4 bcf and 0.8 bcf at December 31, 2007, 2006, 2005, 2004 and 2003, respectively. Sales of gas produced by equity affiliates were 0.32 bcf in the year ended December 31, 2007; 0.22 bcf in the year ended December 31, 2006; 0.23 bcf in the year ended December 31, 2005; 0.20 bcf in the year ended December 31, 2004 and 0.08 bcf in the year ended December 31, 2003.

(F) Represents proven and probable coal reserves at period end.

(G) Represents average net sales price before the effect of derivative transactions.

(H) Represents proved developed and undeveloped gas reserves at period end.

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(I) EBIT is defined as earnings before deducting net interest expense (interest expense less interest income) and income taxes. EBITDA is defined as earnings before deducting net interest expense (interest expense less interest income), income taxes and depreciation, depletion and amortization. For 2004 and 2003 we have excluded the impacts of cumulative effects of accounting changes in the computation of EBIT and EBITDA. Although EBIT and EBITDA are not measures of performance calculated in accordance with generally accepted accounting principles, management believes that they are useful to an investor in evaluating CONSOL Energy because they are widely used in the coal industry as measures to evaluate a company s operating performance before debt expense and cash flow. Financial covenants in our credit facility include ratios based on EBITDA. EBIT and EBITDA do not purport to represent cash generated by operating activities and should not be considered in isolation or as a substitute for measures of performance in accordance with generally accepted accounting principles. In addition, because EBIT and EBITDA are not calculated identically by all companies, the presentation here may not be comparable to other similarly titled measures of other companies. Management s discretionary use of funds depicted by EBIT and EBITDA may be limited by working capital, debt service and capital expenditure requirements, and by restrictions related to legal requirements, commitments and uncertainties. A reconcilement of EBIT and EBITDA to financial net income is as follows:

(Unaudited))	**Year Ended December 31,**				
(In thousands)	**2007**	**2006**	**2005**	**2004**	**2003**
Net Income (Loss)	$ 267,782	$ 408,882	$ 580,861	$ 198,582	$ (7,798)
Add: Interest expense	30,851	25,066	27,317	31,429	34,451
Less: Interest income	(12,792)	(15,369)	(8,066)	(5,376)	(5,602)
Less: Interest income included in export sales excise tax resolution					(696)
Less: Cumulative Effect of Changes in Accounting for Workers Compensation Liability, net of Income Taxes of $53,080				(83,373)	
Less: Cumulative Effect of Changes in Accounting for Mine Closing, Reclamation and Gas Well Closing Costs, net of Income taxes of $3,035					(4,768)
Add: Income Tax Expense (Benefit)	136,137	112,430	64,339	(32,646)	(20,941)
Earnings (Loss) before interest and taxes (EBIT)	421,978	531,009	664,451	108,616	(5,354)
Add: Depreciation, depletion and amortization	324,715	296,237	261,851	280,397	242,152
Earnings before interest, taxes and depreciation, depletion and amortization (EBITDA)	$ 746,693	$ 827,246	$ 926,302	$ 389,013	$ 236,798

(J) For purposes of computing the ratio of earnings to fixed charges, earnings represent income from continuing operations before income taxes plus fixed charges. Fixed charges include (a) interest on indebtedness (whether expensed or capitalized), (b) amortization of debt discounts and premiums and capitalized expenses related to indebtedness and (c) the portion of rent expense we believe to be representative of interest. For the year ended December 31, 2003, fixed charges exceeded earnings by $24.7 million.

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Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations.***

General

CONSOL Energy had net income of $268 million for the year ended December 31, 2007 compared to $409 million for the year ended December 31, 2006. 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 drilled bore holes and injected nitrogen in order to stabilize and evaluate the mine atmosphere. In the year ended December 31, 2007, we incurred expenses of $119 million, primarily classified as cost of goods sold and depreciation, depletion and amortization, in relation to these activities. These costs were offset, in part, by a $15 million advance under CONSOL Energy insurance policies. We have also received notice from our insurance carriers that an advance of $10 million will be paid related to business interruption coverage; $8 million related to the coal segment and $2 million related to the gas segment. We intend to pursue additional reimbursement under our existing insurance 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 any additional recovery will be received under our policies. 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 year ended December 31, 2007. CNX Gas production was also adversely impacted by the idling of the Buchanan Mine. Also, the 2006 period included proceeds from the insurance company of $79 million; the coal segment recognized $69 million and the gas segment recognized $10 million, related to the 2005 skip hoist incident at the Buchanan Mine.

Net income was also impacted by $24 million of expense related to the previously recognized export excise tax receivable being reversed in the 2007 period. The Federal Circuit court had ruled that the damage claim for export excise taxes paid for the period 1991-1993 be repaid. The Government appealed a similar case to the U.S. Supreme Court. On December 3, 2007 the United States Supreme Court granted the Government s appeal to hear that case. The Supreme Court s granting of the appeal makes collection of the refund and interest by CONSOL Energy no longer highly probable because of adverse rulings by the Supreme Court during 2007 under the statute on which our claim for this period is based. Accordingly, CONSOL Energy reversed the export excise tax receivable until the Supreme Court decides the appeal. We intend to vigorously pursue this action, although there is no assurance that CONSOL Energy will receive any tax refund. Net income in the 2007 period was also impacted by a lower volume of produced coal sales, and higher cost per ton sold. Net income was also lower due to higher depreciation, depletion and amortization related to the additional assets received in the July 31, 2007 acquisition of AMVEST. Income tax expense also adversely impacted the period-to-period comparison. In 2006, income tax expenses were reduced by the release of certain valuation allowances related to state income taxes in Pennsylvania and West Virginia.

Reductions to net income were 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 Combined Fund. Total pre-tax income, including interest, recognized related to the Combined Fund settlement was approximately $33 million. Reductions to net income were also offset, in part, by lower salary pension costs. 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 total 2007 accelerated actuarial amortization was approximately $3 million of expense. The total 2006 accelerated actuarial amortization was approximately $18 million of expense.

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Total coal sales for the year ended December 31, 2007 were 65.5 million tons, of which 64.9 million tons were produced by CONSOL Energy operations, our equity affiliates, consolidated variable interest entities, or sold from inventory of company-produced coal. This compares with total coal sales of 68.9 million tons for the year ended December 31, 2006, of which 67.6 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 64.6 million tons, including our portion of equity affiliates and consolidated variable interest entities, for the year ended December 31, 2007 compared to 67.4 million tons for the year ended December 31, 2006. Production was lower due to the continued idling of the Buchanan Mine as discussed above; McElroy Mine had lower production due to poor geological conditions and the idling of certain Central Appalachian mines due to market conditions. Lower production was offset, in part, by production from the AMVEST mines that were acquired on July 31, 2007.

Produced coalbed methane gas sales volumes, including a percentage of the sales of equity affiliates equal to our interest in these affiliates, increased 3.6% to 57.5 billion cubic feet for the year ended December 31, 2007 compared with 55.5 billion cubic feet in the year ended December 31, 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 2.0% to $7.19 per thousand cubic feet in the year ended December 31, 2007 compared with $7.05 per thousand cubic feet in the year ended December 31, 2006.

In January 2008, CONSOL Energy announced its intentions to offer to acquire all of the outstanding shares of CNX Gas Corporation that it does not currently own in a stock-for-stock transaction. CONSOL Energy currently owns 81.7% of the approximately 151 million shares of CNX Gas common stock outstanding.

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. The mine atmosphere was continually monitored to determine the impact of the roof falls on the mine s ventilation system and the overall mine atmosphere. Two mine atmosphere monitoring stations showed levels of carbon monoxide above ambient levels for several months after the roof falls damaged the ventilation controls. Efforts to eliminate carbon monoxide in the mine were narrowed to an underground area about 400 feet in diameter into which the company pumped inert gas through a number of bore holes that had been drilled. The underground area of the Buchanan Mine encompasses about five square miles. In compliance with safety agency requirements, the mine was temporarily sealed in late November as a final step before reentry into the mine. On January 20, 2008, the restart of the fans was approved by the Commonwealth of Virginia Department of Mines, Minerals and Energy, and by the federal Mine Safety and Health Administration. The temporary mine seals were removed and the ventilation fans were restarted. Specially trained mine rescue teams re-entered the mine on January 28, 2008 and are in the process of evaluating the extent of damage to the mine s ventilation system and making temporary repairs.

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 160 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 in Item 8, Notes to the Audited Consolidated Financial Statements of this Form 10-K.

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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.

CNX Gas, our 81.7% subsidiary, became a registered offset provider on the Chicago Climate Exchange (CCX) during the fourth quarter 2007. CCX is a rules-based Greenhouse Gas (GhG) allowance trading system. CCX emitting members make a voluntary but legally binding commitment to meet annual GhG emission reduction targets. Those emitting members who exceed their targets have surplus allowances to sell or bank; those who fall short of their 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 emission 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 December 31, 2007, we are awaiting verification 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 December 31, 2007, however we expect approval for these projects will be received during the first quarter 2008. Sales of these credits will be reflected in income as they occur.

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, Exchanges of Non-Monetary Assets, 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 and November 2007, the company amended its trade accounts receivable facility to allow CONSOL Energy to receive up to $165 million, an increase in capacity of $40 million over the December 31, 2006 trade accounts receivable 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 years 2006 and 2007 at mines operated by other coal companies. These accidents attracted 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

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evacuation from the mine is not possible which will provide breathable air for all underground miners for 96 hours; 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 have reviewed our coal sales agreements to determine the degree to which costs related to these regulatory requirements may be passed through to customers. While the amount will vary by contract, we have been 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

Twelve Months Ended December 31, 2007 Compared with Twelve Months Ended December 31, 2006

Net Income

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

	2007	2006	Dollar Variance	Percentage Change
Coal Sales-Produced and Purchased	$ 2,678	$ 2,694	$ (16)	(0.6)%
Produced Gas Sales	410	389	21	5.4%
Purchased Gas Sales	8	44	(36)	(81.8)%
Other Sales and Other Income	666	588	78	13.3%
Total Revenue and Other Income	3,762	3,715	47	1.3%
Coal Cost of Goods Sold Produced and Purchased	1,737	1,785	(48)	(2.7)%
Produced Gas Cost of Goods Sold	129	107	22	20.6%
Purchased Gas Cost of Goods Sold	7	45	(38)	(84.4)%
Other Cost of Goods Sold	526	399	127	31.8%

Total Cost of Goods Sold	2,399	2,336	63	2.7%
Depreciation, Depletion and Amortization	325	296	29	9.8%
Other	585	532	53	10.0%
Export Excise Tax Adjustment	24		24	100.0%
Total Costs	3,333	3,164	169	5.3%
Earnings Before Income Taxes and Minority Interest	429	551	(122)	(22.1)%
Income Tax Expense	(136)	(112)	(24)	21.4%
Earnings Before Minority Interest	293	439	(146)	33.3%
Minority Interest	(25)	(30)	5	(16.7)%
Net Income	$ 268	$ 409	$ (141)	(34.5)%

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CONSOL Energy had net income of $268 million for the year ended December 31, 2007 compared to $409 million for the year ended December 31, 2006. 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 drilled bore holes and injected nitrogen in order to stabilize and evaluate the mine atmosphere. In the year ended December 31, 2007, we incurred expenses of $119 million, primarily classified as cost of goods sold and depreciation, depletion and amortization, in relation to these activities. These costs were offset, in part, by a $15 million advance under CONSOL Energy insurance policies. We have also received notice from our insurance carriers that an advance of $10 million will be paid related to business interruption coverage; $8 million related to the coal segment and $2 million related to the gas segment. We intend to pursue additional reimbursement under our existing insurance 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 any additional recovery will be received under our policies. 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 year ended December 31, 2007. CNX Gas production was also adversely impacted by the idling of the Buchanan Mine. Also, the 2006 period included proceeds from the insurance company of $79 million; the coal segment recognized $69 million and the gas segment recognized $10 million, related to the 2005 skip hoist incident at the Buchanan Mine. Net income was also impacted by $24 million of expense related to the previously recognized Export Excise Tax receivable being reversed in the 2007 period. The Federal Circuit court had ruled that the damage claim for export excise taxes paid for the period 1991 1993 be repaid. The Government appealed a similar case to the U.S. Supreme Court. On December 3, 2007 the United States Supreme Court granted the Government s new petition to hear that case. The Supreme Court s granting of the appeal makes collection of the refund and interest by CONSOL Energy no longer highly probable because of adverse rulings by the Supreme Court during 2007 under the statute of which our claim for this period is based. Accordingly, CONSOL Energy reversed the export excise tax receivable until the Supreme Court decides the appeal. We intend to vigorously pursue this action, although there is no assurance that CONSOL Energy will receive any tax refund. Net income in the 2007 period was also impacted by a lower volume of produced coal sales, and higher cost per ton sold. Net income was also lower due to higher depreciation, depletion and amortization related to the additional assets received in the July 31, 2007 acquisition of AMVEST. Income tax expense also adversely impacted the period-to-period comparison. In 2006, income tax expense was reduced by the release of certain valuation allowances related to state income taxes in Pennsylvania and West Virginia.

Reductions to net income were 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 Combined Fund. Total pre-tax income, including interest, recognized related to the Combined Fund settlement was approximately $33 million. Reductions to net income were also offset, in part, by lower salary pension costs. 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 total 2007 accelerated actuarial amortization was approximately $3 million of expense. The total 2006 accelerated actuarial amortization was approximately $18 million of expense.

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Revenue

Revenue and other income increased due to the following items:

	2007	2006	Dollar Variance	Percentage Change
Sales				
Produced Coal	$ 2,640	$ 2,620	$ 20	0.8%
Purchased Coal	38	74	(36)	(48.6)%
Produced Gas	410	389	21	5.4%
Industrial Supplies	147	120	27	22.5%
Other	89	84	5	6.0%
Total Sales Outside	3,324	3,287	37	1.1%
Gas Royalty Interest	47	51	(4)	(7.8)%
Purchased Gas	8	44	(36)	(81.8)%
Freight Revenue	187	163	24	14.7%
Other Income	196	170	26	15.3%
Total Revenue and Other Income	$ 3,762	$ 3,715	$ 47	1.3%

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

	2007	2006	Variance	Percentage Change
Produced Tons Sold (in millions)	64.8	67.6	(2.8)	(4.1)%
Average Sales Price Per Ton	$ 40.74	$ 38.77	$ 1.97	5.1%

Sales of company produced coal decreased in the period-to-period comparison due to the idling of the Buchanan Mine as previously discussed, lower production at the McElroy Mine due to poor geological conditions and the idling of certain Central Appalachian mines due to market conditions. Lower sales tons were offset, in part, by coal sales from the AMVEST mines that were acquired on July 31, 2007. Company coal production, excluding equity affiliates, was 64.5 million tons in 2007 compared to 67.4 million tons in 2006. The increase in average sales price primarily reflects stronger term prices negotiated in 2006 and early 2007 resulting from an overall improvement in prices in the eastern coal market for domestic and foreign power generators and steel producers. There was also a surge in spot market prices in the 2007 period.

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 customers and revenues from processing third party coal in our preparation plants. The decrease of $36 million in company-purchased coal sales revenue was primarily due to lower sales volumes.

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

	2007	2006	Variance	Percentage Change
Produced Gas Sales Volumes (in billion cubic feet)	57.1	55.3	1.8	3.3%
Average Sales Price Per Thousand Cubic Feet	$ 7.18	$ 7.04	0.14	2.0%

The increase in average sales price is the result of realizing general price increases on higher hedging gains in the current year. 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. These financial hedges represented approximately 18.4 billion cubic feet of our produced gas sales volume for the year ended December 31, 2007 at an average price of $8.01 per thousand cubic feet. In the prior year, these hedges represented

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approximately 17.0 billion cubic feet at an average price of $7.42 per thousand cubic feet. 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. Also included within 2007 are the non-operating net revenue interest volumes and revenues associated with royalty and working interests. These volumes were not available in 2006. The associated revenues were included in other income in the prior period.

The $27 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 Inc. See Note 2 in Item 8, Note to the Audited Financial Statements in this Form 10-K.

The $5 million increase in other sales was due to various transactions that occurred throughout both years, none of which were individually material.

	2007	2006	Variance	Percentage Change
Gas Royalty Interest Sales Volumes (in billion cubic feet)	7.2	7.6	(0.4)	(5.3)%
Average Sales Price Per Thousand Cubic Feet	$ 6.44	$ 6.76	$ (0.32)	(4.7)%

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 primarily to reductions in a provision for royalty settlements. The volatility in the monthly volumes, contractual differences among leases, as well as the mix of average and index prices used in calculating royalties also contributed to the variance.

	2007	2006	Variance	Percentage Change
Purchased Gas Sales Volumes (in billion cubic feet)	1.1	6.1	(5.0)	(82.0)%
Average Sales Price Per Thousand Cubic Feet	$ 7.19	$ 7.20	$ (0.01)	(0.1)%

Purchased gas sales volumes in the current year represent volumes of gas we sell at market prices that were purchased from third party producers, less our gathering and marketing fees. In 2006, 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 expired in 2006, while all activity related to 2007 is 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	2006	Dollar Variance	Percentage Change
Gain on Sales of Assets	$ 112	$ 10	$ 102	1,020.0%
Equity in Earnings of Affiliates	7	1	6	600.0%
Litigation Settlement	5		5	100.0%
Business Interruption Insurance	10	79	(69)	(87.3)%
Royalty Income	14	28	(14)	(50.0)%
Interest Income	13	15	(2)	(13.3)%
Other miscellaneous	35	37	(2)	(5.4)%
Total Other Income	$ 196	$ 170	$ 26	15.3%

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Gain on sales of assets increased $102 million primarily due to two transactions that occurred in 2007. 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 pre-tax 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 pre-tax gain of approximately $50 million. Gain on sales of assets also increased $2 million in the period-to-period comparison due to various miscellaneous transactions that occurred throughout both years, none of which were individually material.

Equity in Earnings of Affiliates increased $6 million in the year-to-year comparison due to various activities of our joint ventures, none of which were individually material.

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

In 2007, CONSOL Energy received notice from its insurance carriers that $25 million would be advanced toward the insurance claim related to several roof falls which suspended production at the Buchanan Mine in early July. The $25 million represents $10 million of business interruption reimbursement which was recognized in other income; the coal segment recognized $8 million and the gas segment recognized $2 million. The remaining $15 million of the reimbursement relates to cost recovery for activities at the Mine since production was suspended. These activities included the cost of drilling bore holes to monitor the mine atmosphere, the cost of injecting nitrogen in order to stabilize the mine atmosphere as well as various other costs incurred related to these activities. We intend to pursue additional reimbursement under our existing insurance 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 any additional recovery will be received under our policies. In February 2005, Buchanan Mine experienced a fire that developed in the mine after a large rock fall behind the longwall mining section. The mine was temporarily sealed in order to extinguish the fire. Coal production resumed on June 16, 2005. During 2006, CONSOL Energy received proceeds from the insurance companies of $38 million. The $38 million was recognized as other income; the coal segment recognized $29 million and the gas segment recognized $9 million. Buchanan Mine also experienced a problem with the mine s skip hoist mechanism on September 16, 2005 which caused the mine to be idled. Repairs to the skip hoist shaft and structures were completed and the mine resumed production on December 13, 2005. During 2006, CONSOL Energy recognized proceeds from the insurance companies of $41 million. The $41 million was recognized as other income; the coal segment recognized $40 million and the gas segment recognized $1 million.

Royalty income decreased $14 million primarily due to royalties received from third party gas sales now being classified in outside gas sales versus royalty income. In the prior period, the volumes were not available nor were they considered in the prior period reserve report.

Interest income decreased $2 million in the year-to-year comparison due to lower cash balances throughout 2007 compared to 2006. Lower cash balances were primarily the result of the purchase price paid for the July 31, 2007 acquisition of AMVEST and the June 2007 purchase of certain coalbed methane and gas reserves from Peabody Energy.

Other miscellaneous income decreased $2 million due to various transactions that occurred throughout both years, none of which were individually material.

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Costs

	2007	2006	Dollar Variance	Percentage Change
Cost of Goods Sold and Other Charges				
Produced Coal	$ 1,685	$ 1,705	$ (20)	(1.2)%
Purchased Coal	52	80	(28)	(35.0)%
Produced Gas	129	107	22	20.6%
Industrial Supplies	141	119	22	18.5%
Closed and Idle Mines	105	109	(4)	(3.7)%
Other	240	129	111	86.0%
Total Cost of Goods Sold and Other Charges	2,352	2,249	103	4.6%
Royalty Interest Gas	40	42	(2)	(4.8)%
Purchased Gas	7	45	(38)	(84.4)%
Total Cost of Goods Sold	$ 2,399	$ 2,336	$ 63	2.7%

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

	2007	2006	Variance	Percentage Change
Produced Tons Sold (in million)	64.8	67.6	(2.8)	(4.1)%
Average Cost of Goods Sold and Other Charges Per Ton	$ 26.01	$ 25.22	$ 0.79	3.1%

Cost of goods sold and other charges for produced coal decreased $20 million mainly due to lower volumes of company-produced coal. Average cost of goods sold and other charges per ton increased in the year-to-year comparison primarily due to higher health and retirement costs, higher labor costs, higher supply 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 2006 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 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. Supply cost increases were also the result of higher costs for products and chemicals, such as roof control products and magnetite, used in the mining and coal preparation process. 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 Energy is October 1 to September 30, exceeds the total of the service costs and interest costs 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 2007 accelerated actuarial amortization was $2.7 million of expenses, of which $2.1 million impacted cost of goods sold and other charges for produced coal. The total prior year accelerated actuarial amortization was $17.8 million, of which $13.8 million impacted cost of goods sold and other charges for produced coal. Increased costs were also offset, in part,

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by lower contract mining fees due to the idling of certain Central Appalachia contract mine locations. Royalty expenses were also lower in 2007 compared to 2006 due to a larger proportion of coal production coming from owned reserves versus leased reserves.

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 $28 million in purchased coal cost of goods sold and other charges in 2007 was primarily due to lower volumes purchased.

Produced gas cost of goods sold and other charges increased due primarily to a 16.6% increase in unit cost of goods sold and other charges and a 3.3% increase in volumes of produced gas sold.

	2007	2006	Variance	Percentage Change
Produced Gas Sales Volumes (in billion cubic feet)	57.1	55.3	1.8	3.3%
Average Cost Per Thousand Cubic Feet	$ 2.25	$ 1.93	$ 0.32	16.6%

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, increased power costs and the deferral of gob gas production related to the idling of Buchanan Mine. Salary labor and related employee costs increased due to the hiring of additional employees in 2007. Gas well maintenance costs increased due to the increased number of wells in-service compared to the prior year. Compressor rental costs increased due to more rentals in the current year. Power costs per unit were higher due to increased megawatt hour rates charged by the power companies in 2007, offset, in part, by credits received from the power company in 2007. 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 $22 million primarily due to the July acquisition of Piping & Equipment Inc. See Note 2 in Item 8, Notes to Audited Consolidated Financial Statements in this Form 10-K.

Closed and idle mine cost of goods sold and other charges decreased approximately $4 million in 2007 compared to 2006. Closed and idle mine cost of goods sold and other charges were improved $6 million due to additional expenses in the 2006 period related to reclamation liability adjustments and associated accretion expenses that were the result of updated engineering surveys. Closed and idle mine cost of goods sold and other charges also decreased $3 million due to various transactions that occurred throughout both years, none of which were individually material. This improvement was offset, in part, by $5 million of additional expenses due to Shoemaker being idled throughout all of 2007 and only a portion of 2006.

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

	2007	2006	Dollar Variance	Percentage Change
Buchanan roof collapse	$ 95	$	$ 95	100.0%
Incentive compensation	35	24	11	45.8%
Contract settlement	6		6	100.0%

Accounts Receivable Securitization	3		3	100.0%
Stock-based compensation	24	23	1	4.3%
Miscellaneous transactions	77	82	(5)	(6.1)%
Total Miscellaneous Cost of Goods Sold and Other Charges	$ 240	$ 129	$ 111	86.0%

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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. We drilled bore holes and injected nitrogen in order to stabilize and evaluate the mine atmosphere. In 2007, we have incurred cost of goods sold expenses of approximately $110 million in relation to these activities. We have also received notice from the insurance carriers that a $15 million advance will be paid to recover a portion of the cost incurred to date for this incident. We intend to pursue additional reimbursement under our existing insurance 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 any additional recovery will be received under our policies.

Incentive compensation expense increased $11 million due to higher projected amounts expected to be paid to employees for 2007 compared to the projected amounts expected for 2006. The increase also relates to an actualization of the 2006 accrual which resulted in approximately $2 million of additional expense in 2007. 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.

During 2007, CONSOL Energy agreed to a settlement for a contract violation with a customer. The amount owed to the customer has been accrued as of December 31, 2007.

Accounts receivable securitization fees increased in the year-to-year comparison. Amounts have been drawn under this program since July 2007. No amounts were drawn under this program in 2006.

Stock-based compensation expense increased $1 million primarily as a result of additional awards granted in the 2007 period.

Miscellaneous cost of goods sold and other charges decreased $5 million due to various transactions that occurred throughout both periods, none of which were individually material.

	2007	**2006**	**Variance**	**Percentage Change**
Gas Royalty Interest Sales Volumes (in billion cubic feet)	7.2	7.6	(0.4)	(5.3)%
Average Cost Per Thousand Cubic Feet	$ 5.52	$ 5.54	$ (0.02)	(0.4)%

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

	2007	**2006**	**Variance**	**Percentage Change**
Purchased Gas Sales Volumes (in billion gross cubic feet)	1.1	6.1	(5.0)	(82.0)%
Average Cost Per Thousand Cubic Feet	$ 6.66	$ 7.34	$ (0.68)	(9.3)%

Purchased gas sales volumes in the current year represent volumes of gas we sell at market prices that were purchased from third party producers, less our gathering and marketing fees. In 2006, 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 expired in 2006, while all activity related to 2007 is 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.

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	2007	2006	Variance	Percentage Change
Freight Expense	$ 187	$ 163	$ 24	14.7%

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

	2007	2006	Dollar Variance	Percentage Change
Wages and salaries	$ 40	$ 35	$ 5	14.3%
Professional, consulting and other purchased services	29	23	6	26.1%
Advertising and promotion	4	1	3	300.0%
Rentals	4	2	2	100.0%
Insurance	4	2	2	100.0%
Employee benefits	8	11	(3)	(27.3)%
Other	20	17	3	17.6%
Total Selling, General and Administrative	$ 109	$ 91	$ 18	19.8%

Wages and salaries have increased $5 million due to additional employees as a result of several acquisitions throughout 2007 and additional employees being hired after the 2006 period.

Costs of professional, consulting and other purchased services were higher in 2007 compared to 2006 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 $2 million increase is due to various transactions that occurred throughout both periods, none of which are individually material.

Advertising and promotion expenses were $3 million higher in 2007 compared to 2006 due to an advertising campaign launched in the 2007 period to raise corporate awareness and recruit the next generation of employees.

Rentals of equipment, primarily computers, have increased $2 million in the year-to-year comparison due to additional employees that have been added related to growth of CNX Gas as well as several acquisitions that occurred throughout 2007.

Insurance expense increase of $2 million was primarily related to increased premium costs for property, business interruption and excess general liability insurance.

Employee benefits decreased due mainly to an acceleration in 2006 of 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. 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 2007 was $2.7 million, of which $0.2 million impacted selling, general and administrative expense. The total accelerated actuarial amortization recognized in 2006 was $17.8 million, of which $2.1 million impacted selling, general and administrative expense.

Other selling, general and administrative costs increased $3 million due to miscellaneous costs related to various transactions that occurred throughout both years, none of which were individually material.

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

	2007	2006	Dollar Variance	Percentage Change
Coal	$ 258	$ 241	$ 17	7.1%
Gas:				
Production	31	25	6	24.0%
Gathering	18	13	5	38.5%
Total Gas	49	38	11	28.9%
Other	18	17	1	5.9%
Total Depreciation, Depletion and Amortization	$ 325	$ 296	$ 29	9.8%

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 December 31, 2006. Assets placed in service after December 31, 2006 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 2007 compared to 2006.

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 year-to-year. 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 realizing a full year of the capital lease treatment of the Jewell-Ridge lateral, 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 after December 31, 2006.

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

	2007	2006	Dollar Variance	Percentage Change
Capitalized lease	$ 7	$ 2	$ 5	250.0%
Revolver	5		5	100.0%
Interest on unrecognized tax benefits	3		3	100.0%
Long-term secured notes	28	30	(2)	(6.7)%
Other	(12)	(7)	(5)	71.4%
Total Interest Expense	$ 31	$ 25	$ 6	24.0%

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.

Revolver interest expense increased $5 million due to amounts being drawn on our revolving credit facility in 2007. The facility had $248 million outstanding at December 31, 2007. No amounts were drawn on the facility in 2006.

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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 2007. See Note 5 in Item 8, Notes to the Audited Financial Statements Data of this Form 10-K.

Interest on long-term debt decreased $2 million due to the planned June 2007 principal payment on our $45 million secured note.

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

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

	2007	2006	Dollar Variance	Percentage Change
Production taxes:				
Coal	$ 175	$ 157	$ 18	11.5 %
Gas	13	12	1	8.3 %
Total Production Taxes	188	169	19	11.2 %
Other taxes:				
Coal	79	71	8	11.3 %
Gas	5	4	1	25.0 %
Other	12	9	3	33.3 %
Other	96	84	12	14.3 %
Total Taxes Other Than Income	$ 284	$ 253	$ 31	12.3 %

Increased coal production taxes are primarily due to $24 million of expense related to the Export Excise Tax receivable being reversed in the 2007 period. The Federal Circuit court had ruled that the damage claim for export excise taxes paid for the period 1991-1993 be repaid. The Government appealed a similar case to the U.S. Supreme Court. On December 3, 2007 the United States Supreme Court granted the Government s appeal to hear that case. The Supreme Court s appeal of the petition makes collection of the refund and interest by CONSOL Energy no longer highly probable because of adverse rulings by the Supreme Court during 2007 under the statute on which our claim for this period is based. Accordingly, CONSOL Energy reversed the export excise tax receivable until the Supreme Court decides the appeal. We intend to vigorously pursue this action, although there is no assurance that CONSOL Energy will receive any tax refund. Coal production taxes also include a $6 million improvement related to lower coal production in 2007 compared to 2006. Lower production reduces severance taxes, reclamation fee taxes and black lung excise taxes, although these reductions were somewhat offset by higher average sales prices. Gas production taxes increased $1 million due to higher severance taxes attributable to higher average sales prices for gas and higher gas sales volumes.

Other coal taxes have increased in 2007 due to property taxes which are based on current assessment values which have increased over the prior year primarily related to the acquisition of AMVEST, as previously discussed. Other coal taxes are also higher due to lower Virginia employment enhancement tax credits. Virginia provides a tax credit based on employment figures attributable to operations in that state. Due to the previously discussed Buchanan Mine situation, our employment figures have been temporarily reduced. The employment figure reduction has correspondingly reduced the tax credit that we earn.

Other gas taxes have increased in 2007 due to various transactions that occurred throughout both years, none of which were individually material.

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Other taxes have increased $3 million due to various transactions that occurred throughout both periods, none of which were individually material.

	2007	2006	Variance	Percentage Change
Earnings Before Income Taxes	$ 429	$ 551	$ (122)	(22.1)%
Tax Expense	$ 136	$ 112	$ 24	21.4%
Effective Income Tax Rate	31.7%	20.4%	11.3%	

CONSOL Energy s effective tax rate is sensitive to changes to the relationship between pre-tax earnings and percentage depletion. See Note 5 in Item 8, Notes to the Audited Financial Statements of this Form 10-K. CONSOL Energy s 2006 effective income tax rate includes the impact of state income tax benefits resulting from a change in a state tax statute.

Minority Interest

Minority interest represents 18.3% of CNX Gas net income for the five month period ended December 31, 2007 which CONSOL Energy did not own. It also represents 18.5% of Gas s net income for the seven month period ended July 31, 2007 which CONSOL Energy did not own. During the period ended December 31, 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%.

Twelve Months Ended December 31, 2006 Compared with Twelve Months Ended December 31, 2005

Net Income

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

	2006	2005	Dollar Variance	Percentage Change
Coal Sales-Produced and Purchased (Outside and Related Party)	$ 2,694	$ 2,527	$ 167	6.6%
Produced Gas Sales	389	281	108	38.4 %
Gas Royalty Interest	51	45	6	13.3%
Purchased Gas Sales	44	275	(231)	(84.0)%
Gain on Sale of 18.5% of CNX Gas		327	(327)	(100.0)%
Other Sales and Other Income	537	355	182	51.3%
Total Revenue and Other Income	3,715	3,810	(95)	(2.5)%
Coal Cost of Goods Sold Produced and Purchased	1,785	1,702	83	4.9%
Produced Gas Cost of Goods Sold	107	79	28	35.4%
Gas Royalty Interest Cost of Goods Sold	42	37	5	13.5%
Purchased Gas Cost of Goods Sold	45	279	(234)	(83.9)%
Other Cost of Goods Sold	357	340	17	5.0%

Total Cost of Goods Sold	2,336	2,437	(101)	(4.1)%
Other	828	719	109	15.2%
Total Costs	3,164	3,156	8	0.3%
Earnings before Income Taxes and Minority Interest	551	654	(103)	(15.7)%
Income Tax Expense	112	64	48	75.0%
Earnings Before Minority Interest	439	590	(151)	(25.6)%
Minority Interest	(30)	(9)	(21)	233.3%
Net Income	$ 409	$ 581	$ (172)	(29.6)%

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Net income for 2006 declined in comparison to 2005 primarily due to the 2005 gain on the sale of 18.5% of CNX Gas. In August 2005, CNX Gas, a subsidiary of CONSOL Energy, sold 27.9 million shares of common stock. CNX Gas received proceeds of $420 million, which it used to pay a special dividend to CONSOL Energy. The pre-tax gain recognized on this transaction was $327 million. In accordance with Statement of Financial Accounting Standards Board Statement No. 109, Accounting for Income Taxes, no deferred tax has been provided on this transaction as current tax law provides a means by which the excess of the reported amount of this investment over its tax basis can be recovered tax-free. Also, management has no current intention of entering into a transaction that would cause CNX Gas to leave the consolidated tax group. Net income was also impacted by the acceleration of 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 for benefits earned through December 31, 2005 in lieu of annual payments when they retire from CONSOL Energy. 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. The total pre-tax accelerated actuarial amortization was $18 million and was included in costs of goods sold and other charges and selling, general and administrative costs. These decreases in net income were offset, in part, by $79 million of property and business interruption insurance proceeds recognized in other income related to the Buchanan Mine fire and skip hoist incident that occurred in 2005. Net income was also impacted by increased average sales prices for both coal and gas. Coal unit costs increased in the period-to-period comparison, impairing net income. Increased cost of goods sold and other charges were also attributable to higher supply costs, contract mining fees, labor costs, subsidence costs, and higher insurance premiums. Higher gas unit costs were primarily attributable to higher firm transportation costs and higher power costs.

Revenue

Revenue and other income increased due to the following items:

	2006	2005	Dollar Variance	Percentage Change
Sales				
Produced Coal-Outside and Related Party	$ 2,620	$ 2,448	$ 172	7.0%
Purchased Coal	74	79	(5)	(6.3)%
Produced Gas	389	281	108	38.4%
Industrial Supplies	120	93	27	29.0%
Other	84	35	49	140.0%
Total Sales-Outside	3,287	2,936	351	12.0%
Gas Royalty Interest	51	45	6	13.3%
Purchased Gas	44	275	(231)	(84.0)%
Freight Revenue (Outside and Related Party)	163	120	43	35.8%
Gain on Sale of 18.5% of CNX Gas		327	(327)	(100.0)%
Other Income	170	107	63	58.9%
Total Revenue and Other Income	$ 3,715	$ 3,810	$ (95)	(2.5)%

The increase in company produced coal sales revenue, including related party, during the 2006 period was due to the increase in average sales price per ton, offset, in part, by decreased sales volumes.

	2006	2005	Variance	Percentage Change

Produced Tons Sold (in millions)	67.6	68.9	(1.3)	(1.9)%
Average Sales Price Per Ton	$ 38.77	$ 35.54	$ 3.23	9.1%

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Increased average sales price primarily reflects stronger prices negotiated in 2005 and early 2006 resulting from an overall improvement in prices in the eastern coal market for domestic and foreign power generators and steel producers. Sales of company produced coal decreased in the 2006 period due to lower company production causing fewer tons to be available for sale. Company produced coal production was 67.4 million tons in the 2006 period compared to 69.1 million tons in the 2005 period.

The decrease in company purchased coal sales revenue was due to lower sales tons in the 2006 period compared to the 2005 period, offset, in part, by increased average sales price per ton of purchased coal.

	2006	2005	Variance	Percentage Change
Purchase Tons Sold (in million)	1.3	1.5	(0.2)	(13.3)%
Average Sales Price Per Ton	$ 55.87	$ 52.81	$ 3.06	5.8%

Higher average sales prices were primarily due to sales of purchased coal tons being sold in higher priced export and metallurgical markets.

The increase in gas sales revenue was due to a higher average sales price per thousand cubic feet sold and increased volumes in the 2006 period compared to the 2005 period.

	2006	2005	Variance	Percentage Change
Produced Gas Sales Volumes (in billion cubic feet)	55.3	47.9	7.4	15.4%
Average Sales Price Per thousand cubic feet (including effects of derivative transactions)	$ 7.04	$ 5.88	$ 1.16	19.7%

The increase in average sales price is primarily the result of selling the majority of our 2006 production at market rates that were higher than the prices we sold our gas under hedging contracts in 2005. CNX Gas enters into physical fixed price gas supply transactions with various counterparties for terms varying in length. CNX Gas also enters into financial gas swap transactions that qualify as financial cash flow hedges. These financial gas swap transactions exist parallel to the underlying physical transactions. These physical and financial hedges represented approximately 17.0 billion cubic feet of our produced gas sales volumes for the year ended December 31, 2006 at an average price of $7.42 per Mcf. For the year ended December 31, 2005, these hedges represented approximately 38.2 billion cubic feet of our produced gas sales volumes at an average price of $4.77 per Mcf. Sales volumes increased as a result of additional wells coming online from our on-going drilling program and the 2005 period sales volumes being negatively impacted by the shutdown of Buchanan Mine due to the mine fire.

The $27 million increase in revenues from the sale of industrial supplies was primarily due to increased sales volumes and higher average sales prices.

The $49 million increase in other sales was primarily attributable to revenues from river barge towing. CONSOL Energy has an initiative to increase towing revenues from outside parties now that we are no longer restricted under the Jones Act Bowater exemption. Prior to February 2004, foreign ownership of CONSOL Energy exceeded 25%, prohibiting us from providing river barge towing to third parties. In January 2006, CONSOL Energy completed the acquisition of Mon River Towing and J.A.R. Barge Line, LLC, which contributed to the increase in revenues.

	2006	2005	Variance	Percentage Change
Gas Royalty Interest Sales Volumes (in billion cubic feet)	7.6	6.6	1.0	15.2%
Average Sales Price Per thousand cubic feet	$ 6.76	$ 6.92	$ (0.16)	(2.3)%

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Included in royalty interest gas sales are the revenues related to the portion of production associated with royalty interest owners. The decrease in average sales price is a function of the average CNX Gas sales price being higher in the 2005 period than the 2006 period for royalty purposes. Sales volumes increased as a result of additional wells coming online from our on-going drilling program and the 2005 period sales volumes being negatively impacted by the shutdown of Buchanan Mine due to the mine fire.

	2006	2005	Variance	Percentage Change
Purchased Gas Sales Volumes (in billion cubic feet)	6.1	28.7	(22.6)	(78.7)%
Average Sales Price Per thousand cubic feet	$ 7.20	$ 9.59	$ (2.39)	(24.9)%

Included in purchased gas sales revenue are volumes of gas we simultaneously purchased from and sold to the same counterparties between the segmentation and interruptible pools on the Columbia Gas Transmission Corporation (TCO) pipeline in order to satisfy obligations to certain customers. In accordance with Emerging Issues Task Force 99-19, Reporting Revenue Gross as a Principal versus Net as an Agent (EITF 99-19), we have historically recorded our revenues and our costs on a gross basis. However, because we adopted Emerging Issues Task Force 04-13 , Accounting for Purchases and Sales of Inventory with the Same Counterparty (EITF 04-13) on January 1, 2006, purchased gas sales and volumes have decreased. EITF 04-13 requires the combining of matching buy/sell transactions, done in contemplation of one another, that were committed to on or after January 1, 2006. The net result for transactions that meet the above criteria are reflected in transportation expense in the 2006 period. Additionally, there are low volumes of gas we purchase from third party producers at market prices less our gathering charge, which we then resell.

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.

In July 2005, CONSOL Energy announced that it created CNX Gas Corporation, (CNX Gas) as a wholly owned subsidiary of CONSOL Energy, to conduct its gas exploration and production activities. In August 2005, CNX Gas sold 27.9 million shares of common stock. Proceeds of $420 million were received. CNX Gas used the proceeds to pay a special dividend to CONSOL Energy. The pre-tax gain recognized on this transaction was $327 million.

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

	2006	2005	Dollar Variance	Percentage Change
Business Interruption Insurance	$ 79	$ 18	$ 61	338.9%
Royalty income	28	26	2	7.7%
Interest income	15	8	7	87.5%
Service income	13	11	2	18.2%
Gain on sale of assets	10	15	(5)	(33.3)%
Equity in income of affiliates	1	3	(2)	(66.7)%
Harmar Trust Settlement		7	(7)	(100.0)%
Other miscellaneous	24	19	5	26.3%
Total other income	$ 170	$ 107	$ 63	58.9%

Buchanan Mine experienced a fire that developed in the mine after a large rock fall behind our longwall mining section on February 14, 2005. The mine was temporarily sealed in order to extinguish the fire. Coal production resumed on June 16, 2005. CONSOL Energy filed an insurance claim for reimbursement of various costs and business interruption related to the fire at Buchanan Mine. During the year ended December 31, 2006,

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CONSOL Energy received proceeds from the insurance companies of $38 million. The $38 million was recognized as other income; coal segment recognized $29 million and gas segment recognized $9 million. We had received and recognized as other income $18 million of insurance proceeds in the 2005 period. We have received a total of $70 million from the insurance companies since the incident occurred. No additional reimbursement from the insurance carriers related to this claim will be recovered. Buchanan Mine also experienced a problem with the mine s skip hoist mechanism on September 16, 2005 which caused the mine to be idled. Repairs to the skip hoist shaft and structures were completed and the mine resumed production on December 13, 2005. CONSOL Energy filed an insurance claim for reimbursement of various costs and business interruption related to the skip incident at Buchanan Mine. During the year ended December 31, 2006, CONSOL Energy recognized proceeds from the insurance companies of $41 million. The $41 million was recognized as other income; coal segment recognized $40 million and gas segment recognized $1 million. No additional reimbursement from the insurance carriers related to this claim will be recovered.

Royalty income increased $2 million due primarily to higher gas prices and additional production on existing royalty contracts. Royalty income received from third parties is calculated as a percentage of the third party sales price.

Interest income increased due to our improved cash position throughout 2006 compared to 2005. The improved cash position was primarily due to the August 2005 sale of 18.5% interest in CNX Gas. The private sale of this stock resulted in $420 million of proceeds.

Service income represents various miscellaneous revenues from coal fines recovery projects, processing fees for third party coal and other miscellaneous activities. The increase in revenues is attributable to new agreements in 2006 with third parties which allow them to recover coal fines from preparation slurry ponds for a fee.

The decrease in gain on sale of assets in the 2006 period reflects various transactions that occurred throughout both periods, none of which were individually material.

The equity in income of affiliates decreased in the period-to-period comparison due primarily to CONSOL Energy s portion of a 2005 period gain on sale of land by an affiliate.

Other income from the Harmar Environmental Trust (the Trust) Settlement was attributable to the Civil Division of the Court of Common Pleas of Allegheny County s decision to terminate a Trust among CONSOL Energy and other parties. The Trust was established in 1988 to provide funding for water treatment related to the now closed Harmar Mine. Other parties funded the Trust. CONSOL Energy was responsible to complete water treatment activities, but all costs associated with these activities were funded by the Trust Agreement. Any excess funding upon completion of water treatment or a specified date in the future was to be distributed to parties that originally funded the trust. In the decision, all previously funded, but unused, amounts remaining in the Trust were distributed. CONSOL Energy s portion of the distributed funds was $15 million. CONSOL Energy is responsible for the ongoing water treatment at this facility. CONSOL Energy recorded the funds and the present value of the water treatment liability resulting in $6.5 million of income in the 2005 period.

The $5 million increase in other income was due to various transactions that occurred throughout both periods, none of which were individually material.

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Costs

	2006	2005	Dollar Variance	Percentage Change
Cost of Goods Sold and Other Charges				
Produced Coal	$ 1,705	$ 1,613	$ 92	5.7%
Purchased Coal	80	89	(9)	(10.1)%
Produced Gas	107	79	28	35.4%
Industrial Supplies	119	105	14	13.3%
Closed and Idle Mines	109	69	40	58.0%
Other	129	166	(37)	(22.3)%
Total Cost of Goods Sold and Other Charges	2,249	2,121	128	6.0%
Gas Royalty Interest	42	37	5	13.5%
Purchased Gas	45	279	(234)	(83.9)%
Total Cost of Goods Sold	$ 2,336	$ 2,437	$ (101)	(4.1)%

Increased cost of goods sold and other charges for company produced coal were due mainly to a 7.7% increase in cost per ton of produced coal sold, offset particularly by a 1.9% decrease in sales volumes.

	2006	2005	Variance	Percentage Change
Produced Tons Sold (in millions)	67.6	68.9	(1.3)	(1.9)%
Average Cost of Goods Sold and Other Charges Per Ton	$ 25.22	$ 23.42	$ 1.80	7.7%

Cost of goods sold and other charges for produced tons sold increased due mainly to an acceleration of 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 for benefits earned through December 31, 2005 in lieu of annual payments when they retire from CONSOL Energy. 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. The total accelerated actuarial amortization was $17.8 million, of which $13.8 impacted cost of goods sold and other charges for produced coal. Increased cost of goods sold and other charges were also attributable to higher supply costs, contract mining fees, labor costs, subsidence costs, and higher insurance premiums. Higher supply costs were attributable to additional maintenance projects and increased cost for electrical products, petroleum products and chemicals, such as diesel fuel and magnetite used in the mining and coal preparation process. Supply costs have also increased due to additional costs being incurred related to the adoption of new safety regulations, as previously discussed. Increased contract mining fees were attributable to increased fees negotiated with the contractors used primarily in our central Appalachian operations. Increased labor costs were attributable to increased employee counts and increased wages at certain mining operations. Employee counts have been increased in certain locations to maintain development rates ahead of the longwall mining units. New employees have also been added as trainees which will replace skilled employees expected to retire between now and the end of the decade. Increased employee counts were also necessary to maintain underground belt haulage systems and complete additional roof and rib support. Additional roof and rib support requirements have been necessary due to changes in underground geology and mining conditions. Labor rates were increased in order to stay competitive in certain labor markets. Higher subsidence costs reflect higher costs related to the Pennsylvania Department 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. Subsidence costs also increased due to the location of mining activities affecting more surface structures in the 2006 period than in the 2005 period. Higher insurance premiums are attributable to higher costs of property

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damage and business interruption coverage in the 2006 period compared to the 2005 period. These increases in costs were offset, in part, by lower other post employment benefit costs, workers compensation costs and combined fund costs. Other post employment benefit costs were lower in the 2006 period compared to the 2005 period due to CONSOL Energy s 2005 plan amendment removing the election of the Federal Subsidy provision of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act). Instead, we will coordinate benefits with available Medicare coverage considered the primary payer. Medicare is considered the primary payer under our plan. This plan amendment resulted in a reduction of the accumulated projected benefit obligation and will be amortized to earnings. Workers compensation expenses have been reduced due to lower state administrative fees charged by the state of West Virginia due to changes in that state s workers compensation program. Unit costs were also improved due to lower combined fund costs as a result of lower monthly premiums as well as lower sales volumes in the period-to-period comparison.

Purchased coal cost of goods sold and other charges decreased in the 2006 period compared to the 2005 period.

	2006	2005	Variance	Percentage Change
Purchased Tons Sold (in millions)	1.3	1.5	(0.2)	(13.3)%
Average Cost of Goods Sold and Other Charges Per Ton	$ 60.47	$ 59.28	$ 1.19	2.0%

The higher average cost of purchased coal is primarily due to overall increases in prices for domestic coals.

Produced gas cost of goods sold and other charges increased due to increased sales volumes and higher unit costs.

	2006	2005	Variance	Percentage Change
Produced Gas Sales Volumes (in billion cubic feet)	55.3	47.9	7.4	15.4%
Average Cost Per Thousand Cubic Feet	$ 1.93	$ 1.65	$ 0.28	17.0%

The increase in average cost per thousand cubic feet of gas sold was primarily attributable to firm transportation. Firm transportation costs increased approximately $0.13 per thousand cubic feet in the period-to-period comparison. Approximately $0.06 per thousand cubic feet of the firm transportation increase is the result of the application of EITF 04-13, Accounting for Purchases and Sales of Inventory with the Same Counterparty as of January 1, 2006. EITF 04-13 requires the combining of matching buy/sell transactions, done in contemplation of one another, committed to on or after January 1, 2006. The net result for transactions that meet the above criteria are reflected in transportation expense in the current year. Previously, these transactions were accounted for as purchased gas revenue and purchased gas expense. Approximately $0.07 per thousand cubic feet of the increase in firm transportation was due to additional fees to purchase firm transportation capacity on the TCO interstate pipeline in order to avoid potential curtailments on portions of shipment capacity allocated to CNX Gas. The potential curtailments are due to increased demand for pipeline access in the 2006 period. Unit costs also increased due to higher power costs. Power costs per unit were $0.06 per thousand cubic feet higher due to both increased megawatt hour rates charged by our power providers and the use of more electric compressors during 2006 period that were previously powered by gas for most of the 2005 period. Salary and wages have also increased approximately $0.08 per thousand cubic feet due to additional staffing added to achieve desired drilling and production results. Unit costs have increased due to an additional $0.04 per thousand cubic feet related to leasing and brokering of land. Produced gas cost of goods sold per unit also increased by $0.06 per thousand cubic feet due to various transactions that occurred throughout both periods, none of which were individually material. These increases in unit costs were offset, in part, by lower well maintenance costs per unit. Maintenance costs per unit decreased $0.09 per thousand cubic feet in the period-to-period comparison. This improvement was due to maintenance projects being accelerated in prior periods. The improvement was also due to efficiencies in the water collection infrastructure being realized subsequent to the improvements that were made in the 2005 period. Well maintenance costs per unit also decreased due to additional production in the period-to-period comparison.

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Industrial supplies cost of goods sold increased $14 million primarily due to higher sales volumes and higher unit costs.

Closed and idle mine cost of goods sold increased $40 million in the 2006 period compared to the 2005 period. These expenses increased $28 million due to Shoemaker Mine, VP #8 Mine and various other locations being idle for the majority of the 2006 period. These locations were in production for the full 2005 period. The increase was also 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 $10 million of additional expense in the 2006 period for closed and idled locations compared to the results of the survey adjustment in the 2005 period. Closed and idle mine cost of good sold and other charges also increased $2 million due to various transactions that occurred throughout both periods, none of which were individually material.

Miscellaneous cost of goods sold and other charges decreased due to the following items:

	2006	2005	Dollar Variance	Percentage Change
Buchanan Mine fire	$	$ 34	$ (34)	(100.0)%
Buchanan Mine skip hoist accident		3	(3)	(100.0)%
Sales contract buy outs		13	(13)	(100.0)%
Litigation settlements and contingencies	1	10	(9)	(90.0)%
Incentive compensation	24	35	(11)	(31.4)%
Bank fees	9	12	(3)	(25.0)%
Accounts receivable securitization fees		2	(2)	(100.0)%
Coal property holdings costs	9	10	(1)	(10.0)%
Terminal/River operations	51	24	27	112.5%
Stock-based compensation expense	23	4	19	475.0%
Miscellaneous transactions	12	19	(7)	(36.8)%
Total Miscellaneous Cost of Goods Sold and Other Charges	$ 129	$ 166	$ (37)	(22.3)%

CONSOL Energy s Buchanan Mine, located near Keen Mountain, Virginia, experienced a large rock fall behind its longwall mining section on February 14, 2005. While caving behind the longwall is a normal part of the mining process, the size of this cave-in created a large air pressure wave that disrupted ventilation and also caused an ignition of methane gas in the area. CONSOL Energy temporarily sealed the mine in order to extinguish the fire that developed after the ignition. Various materials, including nitrogen foam and water were pumped into the mine in order to accelerate the process of creating an inert environment within the mine to extinguish the fire. Coal production resumed on June 16, 2005. Costs of goods sold incurred for the Buchanan Mine fire, net of expected insurance recovery, for the year ended December 31, 2005 were $34 million. The incident was covered under CONSOL Energy s property and business interruption insurance policy as previously discussed.

On September 16, 2005, CONSOL Energy s Buchanan Mine also had an accident with its skip hoist, the device that lifts coal from underground to the surface, forcing the mine to suspend coal production. The braking mechanism on the hoist failed to hold a loaded skip at the surface before it could dump its load. The loaded skip fell approximately 1,600 feet back through the shaft to the bottom. Simultaneously, the empty skip was propelled upward to the surface as the loaded skip fell, causing the empty skip to strike the top of the hoist mechanism before also falling back to the shaft bottom. Expenses related to clean up of the damaged hoist for the year ended December 31, 2005, were approximately $3 million. This accident was covered under our property and business interruption insurance policy.

In the 2005 period, agreements were made to buy out sales contracts with several customers in order to release tons committed under lower priced contracts for sale to other customers at higher pricing. No such agreements were made in the 2006 period.

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Litigation settlements and contingencies in the 2005 period were attributable to a settlement agreement with certain lessors in western Kentucky. The settlement agreement included the transfer of certain properties and permits, as well as a cash payment to the lessors, with the lessors assuming all reclamation liability for the mine property which is being transferred. Various other contingencies were incurred in both periods, none of which were individually material.

Incentive compensation expense decreased due to a lower amount projected to be paid to employees for the 2006 period compared to the 2005 period. The lower amount expected to be paid to employees is due to CONSOL Energy falling short of the predetermined earnings level under the plan. 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.

Bank fees decreased primarily due to no borrowings on our credit facility being made throughout the 2006 period.

Accounts receivable securitization fees decreased in the period-to-period comparison. No amounts were drawn under this program in the 2006 period.

Lower coal property holding costs were attributable to decreased expenses related to leasehold surrenders in the 2006 period.

CONSOL Energy has an initiative to increase towing revenues for outside parties now that we are no longer restricted under the Jones Act Bowater exemption. Prior to February 2004, foreign ownership of CONSOL Energy exceeded 25%, prohibiting us from providing river barge towing to third parties. This initiative to increase revenues has also increased costs. In January 2006, CONSOL Energy completed the acquisition of Mon River Towing and J.A.R. Barge Lines, LLC, which also contributed to the increase in costs.

Effective January 1, 2006, CONSOL Energy adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123(R), Share-Based Payment (SFAS 123R). Stock-based compensation expense now includes compensation expense for all stock-based compensation awards granted prior to, but not yet vested as of January 1, 2006. The grant-date fair value is recognized on a straight-line basis over the requisite service period of the award, which is generally the option vesting term. Prior to implementing SFAS 123R, CONSOL Energy followed previously issued accounting guidance which did not require compensation expense to be recognized for stock option awards. Also, in April 2004, CONSOL Energy began to issue restricted stock units as part of its equity incentive plan. Compensation cost for the restricted stock units is based upon the closing share price at the date of grant and is recognized over the vesting period of the units. The increase in stock-based compensation expense in the 2006 period is also due to additional compensation costs for restricted stock unit grants that occurred in the 2006 period.

Miscellaneous cost of goods sold and other charges decreased $7 million due to various transactions that occurred throughout both periods, none of which were individually material.

	2006	2005	Variance	Percentage Change
Gas Royalty Interest Sales Volumes (in billion cubic feet)	7.6	6.6	1.0	15.2%
Average Cost Per Thousand Cubic Feet	$ 5.54	$ 5.57	$ (0.03)	(0.5)%

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Included in royalty interest gas costs are the expenses related to the portion of production associated with royalty interest owners. The decrease in average cost per unit is a function of the market price in the 2006 period compared to the 2005 period. Volumes increased as a result of additional wells coming online from our on-going drilling program and the 2005 period sales volumes being negatively impacted by the shutdown of Buchanan Mine due to the mine fire.

	2006	2005	Variance	Percentage Change
Purchased Gas Sales Volumes (in billion cubic feet)	6.1	28.7	(22.6)	(78.7)%
Average Cost Per Thousand Cubic Feet	$ 7.34	$ 9.71	$ (2.37)	(24.4)%

Included in purchased gas costs are volumes of gas we simultaneously purchased from and sold to the same counterparties between the segmentation and interruptible pools on the Columbia Gas Transmission Corporation (TCO) pipeline in order to satisfy obligations to certain customers. In accordance with EITF 99-19, we have historically recorded our revenues and our costs on a gross basis. However, because we adopted EITF 04-13 on January 1, 2006, purchased gas sales and volumes have decreased. The net result for transactions that meet the above criteria are reflected in transportation expense in the 2006 period. The decrease in costs per unit is a function of the average sales price, before the effects of financial swap transactions, being higher in the 2005 period than in the 2006 period. Additionally, there were small volumes of gas we purchase from third party producers at market prices less our gathering charge, which we then resell.

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.

	2006	2005	Variance	Percentage Change
Freight expense	$ 163	$ 120	$ 43	35.8%

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

	2006	2005	Dollar Variance	Percentage Change
Wages and salaries	$ 32	$ 27	$ 5	18.5%
Employee benefits	11	11		
Professional, consulting and other purchased services	23	20	3	15.0%
Other	25	23	2	8.7%
Total Selling, General and Administrative	$ 91	$ 81	$ 10	12.3%

Wages and salaries have increased in the period-to-period comparison due to additional positions being added related to CNX Gas, an 81.5% owned subsidiary, being a separate publicly traded company.

Salary retirement costs increased due mainly to an acceleration of 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. 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 for benefits earned through December 31, 2005 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 was $17.8 million, of which $2.1 million impacted selling, general and administrative expense. The salary retirement increase was offset by a reduction in other post

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employment benefits. Other post employment benefit costs were lower in the 2006 period compared to the 2005 period due to CONSOL Energy s 2005 plan amendment removing the election of the Federal Subsidy provision of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act). Instead, we will coordinate benefits with available Medicare coverage considered the primary payer. This plan amendment resulted in a reduction of the accumulated projected benefit obligation and will be amortized to earnings.

Costs of professional, consulting and other purchased services were higher in the 2006 period compared to the 2005 period primarily due to additional costs related to CNX Gas being a separate publicly traded company throughout all of 2006, offset, in part, by a reduction in professional, consulting and other purchased services by CONSOL Energy.

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

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

	2006	2005	Dollar Variance	Percentage Change
Coal	$ 241	$ 214	$ 27	12.6%
Gas:				
Production	25	23	2	8.7%
Gathering	13	12	1	8.3%
Total Gas	38	35	3	8.6%
Other	17	13	4	30.8%
Total Depreciation, Depletion and Amortization	$ 296	$ 262	$ 34	13.0%

The increase in coal depreciation, depletion and amortization was primarily attributable to assets placed in service after the 2005 period. Assets placed in service after the 2005 period include various airshafts, longwall assets, haulage assets and various other projects completed at our mines.

The increase in gas production related depreciation, depletion and amortization was primarily due to the net effect of additional volumes in the current year and a slightly lower unit-of-production rate in 2006 compared to 2005. Rates are generally calculated using the net book value of assets at January 1, divided by either proved or proved developed reserves. Gathering depreciation, depletion and amortization is recorded on the straight-line method and increased due to additional assets being placed in service in 2006, including the effects of the Jewell Ridge lateral pipeline. The Jewell Ridge lateral pipeline was completed 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. The present value of the payments under this firm transportation agreement is approximately $67 million. In addition to providing us with transportation flexibility, the Jewell Ridge lateral will provide access for our production to growing Southeastern and East Coal markets.

Other depreciation increased $4 million in the 2006 period primarily due to the January 2006, acquisition of Mon River Towing and J.A.R. Barge Lines, LLC. The acquisition included 13 towboats and more than 350 barges with the capacity to transport 13 million tons of coal annually.

Interest expense decreased in the 2006 period compared to the 2005 period.

	2006	2005	Dollar Variance	Percentage Change
Long-term Secured notes	$ 24	$ 24	$	
Capitalized lease	2		2	100.0%
Other	(1)	3	(4)	(133.3)%
Total Interest Expense	$ 25	$ 27	$ (2)	(7.4)%

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Interest on long-term debt remained consistent in the period-to-period comparison.

Capitalized lease interest expense relates to an agreement that was entered into in March 2006. The agreement was for the acquisition of longwall equipment that was required to be treated as a capital lease under Statement of Financial Accounting Standards No. 13, Accounting for Leases. Capitalized lease interest expense also increased due to the Jewell Ridge lateral pipeline coming on line in October 2006. The firm transportation agreement related to the use of this pipeline was also treated as a capital lease.

Other interest expense decreased due to higher amounts of interest capitalized in the 2006 period compared to the 2005 period. Higher capitalized interest was attributable to the higher level of capital projects funded from operating cash flow in the 2006 period, primarily due to the slope, overland belt and preparation plant projects at the Robinson Run Mine.

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

	2006	2005	Dollar Variance	Percentage Change
Production taxes:				
Coal	$ 157	$ 145	$ 12	8.3 %
Gas	12	10	2	20.0 %
Total Production Taxes	169	155	14	9.0 %
Other taxes:				
Coal	71	62	9	14.5 %
Gas	4	4		
Other	9	8	1	12.5 %
Other	84	74	10	13.5 %
Total Taxes Other Than Income	$ 253	$ 229	$ 24	10.5 %

Increased coal production taxes are primarily due to higher severance taxes and higher black lung excise taxes attributable to higher average sales price. Severance taxes have also increased due to an additional tax imposed by the State of West Virginia. Under the new West Virginia severance tax rules, an additional $0.56 per ton of coal produced is due to the State.

Increased gas production taxes are primarily due to higher severance taxes attributable to higher average sales price for gas and higher sales volumes.

Other coal taxes increased due to higher property taxes. Property tax increases are primarily attributable to higher assessments in various counties where our coal holdings are located. Other coal taxes also increased due to capital stock and franchise taxes. Additional capital stock and franchise taxes are attributable to the higher earnings achieved in the year ended December 31, 2005.

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

Other miscellaneous taxes increased due to capital stock and franchise taxes. Additional capital stock and franchise taxes are attributable to the higher earnings achieved in the year ended December 31, 2005.

	2006	2005	Variance	Percentage Change
Earnings Before Income Taxes and Minority Interest	$ 551	$ 655	$ (104)	(15.9)%
Tax Expense	112	64	48	75.0 %
Effective Income Tax Rate	20.3 %	9.8 %	10.5 %	

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CONSOL Energy s effective tax rate is sensitive to changes to the relationship between pre-tax earnings and percentage depletion, as well as increases and decreases in valuation allowances. See Note 7 in Item 8 of the Notes to the Audited Consolidated Financial Statements in this Form 10-K. CONSOL Energy s effective tax rate for the year ended December 31, 2005 was impacted by the gain of $327 million resulting from the sale of 18.5% of CNX Gas stock, as previously discussed. In accordance with Statement of Financial Accounting Standards Board Statement No. 109, Accounting for Income Taxes, no deferred tax has been provided on this transaction as current tax law provides a means by which the excess of the reported amount of this investment over its tax basis can be recovered tax-free. Also, management has no current intention of entering into a transaction that would cause CNX Gas to leave the consolidated tax group.

Minority Interest

Minority interest represents 18.5% of CNX Gas net income which CONSOL Energy does not own.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make judgments, estimates and assumptions that affect reported amounts of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities in the consolidated financial statements and at the date of the financial statements. Note 1 of the Notes to the Audited Consolidated Financial Statements in this Annual Report on Form 10-K describes the significant accounting policies and methods used in the preparation of the Consolidated Financial Statements. On an on-going basis, we evaluate our estimates. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates upon subsequent resolution of identified matters. Management believes that the estimates utilized are reasonable. The following critical accounting policies are materially impacted by judgments, assumptions and estimates used in the preparation of the Consolidated Financial Statements.

Other Post Employment Benefits

CONSOL Energy has historically provided retiree health benefits to employees that retire with at least ten years of service and have attained age 55. Effective August 1, 2003, the eligibility requirement for salaried employees was changed to either twenty years of service and age 55, or fifteen years of service and age 62. Additionally, any salaried or non-represented hourly employees that are hired or rehired effective January 1, 2007 or later will not become eligible for retiree health benefits. In lieu of traditional retiree health coverage, if certain eligibility requirements are met, these employees may be eligible to receive a retiree medical spending allowance of $2,250 per year of service at retirement. Eligibility requirements for represented hourly employees hired before January 1, 2007 have not changed from CONSOL Energy s historical requirements. Newly employed inexperienced employees represented by the UMWA, hired after January 1, 2007 will not be eligible to receive retiree benefits. In lieu of these benefits, these employees will receive a defined contribution benefit of $1 per each hour worked. At December 31, 2007, the retiree health plan provided benefits to approximately 24,500 of our former employees and their eligible dependents. The medical plan which covers eligible salaried employees and retirees also includes a cost sharing structure where essentially all participants contribute 20% of plan costs. Annual cost increases for the salary plan in excess of 6% are paid entirely by the salaried participants.

After our review, various actuarial assumptions, including discount rate, expected trend in health care costs, average remaining service period, average remaining life expectancy, per capita costs and participation level in each future year are used by our independent actuary to estimate the cost and benefit obligations for our retiree health plans. Most assumptions used in 2007 have not differed materially from the prior year

actual experience. Expected trend in health care cost assumptions have been changed since the prior year. Separate trend assumptions have been established for medical, drug, pre-65 and post-65 costs as opposed to one trend

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assumption for all costs in prior years. The initial expected trend in health care costs at this year s measurement date (currently September 30) was 8.0% compared to a prior year expected 2008 trend in health care cost of 8.5%. A 1.0% decrease in the health care trend rate would decrease interest and service cost for 2007 by approximately $17.0 million. The discount rate is also determined each year at the measurement date. The discount rate is estimated by utilizing a hypothetical bond portfolio which approximates the future cash flow necessary to service our other postretirement liability. The hypothetical bond portfolio looks to rates of return on high-quality, fixed-income investments that receive one of the two highest ratings given by a recognized ratings agency. For the years ended December 31, 2007 and 2006, the discount rate used to calculate the period end liability and the following year s expense was 6.63% and 6.00%, respectively. A 0.25% increase in the discount rate would have decreased 2007 net periodic postretirement benefit costs by approximately $4.1 million. A 0.25% decrease in the discount rate would have increased 2007 net periodic postretirement benefit costs by approximately $4.4 million. Deferred gains and losses are primarily due to historical changes in the discount rate and medical cost inflation differing from expectations in prior years. Changes to interest rates for the rates of returns on instruments that could be used to settle the actuarially determined plan obligations introduce substantial volatility to our costs. Accumulated actuarial gains or losses in excess of a pre-established corridor are amortized on a straight-line basis over the expected future service of active salary employees to their assumed retirement age. The average remaining service period for our salaried plans is approximately 11 years at December 31, 2007. Accumulated actuarial gains or losses in excess of a pre-established corridor are amortized on a straight-line basis over the expected remaining life of our retired United Mine Workers of America (UMWA) population. The average remaining service period of this population is not used for amortization purposes because the majority of the UMWA population of our plan is retired. The average remaining life expectancy of our retired UMWA population used to calculate the following year s expense is approximately 13 years at December 31, 2007.

Per capita costs on a per annum basis for Other Postretirement Benefits were assumed to be $6,072 at December 31, 2007. This was approximately a 6.5% increase, after adjusting for plan design changes and demographic shifts from the per capita cost on a per annum basis at December 31, 2006. The increase was due to healthcare cost trends and was within the range expected by our assumptions. If the actual increase in per capita cost of medical services or other postretirement benefits are significantly greater or less than the projected trend rates, the per capita cost assumption would need to be adjusted, which could have a significant effect on the costs and liabilities recognized in the financial statements.

Significant increases in health and prescription drug costs for represented hourly retirees could have a material adverse effect on CONSOL Energy s operating cash flow. The effect on CONSOL Energy s cash flow from operations for salaried and non-represented hourly employees has been limited to approximately 6% of the previous year s medical cost for salaried employees due to the cost sharing provision in the benefit plan.

On September 29, 2006, Statement of Financial Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS 158) was issued. SFAS 158 required, among other things, the recognition of the funded status of each defined pension benefit plan and other postretirement benefit plans on the balance sheet. Each overfunded plan is recognized as an asset and each underfunded plan is recognized as a liability. The subsequent change in the funded status of the plans is recognized as a component of accumulated comprehensive income in stockholders equity. Additionally, SFAS 158 requires an employer to measure the funded status of its plans as of the date of its year-end statement of financial position. This provision becomes effective for CONSOL Energy for its December 31, 2008 year-end. Currently, CONSOL Energy uses a September 30 measurement date for its other postretirement benefit plans.

The estimated liability recognized in the December 31, 2007 financial statements was $2.5 billion. For the year ended December 31, 2007, we paid approximately $137.5 million for Other Postretirement Benefits, all of which were paid from operating cash flow. Our obligations with respect to these liabilities are unfunded at December 31, 2007. CONSOL Energy does not expect to contribute to the other postretirement plan in 2008. We intend to pay benefit claims as they are due.

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Salaried Pensions

CONSOL Energy has non-contributory defined benefit retirement plans covering substantially all employees not covered by multi employer plans. The benefits for these plans are based primarily on years of service and employee s pay near retirement. Effective January 1, 2006, employees hired between August 1, 2004 and December 31, 2005 that were not previously eligible to participate in the plans began accruing service. The CONSOL Energy salaried plan allows for lump-sum distributions of benefits earned up until December 31, 2005, at the employees election. As of January 1, 2006, lump sum benefits have been frozen, and the lump-sum option has been eliminated for benefits accrued prospectively.

Effective January 1, 2007, employees hired by CNX Gas, an 81.7 % owned subsidiary, will not be eligible to participate in CNX Gas non-contributory defined benefit retirement plan. In lieu of participation in the non-contributory defined benefit plan, these employees began receiving an additional 3% company contribution into their defined contribution plan. CNX Gas employees who were hired prior to December 31, 2005 or who were employees of CONSOL Energy prior to this date were given a one-time opportunity to elect to remain in the defined benefit plan or opt to freeze their service accruals and participate in the additional 3% company contribution into their defined contribution plan. All employees hired on or after January 1, 2006, but on or before December 31, 2006 had their current non-contributory defined benefit frozen and began receiving the additional 3% company contribution into their defined contribution plan, effective January 1, 2007. CNX Gas intends to freeze all defined benefit accruals as of December 31, 2016 for CNX Gas employees that elected to remain in the defined benefit plan.

Our independent actuaries calculate the actuarial present value of the estimated retirement obligation based on assumptions including rates of compensation, mortality rates, retirement age and interest rates. Several of these assumptions have been updated from the prior year to reflect anticipated future experience. For the year ended December 31, 2007, compensation increases are assumed to range from 3% to 8% depending on age and job classification. Retirement rate assumptions were also increased and begin at 1% for employees at age 50 and increase to 100% for employees at age 65. The discount rate is also determined each year at the measurement date. The discount rate is estimated by utilizing a hypothetical bond portfolio which approximates the future cash flow necessary to service our other postretirement liability. The hypothetical bond portfolio looks to rates of return on high-quality, fixed-income investments that receive one of the two highest ratings given by a recognized ratings agency. For the years ended December 31, 2007 and 2006, the discount rate used to calculate the period end liability and the following year s expense was 6.57% and 6.00%, respectively. A 0.25% increase in the discount rate would have decreased the 2007 net periodic pension cost by $1.3 million. A 0.25% decrease in the discount rate would have increased the 2006 net periodic pension cost by $1.3 million. Deferred gains and losses are primarily due to historical changes in the discount rate and earnings on assets differing from expectations in prior years. The average remaining service period is approximately 10 years at December 31, 2007. Changes to any of these assumptions introduce substantial volatility to our costs.

On September 29, 2006, Statement of Financial Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS 158) was issued. SFAS 158 required, among other things, the recognition of the funded status of each defined pension benefit plan and other postretirement benefit plans on the balance sheet. Each overfunded plan is recognized as an asset and each underfunded plan is recognized as a liability. The subsequent change in the funded status of the plans is recognized as a component of accumulated comprehensive income in stockholders equity. Additionally, SFAS 158 requires an employer to measure the funded status of its plans as of the date of its year-end statement of financial position. This provision becomes effective for CONSOL Energy for its December 31, 2008 year-end. Currently, CONSOL Energy uses a September 30 measurement date for its salaried pension plans. The estimated liability at December 31, 2007 was $70.2 million. CONSOL Energy expects to contribute approximately $28.0 million to the pension plan in 2008.

The market related asset value is derived by taking the cost value of assets as of September 30, 2007 and multiplying it by the average 36-month ratio of the market value of assets to the cost value of assets. CONSOL Energy s pension plan weighted average asset allocations at September 30, 2007 consisted of 60% equity securities and 40% debt securities.

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The CONSOL Energy Employee Retirement and the Restoration Plan allow for lump-sum distributions earned up until December 31, 2005 and December 31, 2006, respectively. As of January 1, 2006, lump-sum benefits have been frozen and prospectively the lump-sum option has been eliminated for the Employee Retirement Plan. As of January 1, 2007, the Restoration Plan has been frozen. According to Statement of Financial Accounting Standards No. 88, Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits, if the lump-sum distributions made for the plan year, which is currently October 1 to September 30, exceed the total of the service cost and interest cost for the plan year, settlement accounting is required. Lump-sum payments exceeded this threshold in the Restoration Plan during 2007. CONSOL Energy recognized expense of $2.7 million in the current year s results of operations. The adjustment equaled the previously unrecognized actuarial loss resulting from each individual who received a lump sum in that year. CONSOL regularly monitors this situation. If this settlement accounting is triggered again in the future, the adjustment could materially impact operating results.

Workers Compensation and Coal Workers Pneumoconiosis

Workers compensation is a system by which individuals who sustain employment related physical injuries or some type of occupational diseases are compensated for their disabilities, medical costs, and on some occasions, for the costs of their rehabilitation. Workers compensation will also compensate the survivors of workers who suffer employment related deaths. The workers compensation laws are administered by state agencies with each state having its own set of rules and regulations regarding compensation that is owed to an employee that is injured in the course of employment. CONSOL Energy records an actuarially calculated liability, which is determined using various assumptions, including discount rate, future healthcare cost trends, benefit duration and recurrence of injuries. The discount rate is determined each year at the measurement date (currently September 30). The discount rate is estimated by utilizing a hypothetical bond portfolio which approximates the future cash flow necessary to service our workers compensation liability. The hypothetical bond portfolio looks to rates of return on high-quality, fixed-income investments that receive one of the two highest ratings given by a recognized ratings agency. For the years ended December 31, 2007 and 2006, the discount rate used to calculate the period end liability and the following year s expense was 5.94% and 6.00%, respectively. A 0.25% increase or decrease in the discount rate would not have materially decreased or increased the 2007 workers compensation expense. Deferred gains and losses are primarily due to historical changes in the discount rates, several years of favorable claims experience, various favorable claims experience, various favorable state legislation changes and an over all lower incident rate than our assumptions. Accumulated actuarial gains or losses are amortized on a straight-line basis over the expected future benefit duration of current claimants. The average expected benefit duration for this group is approximately 9 years at December 31, 2007. The estimated liability recognized in the financial statements at December 31, 2007 was approximately $162.1 million. CONSOL Energy s policy has been to provide for workers compensation benefits from operating cash flow. No funding has been provided to cover these benefits. For the year ended December 31, 2007, we made payments for workers compensation benefits of approximately $45.5 million, all of which was paid from operating cash flow.

CONSOL Energy is responsible under the Federal Coal Mine Health and Safety Act of 1969, as amended, for medical and disability benefits to employees and their dependents resulting from occurrences of coal workers pneumoconiosis disease. CONSOL Energy is also responsible under various state statutes for pneumoconiosis benefits. After our review, our independent actuaries calculate the actuarial present value of the estimated pneumoconiosis obligation based on assumptions regarding disability incidence, medical costs, mortality, death benefits, dependents and discount rates. The discount rate is determined each year at the measurement date (currently September 30). The discount rate is estimated by utilizing a hypothetical bond portfolio which approximates the future cash flow necessary to service our coal workers pneumoconiosis liability. The hypothetical bond portfolio looks to rates of return on high-quality, fixed-income investments that receive one of the two highest ratings given by a recognized ratings agency. For the years ended December 31, 2007 and 2006, the discount rate used to calculate the period end liability and the following year s expense was 6.62% and 6.00%, respectively. A 0.25% increase or decrease in the discount rate would not have materially

decreased or increased the 2007 coal workers pneumoconiosis expense. Actuarial gains associated with coal workers pneumoconiosis have resulted from numerous legislative changes over many years which have resulted in lower approval rates for filed claims than our assumptions originally reflected. Actuarial gains have also resulted from lower incident rates and lower severity of claims filed than our assumption originally reflected. The estimated liability recognized in the financial statements at December 31, 2007 was approximately $182.9 million. For the year ended December 31, 2007, we paid coal workers pneumoconiosis benefits of approximately $10.4 million. Our obligations with respect to these liabilities are unfunded at December 31, 2007.

On September 29, 2006, Statement of Financial Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS 158) was issued. SFAS 158 required, among other things, the recognition of the funded status of each defined pension benefit plan and other postretirement benefit plan on the balance sheet. Each overfunded plan is recognized as an asset and each underfunded plan is recognized as a liability. The subsequent change in the funded status of the plans is recognized as a component of accumulated comprehensive income in stockholders equity. Additionally, SFAS 158 requires an employer to measure the funded status of its plans as of the date of its year-end statement of financial position. This provision becomes effective for CONSOL Energy for its December 31, 2008 year-end. Currently, CONSOL Energy uses a September 30 measurement date for its workers compensation and coal workers pneumoconiosis plans.

Reclamation and Mine Closure Obligations

The Surface Mining Control and Reclamation Act establishes operational, reclamation and closure standards for all aspects of surface mining as well as most aspects of deep mining. CONSOL Energy accrues for the costs of current mine disturbance and final mine and gas well closure, including the cost of treating mine water discharge where necessary. Estimates of our total reclamation and mine-closing liabilities, which are based upon permit requirements and CONSOL Energy engineering expertise related to these requirements, including the current portion, were approximately $482.3 million at December 31, 2007. This liability is reviewed annually by CONSOL Energy management and engineers. The estimated liability can significantly change if actual costs vary from assumptions or if governmental regulations change significantly.

Statement of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations (SFAS No. 143) requires that the fair value of an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The present value of the estimated asset retirement costs is capitalized as part of the carrying amount of the long-lived asset. Asset retirement obligations primarily relate to the closure of mines and gas wells and the reclamation of land upon exhaustion of coal and gas reserves. Changes in the variables used to calculate the liabilities can have a significant effect on the mine closing, reclamation and gas well closing liabilities. The amounts of assets and liabilities recorded are dependent upon a number of variables, including the estimated future retirement costs, estimated proven reserves, assumptions involving profit margins, inflation rates, and the assumed credit-adjusted risk-free interest rate.

SFAS No. 143 requires depreciation of the capitalized asset retirement cost and accretion of the asset retirement obligation over time. The depreciation will generally be determined on a units-of-production basis, whereas the accretion to be recognized will escalate over the life of the producing assets, typically as production declines.

Income Taxes

CONSOL Energy accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (SFAS No. 109) which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax basis of recorded assets and liabilities. SFAS No. 109 also requires that deferred tax assets be reduced by a

valuation allowance if it is more likely than not that some portion of the deferred tax asset will not be realized. All available evidence, both positive and negative, must be considered in determining the need for a valuation

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allowance. At December 31, 2007, CONSOL Energy has deferred tax assets in excess of deferred tax liabilities of approximately $505.6 million. The deferred tax assets are evaluated periodically to determine if a valuation allowance is necessary. There were no significant changes in the deferred tax valuation allowances in the year ended December 31, 2007.

For 2007, CONSOL Energy continues to report a deferred tax asset of approximately $36.2 million relating to CONSOL Energy s state net operating loss carry-forwards with a full valuation allowance. A review of the positive and negative evidence regarding these benefits, primarily the history of book and tax losses on a separate company basis, concluded that a valuation allowance was warranted. A valuation allowance of $23.1 million has also been recorded against the deferred state tax asset attributable to future deductible differences for certain subsidiaries with histories of book and tax losses. These net operating losses expire at various times from 2008 to 2027. Management will continue to assess the realization of deferred tax assets based upon updated income forecast data and the feasibility of future tax planning strategies, and may record adjustments to valuation allowances against deferred tax assets in future periods as appropriate that could materially impact net income.

CONSOL Energy adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109 (FIN 48) on January 1, 2007. CONSOL Energy evaluates all tax positions taken on the state and federal tax filings to determine if the position is more likely than not to be sustained upon examination. For positions that meet the more likely than not to be sustained criteria, an evaluation to determine the largest amount of benefit, determined on a cumulative probability basis that is more likely than not to be realized upon ultimate settlement is determined. A previously recognized tax position is derecognized when it is subsequently determined that a tax position no longer meets the more likely than not threshold to be sustained. The evaluation of the sustainability of a tax position and the probable amount that is more likely than not is based on judgment, historical experience and on various other assumptions that we believe are reasonable under the circumstances. The results of these estimates, that are not readily apparent from other sources, form the basis for recognizing a FIN 48 liability. Actual results could differ from those estimates upon subsequent resolution of identified matters. Estimates of our uncertain tax liabilities, including the current portion, were approximately $63.4 million at December 31, 2007.

Stock Based Compensation

On January 1, 2006, we adopted the provisions of Statement of Financial Accounting Standards No. 123R, Share-Based Payments (SFAS No. 123R) using the modified prospective transition method. SFAS No. 123R eliminates the option of using the intrinsic value method of accounting previously available under APB No. 25, and requires companies to recognize in the financial statements the cost of employee services received in exchange for awards of equity instruments based on the grant date fair value of those awards. CONSOL Energy recorded $24.2 million of expense for the year ended December 31, 2007. The Black-Scholes option pricing model is used to determine fair value of stock options at the grant date. Various inputs are utilized in the Black-Scholes pricing model, such as:

- stock price on measurement date,
- exercise price defined in the award,
- expected dividend yield based on historical trend of dividend payouts,
- risk-free interest rate based on a zero-coupon treasury bond rate,
- expected term based on historical grant and exercise behavior, and

expected volatility based on historic and implied stock price volatility of CONSOL Energy stock and public peer group stock.

These factors can significantly impact the value of stock options expense recognized over the requisite service period of option holders. As of December 31, 2007, $15.6 million of total unrecognized compensation

cost related to unvested awards is expected to be recognized over a weighted-average period of 2.15 years. See Note 19 in the Notes to the Audited Consolidated Financial Statements in Item 8 in this Form 10-K for more information.

Contingencies

CONSOL Energy is currently involved in certain legal proceedings. We have accrued our estimate of the probable costs for the resolution of these claims. This estimate has been developed in consultation with legal counsel involved in the defense of these matters and is based upon an analysis of potential results, assuming a combination of litigation and settlement strategies. Future results of operations for any particular quarterly or annual period could be materially affected by changes in our assumptions or the outcome of these proceedings.

Successful Efforts Accounting

We use the successful efforts method to account for our exploration and production activities. Under this method, costs are accumulated on a field by field basis with certain exploratory expenditures and exploratory dry holes being expensed as incurred. Costs of productive wells and development dry holes are capitalized and amortized on the unit-of-production method. We use this accounting policy instead of the full cost method because it provides a more timely accounting of the success or failure of our exploration and production activities.

Coal and Gas Reserve Values

There are numerous uncertainties inherent in estimating quantities and values of economically recoverable coal and gas reserves, including many factors beyond our control. As a result, estimates of economically recoverable coal and gas reserves are by their nature uncertain. Information about our reserves consists of estimates based on engineering, economic and geological data assembled and analyzed by our staff. Our gas reserves have been reviewed by independent experts. Approximately 95% of the amounts included in our 2007 coal reserves have been reviewed and confirmed by an independent third-party consultant. Some of the factors and assumptions which impact economically recoverable reserve estimates include:

- geological conditions;
- historical production from the area compared with production from other producing areas;
- the assumed effects of regulations and taxes by governmental agencies;
- assumptions governing future prices; and
- future operating costs.

Each of these factors may in fact vary considerably from the assumptions used in estimating reserves. For these reasons, estimates of the economically recoverable quantities of coal and gas attributable to a particular group of properties, and classifications of these reserves based on risk of recovery and estimates of future net cash flows, may vary substantially. Actual production, revenues and expenditures with respect to our reserves will likely vary from estimates, and these variances may be material. See Risk Factors in Item 1A of this report for a discussion of the uncertainties in estimating our reserves.

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 collateral is shared equally and ratably with the

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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 13.10 to 1.00 at December 31, 2007. The facility also includes a maximum leverage ratio of not more than 3.25 to 1.00, measured quarterly. The leverage ratio was 1.50 to 1.00 at December 31, 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 December 31, 2007, the facility had approximately $248 million drawn and $259 million of letters of credit outstanding, leaving $493 million of unused capacity.

In April and November 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 $165 million, a $40 million increase over the 2006 facility. The amended facility also allows for the issuance of letters of credit against the $165 million capacity. At December 31, 2007, eligible accounts receivable totaled approximately $116 million. There was no subordinated retained interest at December 31, 2007. Accounts receivable totaling $125 million were removed from the consolidated balance sheet at December 31, 2007. There were no letters of credit outstanding against the facility at December 31, 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. Proceeds at December 31, 2007, determined by eligible accounts receivable at November 30, 2007, exceeded the eligible accounts receivable at December 31, 2007. The $10 million not supported by accounts receivable at December 31, 2007 is included in the $125 million of accounts receivable which were removed from the consolidated balance sheet at December 31, 2007.

CONSOL Energy s letters of credit issued under the revolving credit facility have decreased by approximately $134 million at December 31, 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 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 to $300 million, including borrowings and letters of credit. 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. This facility includes a leverage ratio covenant of not more than 3.00 to 1.00, measured quarterly. This ratio was 0.17 to 1.00 at December 31, 2007. The facility also includes an interest coverage ratio covenant of no less than 3.00 to 1.00, measured quarterly. This ratio was 51.19 to 1.00 at December 31, 2007. At December 31, 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, and are also guarantors of CONSOL Energy s 7.875% bonds.

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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 $9.6 million at December 31, 2007. The ineffective portion of the changes in the fair value of these contracts was insignificant to earnings in the years ended December 31, 2007, 2006 and 2005.

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.

Cash Flows (in millions)

	2007	2006	Change
Cash flows from operating activities	$ 684	$ 665	$ 19
Cash used in investing activities	$ (972)	$ (662)	$ (310)
Cash provided by (used in) financing activities	$ 106	$ (120)	$ 226

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

Operating cash flows increased by approximately $125 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 $21 million due to coal inventories. Coal inventories were 1.3 million tons at December 31, 2007, 1.5 million tons at December 31, 2006 and 1.7 million tons at December 31, 2005.

Operating cash flows decreased due to lower net income in the year-to-year 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 $743 million in 2007 compared to $691 million in 2006. Capital expenditures were higher in 2007 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 Inc. These increases were offset, in part, by a $25 million cash payment in 2006 related to the January 2006 acquisition of Mon River Towing and J.A.R. Barge Lines, LLC, from The Guttman Group. See Note 2 in Item 8, Notes to the Audited Consolidated Financial Statements in this Form 10-K. Increased capital expenditures were also due to additional capital expenditures in the gas segment due to the on-going drilling program. These increases were offset, in part, by lower expenditures related to the coal and other segments.

Cash used in investing activities includes $297 million related to the July 2007 acquisition of AMVEST. See Note 2 in Item 8, Notes to the Audited Consolidated Financial Statements in this Form 10-K.

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 $85 million in 2007 compared to $60 million in 2006. Proceeds in 2007 were primarily related to $53 million of proceeds from the sale of certain western Kentucky coal reserves to Alliance Resource Partners, L.P. Proceeds in 2006 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 provided by (used in) financing activities changed primarily due to the following items:

In 2007, CONSOL Energy received proceeds of $248 million from our revolving credit facility. There was no activity under the revolving credit facility in 2006.

In 2007, 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 2006.

In 2007, $24 million of cash was retained compared to $39 million in 2006, as a result of the tax deductibility of increases in the value of equity instruments issued under share-based payment arrangements.

In 2007, approximately $80 million of CONSOL Energy stock was repurchased under the share repurchase program that was approved in December 2005. In 2006, approximately $116 million of CONSOL Energy stock was repurchased.

$19 million of stock was issued in 2007 compared to $13 million of treasury stock and $1 million of common stock issued in 2006. Stock issuances in both periods were a result of stock option exercises.

Dividends of $56 million were paid in 2007 compared to $51 million in 2006.

The following is a summary of our significant contractual obligations at December 31, 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	$ 247,500	$	$	$	$ 247,500
Gas Firm Transportation Obligation	7,870	14,379	9,948	17,095	49,292
Purchase Order Firm Commitments	4,561				4,561
Long-Term Debt	8,374	46,493	330,865	21,614	407,346

Capital Lease Obligations	16,178	32,356	19,159	65,135	132,828
Operating Lease Obligations	39,792	61,536	31,400	131,017	263,745
Other Long-Term Liabilities(a)	379,586	588,079	483,993	2,125,675	3,577,333
Total Contractual Obligations(b)	$ 703,861	$ 742,843	$ 875,365	$ 2,360,536	$ 4,682,605

(a) Long-term liabilities include other postemployment benefits, work-related injuries and illnesses, defined benefit pension plans, mine reclamation and closure, and other long-term liability costs.

(b) 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.

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Debt

At December 31, 2007, CONSOL Energy had total long-term debt of $507 million outstanding, including current portion of long-term debt of $18 million. This long-term debt consisted of:

An aggregate principal amount of $249 million of 7.875% notes ($250 million 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;

$33 million in advance royalty commitments with an average interest rate of 6.66% per annum;

An aggregate principal amount of $11 million on a variable rate note that bears interest at the prime rate, or 7.25% at December 31, 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 various rate notes with a weighted average interest rate of 8.11% at December 31, 2007. These note were incurred by a variable interest entity that is fully consolidated in which CONSOL Energy holds no ownership interest;

An aggregate principal amount of $101 million of capital leases with a weighted average interest rate of 7.11% per annum.

An aggregate principal amount of $1 million of variable rate notes with a weighted average interest rate of 6.42% due at various dates ranging from 2008 through 2031.

At December 31, 2007, CONSOL Energy had $248 million of borrowings and approximately $259 million of letters of credit outstanding under the revolving credit facility.

At December 31, 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 $1,214 million at December 31, 2007 and $1,066 million at December 31, 2006. The increase was primarily attributable to net income for the year ended December 31, 2007, the tax benefit from stock-based compensation and the issuance of treasury stock. This increase was partially offset by repurchases under the CONSOL Energy share repurchase program, payment of dividends

during the year, changes to the actuarial long-term liability gains and losses, 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 the Audited Consolidated Financial Statements in Item 8 of this Form 10-K.

In December 2005, CONSOL Energy 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. In 2007, CONSOL Energy repurchased 2,087,800 shares at an average price of $38.14. As of December 31, 2007, we have repurchased a total of 5,602,600 shares at an average price of $34.98 under this program. The program has not been renewed.

In August 2007, CONSOL Energy s Board of Directors 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.

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On May 4, 2006, CONSOL Energy s Board of Directors declared a two-for-one stock split of the common stock payable on or about May 31, 2006 to shareholders of record on May 15, 2006. The stock split was effected in the form of a stock dividend. This stock split resulted in the issuance of approximately 92.5 million additional shares of common stock and was accounted for by the transfer of approximately $925 thousand from capital in excess of par value to common stock. The stock split also resulted in additional shares available for awards under the CONSOL Energy Inc. Equity Incentive Plan.

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

Declaration Date	Amount Per Share	Record Date	Payment Date
January 30, 2008	$0.10	February 7, 2008	February 22, 2008
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 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 1.50 to 1.00 and our availability was approximately $494 million at December 31, 2007. The credit facility does not permit dividend payments in the event of default. There were no defaults in the year ended December 31, 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 financial 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 Audited Consolidated Financial Statements.

Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 141(R), Business Combinations (SFAS 141R), and Statement of Financial Accounting Standards No. 160, Accounting and Reporting of Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB No. 51 (SFAS 160). SFAS 141R and SFAS 160 will significantly change the accounting for and reporting of business combination transactions and noncontrolling (minority) interests in consolidated financial statements. SFAS 141R retains the fundamental requirements in Statement 141 Business Combinations while providing additional definitions, such as the definition of the acquirer in a purchase and improvements in the application of how the acquisition method is applied. SFAS 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests, and classified as a component of equity. These Statements become simultaneously effective January 1, 2009. Early adoption is not permitted. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

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 SFAS 115 . This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The

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objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of FASB Statement No. 157, Fair Value Measurements. We do not expect this guidance to have a significant impact on CONSOL Energy; however, management is currently assessing the impact of adopting SFAS No. 159.

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. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007; however, earlier application is permitted provided the reporting entity has not yet issued financial statements for that fiscal year. The FASB deferred the effective date of SFAS 157 for one year for non financial assets and non financial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. We do not expect this guidance to have a significant impact on CONSOL Energy; however, management is currently assessing the impact of adopting SFAS No. 157.

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. SFAS 158 was issued to address concerns that prior standards on employers accounting for defined benefit postretirement plans failed to communicate the funded status of those plans in a complete and understandable way and to require an employer to recognize completely in earnings or other comprehensive income the financial impact of certain events affecting the plan s funded status when those events occurred. This Statement was effective for financial statements issued for fiscal years ending after December 15, 2006. 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 for 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. See Note 16, Note 17 and Note 18 to the Consolidated Financial Statements for additional discussion of SFAS 158.

Item 7A. ***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, interest rates and foreign exchange rates.

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 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 and derivative commodity instruments that qualify as cash flow hedges under Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities 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 purposes.

CONSOL Energy has established risk management policies and procedures to strengthen the internal control environment of the marketing of commodities produced from our asset base. All of the derivative instruments are held for purposes other than trading. They are used primarily to mitigate uncertainty and volatility and cover

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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 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 to the Audited Consolidated Financial Statements.

Sensitivity analyses of the incremental effects on pre-tax earnings for the year ended December 31, 2007 of a hypothetical 10% and 25% change in natural gas prices for open derivative instruments as of December 31, 2007 are provided in the following table:

	Incremental Decrease in Pre-tax Earnings Assuming a Hypothetical Price Change of:	
	10%	**25%**
	(in millions)	
Natural Gas	$ 25.4	$ 64.1

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 2008 through 2009 anticipated sales of natural gas to fixed prices. The sensitivity analysis reflects 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 $5.9 million (net of $3.7 million deferred tax). 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.

CONSOL Energy s interest expense is sensitive to changes in the general level of interest rates in the United States. At December 31, 2007, CONSOL Energy had outstanding $496 million aggregate principal amount of debt under fixed-rate instruments and $11 million aggregate principal amount of debt under variable-rate instruments. CONSOL Energy s primary exposure to market risk for changes in interest rates relates to our revolving credit facility, under which there was $248 million of borrowings outstanding at December 31, 2007. During the year ended December 31, 2007, a 100 basis-point increase in the average rate for CONSOL Energy s revolving credit facility would have decreased net income by approximately $0.8 million. The fair value of CONSOL Energy s financial instruments is set forth in Note 24 and Note 25 of the Notes to the Audited Consolidated Financial Statements.

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

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Item 8. ***Financial Statements and Supplementary Data.***

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of CONSOL Energy Inc.,

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, stockholders equity and cash flows present fairly, in all material respects, the financial position of CONSOL Energy Inc. and its subsidiaries (CONSOL Energy) at December 31, 2007 and December 31, 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule included in Item 15(a)(2), presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, CONSOL Energy maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). CONSOL Energy s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Annual Report on Internal Control Over Financial Reporting appearing under Item 9a. Our responsibility is to express opinions on these financial statements, on the financial statement schedule and on CONSOL Energy s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1 to the consolidated financial statements, CONSOL Energy changed the manner in which it accounts for stock-based compensation; defined benefit pension, other postretirement benefit plans, and other employee benefits; and purchases and sales of gas with the same counterparty in 2006.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Pittsburgh, Pennsylvania

February 18, 2008

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CONSOL ENERGY INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except per share data)

	For the Years Ended December 31,		
	2007	2006	2005
Sales Outside	$ 3,324,346	$ 3,286,522	$ 2,930,933
Sales Purchased Gas	7,628	43,973	275,148
Sales Gas Royalty Interests	46,586	51,054	45,351
Sales Related Party (Note 3)			4,749
Freight Outside	186,909	162,761	119,343
Freight Related Party (Note 3)			468
Other Income (Note 4)	196,728	170,861	107,131
Gain on Sale of 18.5% Interest in CNX Gas			327,326
Total Revenue and Other Income	3,762,197	3,715,171	3,810,449
Costs of Goods Sold and Other Operating Charges (exclusive of depreciation, depletion and amortization shown below)	2,351,507	2,249,776	2,122,259
Purchased Gas Costs	7,162	44,843	278,720
Gas Royalty Interests Costs	39,921	41,879	36,501
Freight Expense	186,909	162,761	119,811
Selling, General and Administrative Expenses	108,664	91,150	80,700
Depreciation, Depletion and Amortization	324,715	296,237	261,851
Interest Expense (Note 5)	30,851	25,066	27,317
Taxes Other Than Income (Note 6)	283,511	252,539	228,606
Total Costs	3,333,240	3,164,251	3,155,765
Earnings Before Income Taxes and Minority Interest	428,957	550,920	654,684
Income Taxes (Note 7)	136,137	112,430	64,339
Earnings Before Minority Interest	292,820	438,490	590,345
Minority Interest	(25,038)	(29,608)	(9,484)
Net Income	$ 267,782	$ 408,882	$ 580,861
Earnings Per Share (Note 1):			
Basic	$ 1.47	$ 2.23	$ 3.17
Dilutive	$ 1.45	$ 2.20	$ 3.13
Weighted Average Number of Common Shares Outstanding (Note 1):			
Basic	182,050,627	183,354,732	183,489,908
Dilutive	184,149,751	185,638,106	185,534,980
Dividends per Share	$ 0.31	$ 0.28	$ 0.28

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

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CONSOL ENERGY INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share data)

	December 31, 2007	December 31, 2006
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 41,651	$ 223,883
Accounts and Notes Receivable:		
Trade	180,545	303,175
Other Receivables	69,771	51,890
Inventories (Note 9)	163,193	149,307
Recoverable Income Taxes	19,090	1,278
Deferred Income Taxes (Note 7)	130,820	117,231
Prepaid Expenses	78,085	67,732
Total Current Assets	683,155	914,496
Property, Plant and Equipment (Note 11):		
Property, Plant and Equipment	8,945,312	7,849,936
Less Accumulated Depreciation, Depletion and Amortization	3,980,270	3,809,649
Total Property, Plant and Equipment Net	4,965,042	4,040,287
Other Assets:		
Deferred Income Taxes (Note 7)	374,811	507,996
Investment in Affiliates	94,866	84,219
Other	90,216	116,334
Total Other Assets	559,893	708,549
TOTAL ASSETS	$ 6,208,090	$ 5,663,332
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts Payable	$ 238,312	$ 225,060
Short-Term Notes Payable (Note 12)	247,500	
Current Portion of Long-Term Debt (Note 14 and Note 15)	18,283	59,518
Other Accrued Liabilities (Note 13)	512,302	455,546
Total Current Liabilities	1,016,397	740,124
Long-Term Debt:		
Long-Term Debt (Note 14)	398,077	391,983
Capital Lease Obligations (Note 15)	90,848	100,762
Total Long Term Debt	488,925	492,745
Deferred Credits and Other Liabilities:		
Postretirement Benefits Other Than Pensions (Note 16)	2,336,809	2,252,115
Pneumoconiosis Benefits (Note 17)	171,896	184,424
Mine Closing	399,633	389,896
Workers Compensation (Note 17)	118,356	121,337
Deferred Revenue	3,162	13,106
Salary Retirement (Note 16)	67,392	113,944
Reclamation	34,317	26,461
Other	193,666	127,370

Total Deferred Credits and Other Liabilities	3,325,231	3,228,653
Minority Interest	163,118	135,659
Total Liabilities and Minority Interest	4,993,671	4,597,181
Stockholders Equity:		
Common Stock, $.01 Par Value; 500,000,000 Shares Authorized, 185,126,526 Issued and 182,291,623 Outstanding at December 31, 2007; 185,126,526 Issued and 182,654,629 Outstanding at December 31, 2006	1,851	1,851
Capital in Excess of Par Value	966,544	921,881
Preferred Stock, 15,000,000 Shares Authorized; None Issued and Outstanding		
Retained Earnings	766,536	600,541
Accumulated Other Comprehensive Loss (Note 20)	(419,284)	(375,717)
Common Stock in Treasury, at Cost 2,834,903 shares at December 31, 2007 and 2,471,897 Shares at December 31, 2006	(101,228)	(82,405)
Total Stockholders Equity	1,214,419	1,066,151
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 6,208,090	$ 5,663,332

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

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CONSOL ENERGY INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

(Dollars in thousands, except per share data)

	Common Stock	Capital in Excess of Par Value	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Unearned Compensation on Restricted Stock Units	Common Stock in Treasury	Total Stockholders Equity
Balance at December 31, 2004	$ 1,838	$ 845,719	$ (277,406)	$ (89,193)	$ (4,883)	$ (7,054)	$ 469,021
Net Income			580,861				580,861
Minimum Pension Liability (Net of $4,301 tax)				6,754			6,754
Treasury Rate Lock (Net of $53 tax)				(80)			(80)
Minority Interest in Gas				6,432			6,432
Gas Cash Flow Hedge (Net of $18,664 tax)				(29,075)			(29,075)
Comprehensive Income (Loss)			580,861	(15,969)			564,892
Stock Options Exercised	12	32,084				7,054	39,150
Issuance of Restricted Stock under the Equity Incentive Plan		4,270			(4,270)		
Dividends ($0.28 per Share)		25	(51,346)				(51,321)
Stock-Based Compensation from Accelerated Vesting		735					735
Common Stock Issued		225					225
Dividend Equivalents on Restricted Stock Units		276			(276)		
Amortization of Restricted Stock Unit Grants		(18)			2,672		2,654
Balance at December 31, 2005	1,850	883,316	252,109	(105,162)	(6,757)		1,025,356
Net Income			408,882				408,882
Minimum Pension Liability (Net of $6,614 tax)				10,390			10,390
Treasury Rate Lock (Net of $53 Tax)				(81)			(81)
Minority Interest in Other Comprehensive Income and Stock-Based Compensation of Gas		(1,996)		(6,877)			(8,873)
Gas Cash Flow Hedge (Net of ($23,860) tax)				36,382			36,382
Comprehensive Income (Loss)		(1,996)	408,882	39,814			446,700
Adjustment to Apply SFAS 158, (Net of $156,100 tax), to Defined Benefit Postretirement Plans				(310,369)			(310,369)
Stock Options Exercised	1	1,361					1,362
Issuance of Treasury Stock		(11,703)	(9,034)			34,045	13,308
Dividends ($0.28 per Share)			(51,416)				(51,416)
Tax Benefit from Stock-Based Compensation		38,545					38,545
Purchases of Treasury Stock						(116,450)	(116,450)
Amortization of Stock-Based Compensation Awards		19,115					19,115
Elimination of Unearned Compensation on Restricted Stock Units		(6,757)			6,757		
Balance at December 31, 2006	1,851	921,881	600,541	(375,717)		(82,405)	1,066,151
Net Income			267,782				267,782
Treasury Rate Lock (Net of $52 Tax)				(81)			(81)
Minority Interest in Other Comprehensive Income and Stock-Based Compensation of Gas				(691)			(691)
Gas Cash Flow Hedge (Net of ($2,146) tax)				4,214			4,214
FAS 158 Long-Term Liability Adjustments				(47,009)			(47,009)

Comprehensive Income (Loss)			267,782	(43,567)			224,215
Cumulative Effect of FASB Interpretation No. 48 Adoption			(3,202)				(3,202)
Issuance of Treasury Stock			(42,110)			61,334	19,224
Purchases of Treasury Stock						(80,157)	(80,157)
Tax Benefit from Stock-Based Compensation		23,682					23,682
Amortization of Stock-Based Compensation Awards		20,981					20,981
Dividends ($0.31 per share)			(56,475)				(56,475)
Balance at December 31, 2007	$ 1,851	$ 966,544	$ 766,536	$ (419,284)	$	$ (101,228)	$ 1,214,419

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

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CONSOL ENERGY INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands, except per share data)

	For the Years Ended December 31,		
	2007	**2006**	**2005**
Cash Flows from Operating Activities:			
Net Income	$ 267,782	$ 408,882	$ 580,861
Adjustments to Reconcile Net Income to Net Cash Provided By Operating Activities:			
Depreciation, Depletion and Amortization	324,715	296,237	261,851
Stock-based Compensation	24,243	22,841	3,596
Gain on Sale of Assets	(112,389)	(10,417)	(15,095)
Gain on Sale of 18.5% Interest in Gas Segment			(327,326)
Change in Minority Interest	25,038	29,608	9,484
Amortization of Mineral Leases	4,519	3,773	4,483
Deferred Income Taxes	59,555	19,041	(4,644)
Equity in Earnings of Affiliates	(6,551)	(1,201)	(2,850)
Changes in Operating Assets:			
Accounts Receivable Securitization	125,400		(125,000)
Accounts and Notes Receivable	14,074	(52,898)	(31,900)
Inventories	13,448	(7,427)	(13,361)
Prepaid Expenses	(9,145)	(9,011)	(16,890)
Changes in Other Assets	40,164	19,020	(6,525)
Changes in Operating Liabilities:			
Accounts Payable	(2,435)	(4,769)	22,725
Other Operating Liabilities	(30,978)	(115,967)	60,586
Changes in Other Liabilities	(54,924)	59,604	4,567
Other	1,517	7,231	4,524
Net Cash Provided by Operating Activities	684,033	664,547	409,086
Cash Flows from Investing Activities:			
Capital Expenditures	(743,114)	(690,546)	(532,796)
Acquisition of AMVEST	(296,724)		
Proceeds from Sale of Assets	84,791	59,963	34,220
Proceeds from Sale of 18.5% Interest in Gas Segment			420,167
Purchase of Stock in Subsidiary	(10,000)		
Net Investment in Equity Affiliates	(7,057)	(30,963)	3,996
Net Cash Used in Investing Activities	(972,104)	(661,546)	(74,413)
Cash Flows from Financing Activities:			
Payments on Long-Term Debt	(45,000)		
Proceeds (Payments) on Short-Term Debt	247,500		(1,700)
Payments on Miscellaneous Borrowings	(2,935)	(5,107)	(584)
Proceeds from Long-Term Debt			14,000
Tax Benefit from Stock-Based Compensation	23,682	38,545	
Dividends Paid	(56,475)	(51,416)	(51,321)
Issuance of Treasury Stock	19,224	13,308	
Purchases of Treasury Stock	(80,157)	(116,450)	
Stock Options Exercised		1,362	39,150

Net Cash Provided by (Used In) Financing Activities	105,839	(119,758)	(455)
Net (Decrease) Increase in Cash and Cash Equivalents	(182,232)	(116,757)	334,218
Cash and Cash Equivalents at Beginning of Period	223,883	340,640	6,422
Cash and Cash Equivalents at End of Period	$ 41,651	$ 223,883	$ 340,640

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

See Note 22 Supplemental Cash Flow Information

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Note 1 Significant Accounting Policies:

A summary of the significant accounting policies of CONSOL Energy Inc. and subsidiaries (CONSOL Energy) is presented below. These, together with the other notes that follow, are an integral part of the consolidated financial statements.

Basis of Presentation:

On May 4, 2006, CONSOL Energy s Board of Directors declared a two-for-one stock split of the common stock payable on or about May 31, 2006 to shareholders of record on May 15, 2006. The stock split was effected in the form of a stock dividend. This stock split resulted in the issuance of approximately 92.5 million additional shares of common stock and was accounted for by the transfer of approximately $925 from capital in excess of par value to common stock. The stock split resulted in additional shares available for awards under the CONSOL Energy Inc. Equity Incentive Plan. Earnings per share and dividends paid per share amounts on the face of the Consolidated Statements of Income are reflected on a post-split basis. Common stock, capital in excess of par and dividends per share on the Consolidated Statement of Stockholders Equity are reflected on a post-split basis. Weighted average number of common shares, earning per share and dividends per share on the Consolidated Statements of Income are also reflected on a post-split basis.

Basis of Consolidation:

The consolidated financial statements include the accounts of majority-owned and controlled subsidiaries. The accounts of variable interest entities (VIEs) as defined by the Financial Accounting Standards Board s (FASB) Interpretation No. 46 (FIN 46) and related interpretations, where CONSOL Energy is the primary beneficiary, are included in the consolidated financial statements. Investments in business entities in which CONSOL Energy does not have control, but has the ability to exercise significant influence over the operating and financial policies, are accounted for under the equity method. All significant intercompany transactions and accounts have been eliminated in consolidation.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and various disclosures. Actual results could differ from those estimates. The most significant estimates included in the preparation of the financial statements are related to other postretirement benefits, coal workers pneumoconiosis, workers compensation, salary retirement benefits, stock-based compensation, reclamation and mine closure liabilities, deferred income tax assets and liabilities, contingencies and coal and gas

reserve values.

Cash and Cash Equivalents:

Cash and cash equivalents include cash on hand and in banks as well as all highly liquid short-term securities with original maturities of three months or less.

Trade Accounts Receivable:

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. CONSOL Energy reserves for specific accounts receivable when it is probable that all or a part of an outstanding balance will not be collected, such as customer bankruptcies. CONSOL Energy regularly reviews collectibility and establishes or

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adjusts the allowance as necessary using the specific identification method. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Reserves for uncollectible amounts were not material in the periods presented.

Inventories:

Inventories are stated at the lower of cost or market. The cost of coal inventories is determined by the first-in, first-out (FIFO) method. Coal inventory costs include labor, supplies, equipment costs, operating overhead and other related costs. The cost of merchandise for resale is determined by the last-in, first-out (LIFO) method and includes industrial maintenance, repair and operating supplies for sale to third parties.

The cost of supplies inventory is determined by the average cost method and includes operating and maintenance supplies to be used in our mining operations.

Property, Plant and Equipment:

Property, plant and equipment is carried at cost. Expenditures which extend the useful lives of existing plant and equipment are capitalized. Interest costs applicable to major asset additions are capitalized during the construction period. Costs of additional mine facilities required to maintain production after a mine reaches the production stage, generally referred to as receding face costs, are expensed as incurred; however, the costs of additional airshafts and new portals are capitalized. Planned major maintenance costs which do not extend the useful lives of existing plant and equipment is expensed as incurred.

Coal exploration costs are expensed as incurred. Coal exploration costs include those incurred to ascertain existence, location, extent or quality of ore or minerals before beginning the development stage of the mine.

Costs of developing new underground mines and certain underground expansion projects are capitalized. Underground development costs, which are costs incurred to make the mineral physically accessible, include costs to prepare property for shafts, driving main entries for ventilation, haulage, personnel, construction of airshafts, roof protection and other facilities. Costs of developing the first pit within a permitted area of a surface mine are capitalized. A surface mine is defined as the permitted mining area which includes various adjacent pits that share common infrastructure, processing equipment and a common ore body. Surface mine development costs include construction costs for entry roads, drilling, blasting and removal of overburden in developing the first cut for mountain stripping or box cuts for surface stripping. Stripping costs incurred during the production phase of a mine are expensed as incurred.

Advance mining royalties are advance payments made to lessors under terms of mineral lease agreements that are recoupable against future production using the units-of-production method. Depletion of leased coal interests is computed using the units-of-production method over proven and probable coal reserves. Advance mining royalties and leased coal interests are evaluated periodically for impairment issues or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

When properties are retired or otherwise disposed, the related cost and accumulated depreciation are removed from the respective accounts and any profit or loss on disposition is recognized in other income.

Gas well activity is accounted for under the successful efforts method of accounting. Costs of property acquisitions, successful exploratory wells, development wells and related support equipment and facilities are capitalized. Costs of unsuccessful exploratory wells are expensed when such wells are determined to be

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non-productive, or if the determination cannot be made after finding sufficient quantities of reserves to continue evaluating the viability of the project. The costs of producing properties and mineral interests are amortized using the ratio of current production to the estimated aggregate proved gas reserves. Wells and related equipment and intangible drilling costs are amortized on a units-of-production method using the ratio of current production to the estimated aggregate proved developed gas reserves. Units-of-production amortization rates are revised whenever there is an indication of the need for revision, but at least once a year; those revisions are accounted for prospectively as changes in accounting estimates.

Depreciation of plant and equipment is calculated on the straight-line method over their estimated useful lives or lease terms generally as follows:

	Years
Building and improvements	10 to 45
Machinery and equipment	3 to 25
Leasehold improvements	Life of Lease

Coal reserves are amortized using the units-of-production method over all estimated proven and probable reserve tons assigned to the mine. Proven and probable coal reserves exclude non-recoverable coal reserves and anticipated processing losses. Rates are updated when revisions to coal reserve estimates are made. Coal reserve estimates are reviewed when events and circumstances indicate a reserve change is needed, or at a minimum once a year. Amortization of coal interests begins when the coal reserve is produced. At an underground mine, a ton is considered produced once it reaches the surface area of the mine. Any material income effect from changes in estimates is disclosed in the period the change occurs.

Airshafts and capitalized mine development associated with a coal reserve are amortized on a units-of-production basis as the coal is produced so that each ton of coal is assigned a portion of the unamortized costs. We employ this method to match costs with the related revenues realized in a particular period. Rates are updated when revisions to coal reserve estimates are made. Coal reserve estimates are reviewed when information becomes available that indicates a reserve change is needed, or at a minimum once a year. Any material income effect from changes in estimates is disclosed in the period the change occurs. Amortization of development cost begins when the development phase is complete and the production phase begins. At an underground mine, the end of the development phase and the beginning of the production phase takes place when construction of the mine for economic extraction is substantially complete. Coal extracted during the development phase is incidental to the mine s production capacity and is not considered to shift the mine into the production phase.

Costs for purchased and internally developed software are expensed until it has been determined that the software will result in probable future economic benefits and management has committed to funding the project. Thereafter, all direct costs of materials and services incurred in developing or obtaining software, including certain payroll and benefit costs of employees associated with the project, are capitalized and amortized using the straight-line method over the estimated useful life which does not exceed 7 years.

Impairment of Long-lived Assets:

Impairment of long-lived assets is recorded when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets carrying value. The carrying value of the assets is then reduced to their estimated fair value which is usually measured based on an estimate of future discounted cash flows. Impairment of equity investments is recorded when indicators of impairment are

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present and the estimated fair value of the investment is less than the assets carrying value. There were no impairment losses during the periods presented in the Consolidated Financial Statements.

Income Taxes:

The asset and liability method is used to account for income taxes. Under this approach, deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been recognized in CONSOL Energy s financial statements or tax returns. The provision for income taxes represents income taxes paid or payable for the current year and the change in deferred taxes, excluding the effects of acquisitions during the year. Deferred taxes result from differences between the financial and tax bases of CONSOL Energy s assets and liabilities and are adjusted for changes in tax rates and tax laws when changes are enacted. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a deferred tax benefit will not be realized.

CONSOL Energy adopted the provisions of FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes, on January 1, 2007. CONSOL Energy evaluates all tax positions taken on the state and federal tax filings to determine if the position is more likely than not to be sustained upon examination. For positions that meet the more likely than not to be sustained criteria, an evaluation to determine the largest amount of benefit, determined on a cumulative probability basis that is more likely than not to be realized upon ultimate settlement, is determined. A previously recognized tax position is derecognized when it is subsequently determined that a tax position no longer meets the more likely than not threshold to be sustained. The evaluation of the sustainability of a tax position and the probable amount that is more likely that not is based on judgment, historical experience and on various other assumptions that we believe are reasonable under the circumstances. The results of these estimates, that are not readily apparent from other sources, form the basis for recognizing a FIN 48 liability. Actual results could differ from those estimates upon subsequent resolution of identified matters.

Postretirement Benefits Other Than Pensions:

Postretirement benefits other than pensions, except for those established pursuant to the Coal Industry Retiree Health Benefit Act of 1992 (the Health Benefit Act), are accounted for in accordance with Statement of Financial Accounting Standards (SFAS) No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions, and SFAS No. 112, Employers Accounting for Postemployment Benefits as amended by SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Post Retirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132 (R), which requires employers to accrue the cost of such retirement benefits for the employees active service periods. Such liabilities are determined on an actuarial basis and CONSOL Energy is primarily self-insured for these benefits. Postretirement benefit obligations established by the Health Benefit Act are treated as a multi-employer plan which requires expense to be recorded for the associated obligations as payments are made. This treatment is in accordance with Emerging Issues Task Force (EITF) No. 92-13, Accounting for Estimated Payments in Connection with the Coal Industry Retiree Health Benefit Act of 1992.

Pneumoconiosis Benefits and Workers Compensation:

CONSOL Energy is required by federal and state statutes to provide benefits to certain current and former totally disabled employees or their dependents for awards related to coal workers pneumoconiosis. CONSOL Energy is also required by various state statutes to provide workers compensation benefits for employees who sustain employment related physical injuries or some types of occupational disease. Workers compensation

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benefits include compensation for their disability, medical costs, and on some occasions, the cost of rehabilitation. CONSOL Energy is primarily self-insured for these benefits. Provisions for estimated benefits are determined on an actuarial basis.

Mine Closing, Reclamation and Gas Well Closing Costs:

CONSOL Energy accrues for mine closing costs, perpetual care costs and dismantling and removing costs of gas related facilities using the accounting treatment prescribed by Statement of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations (SFAS No. 143). This statement requires the fair value of an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The present value of the estimated asset retirement costs is capitalized as part of the carrying amount of the long-lived asset. Depreciation of the capitalized asset retirement cost is generally determined on a units-of-production basis. Accretion of the asset retirement obligation is recognized over time and generally will escalate over the life of the producing asset, typically as production declines. Asset retirement obligations primarily relate to the closure of mines and gas wells, and the reclamation of land upon exhaustion of coal and gas reserves.

Accrued mine closing costs, perpetual care costs, reclamation and costs of dismantling and removing gas related facilities are regularly reviewed by management and are revised for changes in future estimated costs and regulatory requirements.

Deferred Revenue:

Deferred revenues represent funding received upon the negotiation of long-term contracts. The deferred revenues will be recognized as sales revenues in future periods by amortization on a rate per ton shipped over the life of the respective contract. The rates are revised whenever there is an indication of significant changes, but at least once a year. The revisions are accounted for prospectively as changes in accounting estimates.

Retirement Plans:

CONSOL Energy has non-contributory defined benefit retirement plans covering substantially all employees not covered by multi-employer retirement plans. Effective January 1, 2006, employees hired between August 1, 2004 and December 31, 2005 that were not previously eligible to participate in the plans began accruing service. Also, as of January 1, 2006, an amendment was made to the salaried pension plan related to lump sum distributions. As of this date, lump sum benefits have been frozen and prospectively the lump sum option has been eliminated. CONSOL Energy s policy is to annually fund the defined benefit pension plans at or above the minimum required by law.

Effective January 1, 2007, employees hired by CNX Gas, an 81.7% owned subsidiary, will not be eligible to participate in CNX Gas non-contributory defined benefit retirement plan. In lieu of participation in the non-contributory defined benefit plan, these employees began receiving an additional 3% company contribution into their defined contribution plan. CNX Gas employees who were hired prior to December 31, 2005, or who were employees of CONSOL Energy prior to this date, were given a one time opportunity to elect to remain in the defined benefit plan or opt to freeze their service accruals and participate in the additional 3% company contribution into their defined contribution plan. All employees hired on or after January 1, 2006, but on or before December 31, 2006, had their current non-contributory defined benefit frozen and began receiving the additional 3% company contribution into their defined contribution plan effective January 1, 2007. CNX Gas intends to freeze all defined benefit accruals as of December 31, 2016 for CNX Gas employees that elected to remain in the defined benefit plan.

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Revenue Recognition:

Revenues are recognized when title passes to the customers. For domestic coal sales, this generally occurs when coal is loaded at mine or offsite storage locations. For export coal sales, this generally occurs when coal is loaded onto marine vessels at terminal locations. For gas sales, this occurs at the contractual point of delivery. For industrial supplies and equipment sales, this generally occurs when the products are delivered. For terminal, river and dock, land, research and development, and coal waste disposal services, revenue is recognized generally as the service is provided to the customer.

CNX Gas has an operational gas-balancing agreement with Columbia interstate pipeline. The imbalance agreement is managed internally using the sales method of accounting. The sales method recognizes revenue when the gas is taken and paid for by the purchaser.

CNX Gas sells gas to accommodate the delivery points of its customers. In general this gas is purchased at market price and re-sold on the same day at market price less a small transaction fee. Matching buy/sell gas transactions settled in cash which do not meet the requirements for netting under EITF No. 04-13, Accounting for Purchases and Sales of Inventory with the Same Counter-party, are recorded in both revenues and costs of revenues as separate sales and purchase transactions. CNX Gas also provides gathering services to third parties by way of buy/sell transactions. These revenues and expenses are recorded gross and recognized immediately in earnings.

CONSOL Energy also has royalty interests which is the portion of the mineral interest retained by the lessor. This interest entitles the royalty interest owner to a fractional amount of the production from the property, in kind or in value, less the applicable severance taxes.

Freight Revenue and Expenses:

Shipping and handling costs invoiced to coal customers and paid to third-party carriers are recorded as Freight Revenue and Freight Expense, respectively.

Royalty Recognition:

Royalty expenses for coal rights are included in Cost of Goods Sold and Other Operating Charges when the related revenue for the coal sale is recognized. Royalty expenses for gas rights are included in Gas Royalty Interest Costs when the related revenue for the gas sale is recognized.

These royalty expenses are paid in cash in accordance with the terms of each agreement. Revenues for coal and gas sold related to production under royalty contracts, versus owned by CONSOL Energy, are recorded gross. The recognized revenues for these transactions are not net of related royalty fees.

Contingencies:

CONSOL Energy or our subsidiaries from time to time are 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. Liabilities are recorded when it is probable that obligations have been incurred and the amounts can be reasonably estimated. Estimates are developed through consultation with legal counsel involved in the defense and are based upon an analysis of potential results, assuming a combination of litigation and settlement strategies. Environmental liabilities are not discounted or reduced by possible recoveries from third parties. Legal fees associated with defending these various lawsuits and claims are expensed when incurred.

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Treasury Stock:

On December 21, 2005, CONSOL Energy s Board of Directors announced a share repurchase program of up to $300,000 of the company s common stock during a 24-month period beginning January 1, 2006 and ending December 31, 2007. Shares of common stock repurchased by us are recorded at cost as treasury stock and result in a reduction of stockholders equity in our Consolidated Balance Sheets. From time to time, treasury shares may be reissued as part of our stock-based compensation programs. When shares are reissued, we use the weighted average cost method for determining cost. The difference between the cost of the shares and the issuance price is added to or deducted from Capital in Excess of Par Value.

For the years ended December 31, 2007 and 2006, we had cash expenditures under our repurchase program of $80,157 and $116,450, respectively, funded primarily by cash generated from operations. The total common shares repurchased for the years ended December 31, 2007 and 2006, were 2,087,800 and 3,514,800 at an average cost of $38.14 and $33.11 per share, respectively.

Stock-Based Compensation:

Effective January 1, 2006, CONSOL Energy adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123(R), Share-Based Payment (SFAS 123R), using the modified prospective transition method and therefore has not restated results for prior periods. Under this transition method, stock-based compensation expense for the year ended December 31, 2007 and 2006 includes compensation expense for all stock-based compensation awards granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, Accounting for Stock-Based Compensation (SFAS 123). Stock-based compensation expense for all stock-based compensation awards granted after January 1, 2006 is based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R. CONSOL Energy recognizes these compensation costs on a straight-line basis over the requisite service period of the award, which is generally the option vesting term. Prior to the adoption of SFAS 123R, CONSOL Energy recognized stock-based compensation expense in accordance with Accounting Principles Board Opinion No. 25. Accounting for Stock Issued to Employees, (APB 25). In March 2005, the Securities and Exchange Commission (the SEC) issued Staff Accounting Bulletin No. 107 (SAB 107) regarding the SEC s interpretation of SFAS 123R and the valuation of share-based payments for public companies. CONSOL Energy has applied the provisions of SAB 107 in its adoption of SFAS 123R. See Note 19 to the Audited Consolidated Financial Statements for a further discussion on stock-based compensation.

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Earnings per Share:

Basic earnings per share are computed by dividing net earnings by the weighted average shares outstanding during the reporting period. Dilutive earnings per share are computed similar to basic earnings per share except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of stock options, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options were exercised and that the proceeds from such exercises were used to acquire shares of common stock at the average market price during the reporting period. Upon the adoption of SFAS 123R, CONSOL Energy included the impact of the proforma deferred tax assets in determining potential windfalls and shortfalls for purposes of calculating assumed proceeds under the treasury stock method. Options to purchase 133,343 shares, 714,453 shares and 6,486 shares of common stock were outstanding at December 31, 2007, 2006 and 2005, respectively, but were not included in the computation of dilutive earnings per share because the options exercise prices were greater than the average market price of the common shares and, therefore, the effect would be anti-dilutive.

	For the Years Ended December 31,		
	2007	**2006**	**2005**
Net income	$ 267,782	$ 408,882	$ 580,861
Average shares of common stock outstanding:			
Basic	182,050,627	183,354,732	183,489,908
Effect of stock-based compensation awards	2,099,124	2,283,374	2,045,072
Dilutive	184,149,751	185,638,106	185,534,980
Earnings per share:			
Basic	$ 1.47	$ 2.23	$ 3.17
Dilutive	$ 1.45	$ 2.20	$ 3.13

Accounting for Derivative Instruments:

CONSOL Energy accounts for derivative instruments in accordance with Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, (SFAS No. 133) and its corresponding amendments under SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities an amendment of FASB Statement No. 133 (SFAS No. 133). SFAS No. 133 requires CONSOL Energy to measure every derivative instrument (including certain derivative instruments embedded in other contracts) at fair value and record them in the balance sheet as either an asset or liability. Changes in fair value of derivatives are recorded currently in earnings unless special hedge accounting criteria are met. For derivatives designated as cash flow hedges, the effective portions of changes in fair value of the derivative are reported in other comprehensive income. The ineffective portions of hedges are recognized in earnings in the current period.

CONSOL Energy formally assesses both at inception of the hedge and on an ongoing basis, whether each derivative is highly effective in offsetting changes in fair values or cash flows of the hedged item. If it is determined that a derivative is not highly effective as a hedge or if a derivative ceases to be a highly effective hedge, CONSOL Energy will discontinue hedge accounting prospectively.

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Recent Accounting Pronouncements:

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 141(R), Business Combinations (SFAS 141R), and Statement of Financial Accounting Standards No. 160, Accounting and Reporting of Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB No. 51 (SFAS 160). SFAS 141R and SFAS 160 will significantly change the accounting for and reporting of business combination transactions and noncontrolling (minority) interests in consolidated financial statements. SFAS 141R retains the fundamental requirements in Statement 141 Business Combinations while providing additional definitions, such as the definition of the acquirer in a purchase and improvements in the application of how the acquisition method is applied. SFAS 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests, and classified as a component of equity. These Statements become simultaneously effective January 1, 2009. Early adoption is not permitted. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

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 SFAS 115 (SFAS 159). This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of FASB Statement No. 157, Fair Value Measurements. We do not expect this guidance to have a significant impact on CONSOL Energy; however management is currently assessing the impact of adopting SFAS 159.

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. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, however earlier application is permitted provided the reporting entity has not yet issued financial statements for that fiscal year. The FASB deferred the effective date of SFAS 157 for one year for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. We do not expect this guidance to have a significant impact on CONSOL Energy; however management is currently assessing the impact of adopting SFAS 157.

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. SFAS 158 was issued to address concerns that prior standards on employers accounting for defined benefit postretirement plans failed to communicate the funded status of those plans in a complete and understandable way and to require an employer to recognize completely in earnings or other comprehensive income the financial impact of certain events affecting the plan s funded status when those events occurred. This Statement was effective for financial statements issued for fiscal years ending after December 15, 2006. Additionally, SFAS 158

requires an employer

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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 for 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.

Reclassifications:

Certain amounts in prior periods have been reclassified to conform with the report classifications of the year ended December 31, 2007 with no effect on previously reported net income or stockholders equity.

Note 2 Acquisitions and Dispositions:

In December 2007, CONSOL Energy, through a subsidiary, completed a sale/lease-back of 35 river barges. Cash proceeds from the sale were $16,895, with our basis in the equipment being $16,951. Accordingly, a loss of $56 was recorded on the transaction. The lease has been accounted for as an operating lease. The lease term is fourteen years.

In October 2007, CONSOL Energy, through a subsidiary, acquired 100% of the outstanding shares in an oil and gas company for a cash payment of $12,385 which was principally allocated to property, plant and equipment. The acquired company is in the business of owning, operating and producing oil and gas wells and related pipelines. The acquired assets consisted of gas wells, equipment and connecting pipelines utilized in well operations. The acquisition was accounted for under the guidance of Statement of Financial Accounting Standards No. 141 (SFAS 141), Business Combinations .

On July 31, 2007, CONSOL Energy acquired 100% of the voting interest of AMVEST Corporation and certain subsidiaries and affiliates (AMVEST) for a cash payment, net of cash acquired, of $296,724 in a transaction accounted for under SFAS 141. The coal reserves acquired consist of approximately 160 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 Statements 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. 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	21,343
Other Receivables	5,149
Inventories	18,459
Prepaid Expenses	937
Total Current Assets	52,916
Property, Plant and Equipment:	480,147
Other Assets:	
Other	310
Total Other Assets	310
Total Assets	$ 533,373
Liabilities	
Current Liabilities:	
Accounts Payable	$ 12,595
Accrued Income Taxes	43,060
Other Accrued Liabilities	22,841
Total Current Liabilities	78,496
Deferred Credits and Other Liabilities:	
Deferred Income Taxes	120,442
Postretirement Benefits Other Than Pensions	2,130
Pneumoconiosis Benefits	8,055
Mine Closing	9,345
Workers Compensation	1,744
Reclamation	3,911
Other	5,485
Total Deferred Credits and Other Liabilities	151,112
Total Liabilities	229,608
Net Assets Acquired	$ 303,765

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The unaudited pro forma results, assuming the acquisition had occurred at the beginning of each period present below are estimated to be:

	For the Year Ended December 31,	
	2007	**2006**
Revenue	$ 3,902,186	$ 3,982,175
Earnings Before Taxes	$ 444,409	$ 583,102
Net Income	$ 279,074	$ 432,188
Basic Earnings Per Share	$ 1.53	$ 2.36
Dilutive Earnings Per Share	$ 1.52	$ 2.33

The pro forma results are not necessarily indicative of what actually would have occurred if the acquisition 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 Statements of Cash Flows. 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 $8,481 and is included in inventory on the Consolidated Balance Sheets. The pro forma results for this acquisition are not significant to CONSOL Energy s financial results.

During the year ended December 31, 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, Exchanges of Non-Monetary Assets, 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 $1,650 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

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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.

On June 21, 2005, the Board of Directors of CONSOL Energy authorized the incorporation of CNX Gas Corporation (CNX Gas). On June 30, 2005 CNX Gas was incorporated and issued 100 shares of its $0.01 par value common stock to Consolidation Coal Company, a wholly-owned subsidiary of CONSOL Energy. CNX Gas was incorporated to conduct CONSOL Energy s gas exploration and production activities. In August 2005, CONSOL Energy contributed or leased substantially all of the assets of its gas business, including all of CONSOL Energy s rights to coalbed methane associated with 4.5 billion tons of coal reserves owned or controlled by CONSOL Energy as well as all of CONSOL Energy s rights to conventional gas. In exchange for CONSOL Energy s contribution of assets, CONSOL Energy received approximately 122.9 million shares of CNX Gas common stock. CNX Gas entered into various agreements with CONSOL Energy that define various operating and service relationships between the two companies. In August 2005, CNX Gas entered into an agreement to sell approximately 24.3 million shares in a private transaction and granted a 30-day option to purchase an additional 3.6 million shares. In August 2005, CNX Gas closed on the sale of all 27.9 million shares. The shares were sold to qualified institutional, foreign and accredited investors in a private transaction exempt from registration under Rule 144A, Regulation S and Regulation D. In August 2005, a Registration Statement on Form S-1 was filed with the SEC with respect to those shares. The registration statement was declared effective on January 18, 2006. The proceeds (approximately $420,167 including proceeds from the sale of the additional 3.6 million shares) were used to pay a special dividend to CONSOL Energy. The gain recognized on this transaction was $327,326.

In June 2005, CONSOL Energy completed a sale/lease-back transaction for its headquarters building and certain surrounding land located in Upper Saint Clair, Pennsylvania. Cash proceeds from the sale were $14,000 and resulted in a pretax gain of $8,304, which has been deferred and will be recognized over the initial lease term of 13 years. The lease agreement includes an option to extend the lease term for two five-year periods. The lease will be accounted for as an operating lease. Annual rental payments are $1,176 and are payable in equal quarterly installments

of $294. The agreement provides for a possible Consumer Price Index adjustment to the annual rental payments at the beginning of the fourth lease year and every four years thereafter.

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In March 2005, CONSOL Energy through its subsidiary, CONSOL of West Virginia, LLC, acquired a 49% interest in Southern West Virginia Energy, LLC for a cash payment of $6,200. In addition, CONSOL Energy agreed to assume the perpetual care liability after certain bond release work is completed by Southern West Virginia Energy, LLC. The discounted liability assumed by CONSOL Energy was estimated to be $10,579. Southern West Virginia Energy, LLC through its subsidiary mines low sulfur bituminous coal. The acquisition was accounted for under the equity method of accounting through August 2005. As of September 1, 2005, after all agreements were substantially completed, the acquisition has been fully consolidated in accordance with Financial Accounting Standards Board Interpretation No. 46, Consolidation of Variable Interest Entities.

Note 3 Transactions with Related Parties:

In 2005, CONSOL Energy sold coal to a joint venture, in which CONSOL Energy held a 49% ownership interest, at a price reflecting the market value of the coal. Such Related Party sales were as follows:

	For the Years Ended December 31,		
	2007	**2006**	**2005**
Coal sales	$	$	$ 4,749
Freight			468
Total Sales and Freight Revenue Related Party	$	$	$ 5,217

Note 4 Other Income:

	For the Years Ended December 31,		
	2007	**2006**	**2005**
Gain on disposition of assets	$ 112,389	$ 10,417	$ 15,095
Royalty income	14,205	27,915	25,696
Interest income	12,792	15,369	8,066
Service income	12,623	13,345	11,660
Buchanan roof collapse business interruption insurance proceeds	10,000		
Equity in earnings (loss) of affiliates	6,551	1,201	2,850
Buchanan skip hoist damage and business interruption insurance proceeds		40,792	
Buchanan fire business interruption insurance proceeds		38,415	17,825
Harmar trust settlement			6,483
Other	28,168	23,407	19,456
Total Other Income	$ 196,728	$ 170,861	$ 107,131

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Note 5 Interest Expense:

	For the Years Ended December 31,		
	2007	2006	2005
Interest on debt	$ 40,766	$ 33,605	$ 31,266
Interest on other payables	4,648	2,213	637
Interest capitalized	(14,563)	(10,752)	(4,586)
Total Interest Expense	$ 30,851	$ 25,066	$ 27,317

Note 6 Taxes Other Than Income:

	For the Years Ended December 31,		
	2007	2006	2005
Production taxes	$ 187,931	$ 169,163	$ 154,538
Payroll taxes	43,828	42,035	43,078
Property taxes	41,586	34,991	25,653
Capital Stock & Franchise Tax	7,475	7,293	6,956
VA Employment Enhancement Tax Credit	(3,159)	(5,003)	(4,072)
Other	5,850	4,060	2,453
Total Taxes Other Than Income	$ 283,511	$ 252,539	$ 228,606

Note 7 Income Taxes:

Income taxes (benefits) provided on earnings consisted of:

	For the Years Ended December 31,		
	2007	2006	2005
Current:			
U.S. Federal	$ 62,704	$ 72,839	$ 43,936
U.S. State	11,284	12,247	22,916
Non-U.S.	2,594	770	2,131

	76,582	85,856	68,983
Deferred:			
U.S. Federal	40,278	46,332	(2,354)
U.S. State	19,277	(19,758)	(2,290)
	59,555	26,574	(4,644)
Total Income Taxes	$ 136,137	$ 112,430	$ 64,339

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The components of the net deferred tax assets are as follows:

	December 31, 2007	December 31, 2006
Deferred Tax Assets:		
Postretirement benefits other than pensions	$ 997,930	$ 923,419
Alternative minimum tax	197,009	180,061
Mine closing	139,742	134,924
Net operating loss	63,866	66,424
Pneumoconiosis benefits	59,506	75,714
Workers compensation	57,055	63,148
Capital lease	41,415	44,878
Salary retirement	38,839	46,932
Reclamation	13,277	12,852
Gas hedge		2,589
Other	81,702	77,858
Deferred Tax Assets	1,690,341	1,628,799
Valuation Allowance	(59,908)*	(66,084)**
Total Deferred Tax Assets	1,630,433	1,562,715
Deferred Tax Liabilities:		
Property, plant and equipment	(1,058,596)	(874,989)
Advance mining royalties	(23,493)	(22,913)
Gas hedge	(3,738)	
Other	(38,975)	(39,586)
Total Deferred Tax Liabilities	(1,124,802)	(937,488)
Net Deferred Tax Assets	$ 505,631	$ 625,227

* Valuation allowance of ($2,476) and ($57,432) allocated between current and noncurrent deferred tax assets respectively.

** Valuation allowance of ($2,571) and ($63,513) allocated between current and noncurrent deferred tax assets respectively.

According to Statement of Financial Accounting Standards Board Statement 109, Accounting for Income Taxes, a deferred tax asset should be reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax asset will not be realized. All available evidence, both positive and negative, must be considered in determining the need for a valuation allowance. For the year ended December 31, 2007, positive evidence considered included future income projections based on existing fixed price contracts and forecasted expenses, reversals of book to tax temporary differences, and the implementation of and/or ability to employ various tax planning strategies. Negative evidence included book and tax losses generated in prior periods, and the inability to achieve forecasted results for those periods.

During 2006, CONSOL Energy concluded that a valuation allowance was no longer warranted against a portion of its state net operating loss carry forwards in certain tax jurisdictions. In 2007, CONSOL Energy implemented a prudent and feasible tax strategy that insured the realization of Pennsylvania loss carry forward tax benefits. The value of CONSOL Energy s net operating loss carry forwards increased significantly in 2006 as a result of a change in the Pennsylvania Statute which increased the annual limitation on the deduction for net

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operating losses to be applied against future taxable income from $2,000 to the greater of $3,000 or 12.5% of taxable income for tax years beginning after 2006. CONSOL Energy s valuation allowance attributable to its operating loss carry forwards in West Virginia was also released during 2006. CONSOL Energy reported a cumulative tax loss for West Virginia tax purposes for the three-year period that includes December 31, 2004 through December 31, 2006 due to non-recurring tax return adjustments in 2004 and 2005 relating to adoption of SFAS No. 143, Accounting for Asset Retirement Obligations, non-taxable OPEB subsidy accruals, and the refund of reclamation proceeds. Absent the non-recurring tax adjustments, CONSOL Energy would have reported cumulative taxable income on its West Virginia tax returns for the three-year period. CONSOL utilized $38,700 of its West Virginia operating loss carry forwards in 2006, and will report an additional net operating loss to the state for 2007 of $13,900. Based on the analysis of prior years tax filings and projections of West Virginia taxable income for 2008 and future years, management believes that the benefits of the state operating loss carry forwards will be realized. As a result of the reduction of the valuation allowance relating to Pennsylvania and West Virginia operating loss carry forwards, CONSOL Energy reported a state income tax benefit in 2006 of $28,747 on an after Federal tax adjusted basis.

For 2007, CONSOL Energy continues to report a deferred tax asset of $27,881 on an after Federal tax adjusted basis relating to the remainder of CONSOL Energy s state operating loss carry forwards after valuation allowance. A review of the positive and negative evidence regarding these tax benefits, primarily the history of book and tax losses on a separate company basis, concluded that a valuation allowance was warranted. A valuation allowance of $23,123 on an after Federal tax adjusted basis has also been recorded against the deferred state tax asset attributable to future deductible temporary differences for certain CONSOL Energy subsidiaries with histories of book and tax losses. The net operating losses expire at various times between 2008 and 2027. Management will continue to assess the realization of deferred tax assets based upon updated income forecast data and the feasibility of future tax planning strategies, and may record adjustments to valuation allowances against deferred tax assets in future periods as appropriate that could materially impact net income. Included in the valuation allowance against the deferred state tax asset attributable to future deductible temporary differences is a $7,687 valuation allowance for deferred tax assets related to Statement of Financial Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Other Post retirement Plans in state jurisdictions which are subject to a full valuation allowance.

In August 2005, CNX Gas Corporation, a subsidiary of CONSOL Energy, sold 27.9 million shares in a private transaction. The shares were sold to qualified institutional, foreign, and accredited investors in a private transaction exempt from registration under Rule 144A, Regulation S and Regulation D. CNX Gas received proceeds of $420,167, which it used to pay a special dividend to CONSOL Energy. The financial statement gain reported on this transaction was $327,326. In accordance with SFAS 109, no Federal deferred tax has been provided on this sale as current tax law provides a means by which the excess of the reported amount of this investment over its tax basis can be recovered tax-free provided that CNX Gas remains a member of the CONSOL Energy consolidated group.

We estimate that CONSOL Energy will pay Federal alternative minimum tax of $14,800 for the year ended December 31, 2007, thereby creating additional deferred tax asset associated with the prior years minimum tax credits.

For the year ended December 31, 2006, CONSOL Energy reported taxable income of $264,554 and utilized $18,818 of alternative minimum tax credits carried forward from prior years.

For the year ended December 31, 2005, CONSOL Energy reported taxable income, as amended and before utilization of prior years net operating loss carry forwards, of $78,482. The remaining Federal operating loss carry forwards of $64,151 were utilized in 2005.

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The following is a reconciliation stated as a percentage of pretax income, of the United States statutory federal income tax rate to CONSOL Energy s effective tax rate:

	For the Years Ended December 31,					
	2007		2006		2005	
	Amount	Percent	Amount	Percent	Amount	Percent
Statutory U.S. federal income tax rate	$ 150,135	35.0%	$ 192,822	35.0 %	$ 229,139	35.0 %
Effect of gain on sale of 18.5% Interest in CNX Gas					(114,564)	(17.5)
Excess tax depletion	(43,502)	(10.1)	(55,229)	(10.0)	(53,069)	(8.1)
Effect of medicare prescription drug, improvement and modernization act of 2003	1,796	0.4	1,796	0.3	(9,621)	(1.5)
Effect of domestic production activities	(915)	(0.2)	(2,538)	(0.4)	(1,006)	(0.2)
Release of valuation allowances net of federal tax	(6,176)	(1.4)	(28,747)	(5.2)		
Net effect of state tax	26,262	6.1	13,198	2.4	13,567	2.1
Net effect of foreign tax	787	0.2	770	0.1	2,130	0.3
Other	7,750	1.7	(9,642)	(1.8)	(2,237)	(0.3)
Income Tax Expense (Benefit)/Effective Rate	$ 136,137	31.7%	$ 112,430	20.4%	$ 64,339	9.8%

CONSOL Energy adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes an interpretation of FASB No. 109 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. Also, uncertain tax positions relating to taxable temporary differences were identified, and federal and state income tax liabilities were recorded. A corresponding deferred tax asset of $54,021 has been recorded representing the future tax benefit of the deductible temporary differences resulting from the adoption of the FIN 48 liabilities. During the year ending December 31, 2007 the Company recognized an increase of $13,317 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. Of the total increase in the liability for unrecognized tax benefits, $10,497 was accounted for as a reclassification from deferred federal and state income taxes and $2,520 is attributable to uncertain tax positions recognized as a result of the acquisition of AMVEST Corporation. The increase in unrecognized tax benefits during 2007 resulted in a reduction in net income of $300.

The total amount of unrecognized tax benefits as of January 1, 2007 and December 31, 2007 were $50,100 and $63,417 respectively. If these unrecognized tax benefits were recognized, $10,051 and $12,871 would impact CONSOL Energy s effective income tax rate at January 1, 2007 and for the year ended December 31, 2007, respectively.

CONSOL Energy Inc. and its subsidiaries file income tax returns in the U. S. federal, various states and Canadian jurisdictions. With few exceptions, we are 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 its examination of CONSOL Energy s U.S. 2004 and 2005 income tax returns in 2006. As

of December 31, 2007, the IRS has not proposed any significant adjustments relating to CONSOL Energy s tax

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positions. The IRS is expected to issue its examination report in the second quarter of 2008. Depending upon whether or not CONSOL Energy agrees to the IRS findings, the examination may not be finalized until 2009.

The IRS examination of the CONSOL Energy 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 material change to its financial statements. However, we anticipate that it is reasonably possible that an additional payment of approximately $1,536 of interest related to the issue (on the total deficiency proposed for the two-year period) will be made in the second quarter of 2008.

CONSOL Energy recognizes interest accrued related to unrecognized tax benefits in its interest expense. As of January 1, 2007 and December 31, 2007, we had an accrued liability of $5,077 and $8,503 respectively for interest related to uncertain tax positions. The accrued interest liability includes $3,426 that was recorded in the statement of income for 2007.

CONSOL Energy recognizes penalties accrued related to unrecognized tax benefits in its income tax expense. As of the date of adoption of FIN 48 and December 31, 2007, CONSOL had an accrued liability of approximately $1,200 for tax penalties.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Balance of unrecognized tax benefits at January 1, 2007	$ 50,100
Increase/(decrease) in unrecognized tax benefits resulting from tax positions taken during current period	13,317
Increase/(decrease) in unrecognized tax benefits resulting from tax positions taken during prior period	
Reduction to unrecognized tax benefits as a result of the lapse of the applicable statute of limitations	
Reduction to unrecognized tax benefits as a result of a settlement with taxing authorities	
Balance of unrecognized tax benefits at December 31, 2007	$ 63,417

Note 8 Mine Closing, Reclamation & Gas Well Closing Costs:

CONSOL Energy accrues for mine closing, perpetual water care costs, dismantling and removing costs for gas related facilities using the accounting treatment prescribed by Statement of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations (SFAS No. 143). CONSOL Energy recognizes capitalized asset retirement costs by increasing the carrying amount of related long-lived assets, net of

the associated accumulated depreciation. The obligation for asset retirements is included in Mine Closing, Reclamation, Other Accrued Liabilities and Other Liabilities in the Consolidated Balance Sheet.

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The reconciliation of changes in the asset retirement obligations at December 31, 2007 and 2006 is as follows:

	As of December 31,	
	2007	2006
Balance at beginning of period	$ 492,308	$ 474,432
Accretion Expense	32,469	32,088
Payments	(28,427)	(33,709)
Revisions in Estimated Cash Flows	2,901	29,092
Other	31,646	(9,595)
Balance at end of period	$ 530,897	$ 492,308

For the year ended December 31, 2007, Other includes obligations for reclamation, mine closing, and perpetual care of $18,974 related to the acquisition of AMVEST in July 2007. In addition, $14,907 is included in Other for gas well closing obligations related to gas wells acquired with an acquisition of outstanding shares in an oil and gas company in October 2007. The remaining ($2,235) included in Other relates to various other insignificant items. For the year ended December 31, 2006, Other includes ($9,595) for asset dispositions and various other insignificant items.

Note 9 Inventories:

	December 31,	
	2007	2006
Coal	$ 45,614	$ 51,238
Merchandise for resale	25,418	18,298
Supplies	92,161	79,771
Total Inventories	$ 163,193	$ 149,307

Merchandise for resale is valued using the LIFO cost method. The excess of replacement cost of merchandise for resale inventories over carrying LIFO value was $14,389 and $13,025 at December 31, 2007 and 2006, respectively.

Note 10 Accounts Receivable Securitization:

In April and November 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 $165,000, a $40,000 increase over the December 31, 2006 facility. The amended facility also allows for the issuance of letters of credit against the $165,000 capacity. At December 31, 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. This retained interest,

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which is included in Accounts and Notes Receivable Trade in the consolidated balance sheets, is recorded at fair value. Due to a short average collection cycle for such receivables, our collection experience history and the composition of the designated pool of trade accounts receivable that are part of this program, the fair value of our retained interest approximates the total amount of the designated pool of accounts receivable reduced by the amount of accounts receivables sold to the third-party financial institutions under the program. 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 $3,440 and $376 for the year ended December 31, 2007 and 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 December 31, 2007 and 2006, eligible accounts receivable totaled approximately $115,500 and $120,500, respectively. There was no subordinated retained interest at December 31, 2007. The subordinated retained interest approximated $120,500 at December 31, 2006. Accounts receivables totaling $125,400 were removed from the Consolidated Balance Sheet at December 31, 2007. At December 31, 2006, no accounts receivable were removed from the Consolidated Balance Sheet because CNX Funding retained the total eligible accounts receivable. In accordance with the facility agreement, the company is able to receive proceeds based upon total eligible accounts receivable at the previous month-end. Proceeds at December 31, 2007, determined by eligible accounts receivable at November 30, 2007, exceeded the eligible accounts receivable at December 31, 2007. The $9,900 not supported by accounts receivable at December 31, 2007 is included in the $125,400 of accounts receivable, which was removed from the consolidated balance sheet at December 31, 2007. CONSOL Energy s $125,400 reduction in accounts receivable securitization program for the year ended December 31, 2007 is reflected in cash flows from operating activities in the Consolidated Statement of Cash Flows.

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(Dollars in thousands, except per share data)

Note 11 Property, Plant and Equipment

	December 31,	
	2007	**2006**
Plant and equipment	$ 5,183,750	$ 4,548,030
Coal properties and surface lands	1,518,221	1,118,083
Airshafts	928,423	885,103
Mine development	490,876	488,808
Leased coal lands	458,216	451,585
Advanced mining royalties	365,826	358,327
Total Property, Plant and Equipment	8,945,312	7,849,936
Less Accumulated depreciation, depletion and amortization	3,980,270	3,809,649
Net Property, Plant and Equipment	$ 4,965,042	$ 4,040,287

Coal reserves are controlled either through fee ownership or by lease. The duration of the leases vary greatly; however, the lease terms generally are extended automatically to the exhaustion of economically recoverable reserves, as long as active mining continues. Coal interests held by lease provide the same rights as fee ownership for mineral extraction, and are legally considered real property interests. We also make advance payments (advanced mining royalties) to lessors under certain lease agreements that are recoupable against future production, and we make payments that are generally based upon a specified rate per ton or a percentage of gross realization from the sale of the coal. We evaluate our properties periodically for impairment issues or whenever events or circumstances indicate that the carrying amount may not be recoverable.

Coal reserves are amortized using the units-of-production method over all estimated proven and probable reserve tons assigned to the mine. Rates are updated when revisions to coal reserve estimates are made. Coal reserve estimates are reviewed when events and circumstances indicate a reserve change is needed, or at a minimum once a year. Amortization of coal interests begins when the coal reserve is placed into production. At an underground mine, a ton is considered produced once it reaches the surface area of the mine. Any material income effect from changes in estimates is disclosed in the period the change occurs.

Amortization of capitalized mine development costs associated with a coal reserve is computed on a units-of-production basis as the coal is produced so that each ton of coal is assigned a portion of the unamortized costs. We employ this method to match costs with the related revenues realized in a particular period. Rates are updated when revisions to coal reserve estimates are made. Coal reserve estimates are reviewed when information becomes available that indicates a reserve change is needed, or at a minimum once a year. Any material income effect from changes in estimates is disclosed in the period the change occurs. Amortization of development costs begins when the development phase is complete and the production phase begins. At an underground mine, the end of the development phase and the beginning of the production phase takes place when construction of the mine for economic extraction is substantially complete. Coal extracted during the development phase is incidental to the mine s production capacity and is not considered to shift the mine into the production phase.

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The following assets are amortized using the units-of-production method. Amounts reflect properties where mining operations have not yet commenced and therefore are not yet being amortized for the years ended December 31, 2007 and 2006, respectively.

	December 31,	
	2007	2006
Coal properties and surface land	$ 468,699	$ 473,550
Airshafts	$ 75,337	$ 73,417
Mine development	$ 67,328	$ 113,084
Leased coal lands	$ 243,177	$ 244,484
Advance mining royalties	$ 40,750	$ 35,249

As of December 31, 2007 and 2006, plant and equipment includes gross assets under capital lease of $113,645 and $113,671, respectively. For the years ended December 31, 2007 and 2006, the Northern Appalachian coal segment maintains a $37,018 capital lease for longwall shields at Mine 84. In addition, for the years ended December 31, 2007 and 2006, the Gas segment maintains a capital lease for the Jewell Ridge Pipeline of $66,919 and All Other segment maintains a capital lease for the construction of a new corporate office building of $9,708 and $9,734, respectively. Accumulated amortization for capital leases was $18,533 and $6,333 at December 31, 2007 and 2006, respectively. See Note 15 Leases for additional capital lease details.

Note 12 Short-Term Notes Payable:

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 13.10 to 1.00 at December 31, 2007. The facility also includes a maximum leverage ratio of not more than 3.25 to 1.00, measured quarterly. The leverage ratio was 1.50 to 1.00 at December 31, 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 December 31, 2007, the $1,000,000 facility had $247,500 of borrowings outstanding at a weighted average interest rate of 5.90% and $258,729 of letters of credit outstanding, leaving $493,771 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 3.00 to

1.00, measured quarterly. The leverage ratio was 0.17 to 1.00 at December 31, 2007. The facility also includes a minimum interest coverage ratio of no less than 3.00 to 1.00, measured quarterly. This ratio was 51.19 to 1.00 at December 31, 2007. At December 31, 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.

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Note 13 Other Accrued Liabilities:

	December 31, 2007	December 31, 2006
Accrued payroll and benefits	$ 52,850	$ 47,552
Subsidence	46,590	38,998
Accrued other taxes	31,898	25,964
Short-term incentive compensation	23,309	17,837
Other	84,491	73,742
Current portion of long-term liabilities:		
Postretirement benefits other than pensions	148,020	134,601
Workers compensation	45,000	44,000
Mine closing	42,828	31,594
Pneumoconiosis benefits	10,976	11,185
Reclamation	5,545	6,566
Salary retirement	1,623	3,244
Other	19,172	20,263
Total Other Accrued Liabilities	$ 512,302	$ 455,546

Note 14 Long-Term Debt:

	December 31, 2007	December 31, 2006
Debt:		
Secured notes due 2012 at 7.875% (par value of $250,000 less unamortized discount of $861 at December 31, 2007)	$ 249,139	$ 248,933
Baltimore Port Facility revenue bonds in series due 2010 and 2011 at 6.50%	102,865	102,865
Advance royalty commitments	33,901	32,119
Notes due through 2013 at prime	10,985	12,985
Notes due through 2010 at 8.16%	7,648	
Secured notes due 2007 at 8.25% (par value of $45,000 December 31, 2006 less unamortized discount of $16 at December 31, 2006)		44,984
Other long-term notes maturing at various dates through 2031 (total value of $1,938 less unamortized discount of $34 at December 31, 2007)	1,913	346
	406,451	442,232
Less amounts due in one year	8,374	50,249
Total Long-Term Debt	$ 398,077	$ 391,983

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Advance royalty commitments and the other long-term variable rate notes had an average interest rate of approximately 6.8% at December 31, 2007 and 7.5% at December 31, 2006. The bonds and notes are carried net of debt discount, which is being amortized by the interest method over the life of the issue.

Annual undiscounted maturities on long-term debt during the next five years are as follows:

Year Ended December 31,	Amount
2008	$ 8,374
2009	8,403
2010	37,267
2011	76,535
2012	254,330
Thereafter	22,437
Total Long-Term Debt Maturities	$ 407,346

Note 15 Leases:

CONSOL Energy uses various leased facilities and equipment in our operations. Future minimum lease payments under capital and operating leases, together with the present value of the net minimum capital lease payments, at December 31, 2007, are as follows:

Year Ended December 31,	Capital Leases	Operating Leases
2008	$ 16,178	$ 39,792
2009	16,178	38,638
2010	16,178	22,898
2011	11,779	18,754
2012	7,380	12,646
Thereafter	65,135	131,017
Total minimum lease payments	$ 132,828	$ 263,745
Less amount representing interest (6.53%-7.36%)	41,779	
Present value of minimum lease payments	91,049	

Less amount due in one year	9,909
Add construction costs classified as capital lease obligation under EITF 97-10	9,708
Total Long-Term Capital Lease Obligation	$ 90,848

Rental expense under operating leases was $47,765, $43,611 and $33,228 for the years ended December 31, 2007, 2006 and 2005, respectively.

The total minimum lease payments related to the new company headquarters project are included in the operating lease portion of the above schedule and are expected to amount to $133,869 over the lease term.

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Note 16 Pension and Other Postretirement Benefit Plans:

CONSOL Energy has non-contributory defined benefit retirement plans covering substantially all employees not covered by multi-employer plans. The benefits for these plans are based primarily on years of service and employee s pay near retirement. Effective January 1, 2006, employees hired between August 1, 2004 and December 31, 2005 that were not previously eligible to participate in the plans began accruing service. The CONSOL Energy salaried plan allows for lump-sum distributions of benefits earned up until December 31, 2005 at the employees election.

As of January 1, 2006, lump sum benefits have been frozen and prospectively the lump sum option has been eliminated. According to Statement of Financial Accounting Standards No. 88, Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits, if the lump sum distributions made for the 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, settlement accounting is required. Lump sum payments exceeded this threshold during 2007 and 2006. Accordingly, CONSOL Energy recognized expense of $2,734 and $17,756 for the year ended December 31, 2007 and 2006, respectively, in the results of operations. The adjustment equaled the unrecognized actuarial loss resulting from each individual who received a lump sum in that year. CONSOL Energy regularly monitors this situation. Lump sum payments did not exceed the threshold during 2005.

Effective January 1, 2007, employees hired by CNX Gas, an 81.7% owned subsidiary, will not be eligible to participate in CNX Gas non-contributory defined benefit retirement plan. In lieu of participation in the non-contributory defined benefit plan, these employees began receiving an additional 3% company contribution into their defined contribution plan. CNX Gas employees who were hired prior to December 31, 2005 or who were employees of CONSOL Energy prior to this date were given a one time opportunity to elect to remain in the defined benefit plan or opt to freeze their services accruals and participate in the additional 3% company contribution into their defined contribution plan. All employees hired on or after January 1, 2006, but on or before December 31, 2006, had their current non-contributory defined benefit frozen and began receiving the additional 3% company contribution into their defined contribution plan, effective January 1, 2007. CNX Gas intends to freeze all defined benefit accruals as of December 31, 2016 for CNX Gas employees that elected to remain in the defined benefit plan.

Certain subsidiaries of CONSOL Energy provide medical and life insurance benefits to retired employees not covered by the Coal Industry Retiree Health Benefit Act of 1992. The medical plans contain certain cost sharing and containment features, such as deductibles, coinsurance, health care networks and coordination with Medicare. Prior to August 1, 2003, substantially all employees became eligible for these benefits if they had ten years of company service and attained age 55. Effective August 1, 2003, the base eligibility was changed to age 55 with 20 years of service. In addition, effective January 1, 2004, a medical plan cost sharing arrangement with all salaried employees and retirees was adopted. These participants will now contribute a minimum of 20% of medical plan operating costs. Contributions may be higher, dependent on either years of service, or a combination of age and years of service at retirement. Prospective annual cost increases of up to 6% will be shared 80% by CONSOL Energy and 20% by the participants. Annual cost increases in excess of 6% will be the sole responsibility of the participant. Also, any salaried or non-represented hourly employees that were hired or rehired effective January 1, 2007 or later will not become eligible for retiree health benefits. In lieu of traditional retiree health coverage, if certain eligibility requirements are met, these employees may be eligible to receive a retiree medical spending allowance of $2,250 per year of service at retirement. Newly employed inexperienced employees represented

by the UMWA, hired after January 1, 2007 will not be eligible to receive retiree benefits. In lieu of these benefits, these employees will receive a defined contribution benefit of $1 per each hour worked.

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On September 29, 2006, Statement of Financial Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS 158) was issued. SFAS 158 required, among other things, the recognition of the funded status of each defined pension benefit plan and other postretirement benefit plans on the balance sheet. Each overfunded plan is recognized as an asset and each underfunded plan is recognized as a liability. The initial impact of the standard, as well as subsequent changes in the funded status of the plans are recognized as a component of accumulated comprehensive income in stockholders equity. Additional minimum pension liabilities and related intangible assets are no longer recognized upon adoption of the new standard. Additionally, SFAS 158 requires an employer to measure the funded status of its plans as of the date of its year end statement of financial position. This provision becomes effective for CONSOL Energy for the year ending December 31, 2008. Currently, CONSOL Energy uses a September 30 measurement date for its pension and other postretirement benefit plans.

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The reconciliation of changes in the benefit obligation, plan assets and funded status of these plans at December 31, 2007 and 2006, is as follows:

	Pension Benefits at December 31,		Other Benefits at December 31,	
	2007	2006	2007	2006
Change in benefit obligation:				
Benefit obligation at beginning of period	$ 486,695	$ 497,717	$ 2,386,716	$ 2,313,446
AMVEST acquisition	5,900		2,130	
Service cost	11,015	15,807	10,988	10,093
Interest cost	28,710	28,248	139,221	129,665
Actuarial (gain) loss	40,271	(1,137)	66,000	19,252
Plan amendments			17,267	37,194
Participant contributions			4,487	5,047
Benefits paid	(49,210)	(53,940)	(141,980)	(127,981)
Benefit obligation at end of period	$ 523,381	$ 486,695	$ 2,484,829	$ 2,386,716
Change in plan assets:				
Fair value of plan assets at beginning of period	$ 369,847	$ 329,217	$	$
AMVEST acquisition	4,800			
Actual return on plan assets	43,806	25,869		
Company contributions	84,729	71,258	137,493	122,934
Participant contributions			4,487	5,047
Benefits and other payments	(49,979)	(56,497)	(141,980)	(127,981)
Fair value of plan assets at end of period	$ 453,203	$ 369,847	$	$
Funded status:				
Noncurrent assets	$ 458	$ 340	$	$
Current liabilities	(1,623)	(3,244)	(148,020)	(134,601)
Noncurrent liabilities	(69,013)	(113,944)	(2,336,809)	(2,252,115)
Net obligation recognized	$ (70,178)	$ (116,848)	$ (2,484,829)	$ (2,386,716)
Amounts recognized in accumulated other comprehensive income consist of:				
Net actuarial loss	$ 200,577	$ 187,909	$ 1,023,754	$ 1,018,984
Prior service credit	(9,061)	(10,176)	(298,213)	(366,481)
Net amount recognized (before tax effect)	$ 191,516	$ 177,733	$ 725,541	$ 652,503

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The components of net periodic benefit costs are as follows:

	Pension Benefits For the Years Ended December 31,			Other Benefits For the Years Ended December 31,		
	2007	2006	2005	2007	2006	2005
Components of net periodic benefit cost:						
Service cost	$ 11,015	$ 15,807	$ 22,157	$ 10,988	$ 10,093	$ 12,702
Interest cost	28,710	28,248	29,020	139,221	129,665	139,418
Expected return on plan assets	(30,656)	(26,125)	(20,456)			
Settlement	2,734	17,756				
Amortization of prior service cost (credit)	(1,114)	(1,085)	217	(51,001)	(56,619)	(7,370)
Recognized net actuarial loss	12,487	16,686	19,402	61,230	64,302	46,407
Benefit cost	$ 23,176	$ 51,287	$ 50,340	$ 160,438	$ 147,441	$ 191,157

Amounts included in accumulated other comprehensive income, expected to be recognized in 2008 net periodic benefit costs:

	Pension Benefits	Postretirement Benefits
Prior service cost (benefit) recognition	$ (1,113)	$ (48,625)
Actuarial loss recognition	$ 16,727	$ 61,503

The following table provides information related to pension plans with an accumulated benefit obligation in excess of plan assets:

	As of December 31,	
	2007	2006
Projected benefit obligation	$ 522,201	$ 485,430
Accumulated benefit obligation	$ 467,710	$ 417,526
Fair value of plan assets	$ 451,564	$ 368,241

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Assumptions:

The weighted-average assumptions used to determine benefit obligations are as follows:

	Pension Benefits at December 31,			Other Benefits at December 31,		
	2007	**2006**	**2005**	**2007**	**2006**	**2005**
Discount rate	6.57%	6.00%	5.75%	6.63%	6.00%	5.75%
Rate of compensation increase	4.01%	3.65%	4.11%			

The weighted-average assumptions used to determine net periodic benefit costs are as follows:

	Pension Benefits at December 31,			Other Benefits at December 31,		
	2007	**2006**	**2005**	**2007**	**2006**	**2005**
Discount rate	6.00%	5.75%	6.00%	6.00%	5.75%	6.00%
Expected long-term return on plan assets	8.00%	8.00%	8.00%			
Rate of compensation increase	3.65%	4.11%	4.31%			

The long-term rate of return is the sum of the portion of total assets in each asset class held multiplied by the expected return for that class, adjusted for expected expenses to be paid from the assets. The expected return for each class is determined using the plan asset allocation at the measurement date and a distribution of compound average returns over a 20-year time horizon. The model uses asset class returns, variances and correlation assumptions to produce the expected return for each portfolio. The return assumptions used forward-looking gross returns influenced by the current Treasury yield curve. These returns recognize current bond yields, corporate bond spreads and equity risk premiums based on current market conditions. In general, the long-term rate of return is the sum of the portion of total assets in each asset class multiplied by the expected return for that class, adjusted for expected expenses to be paid from the assets.

The assumed health care cost trend rates are as follows:

	December 31,		
	2007	**2006**	**2005**
Health care cost trend rate for next year	8.00%	8.50%	9.25%
Rate to which the cost trend rate is assumed to decline (ultimate trend rate)	5.00%	5.00%	4.75%
Year that the rate reaches ultimate trend rate	2013	2011	2011

Assumed health care cost trend rates have a significant effect on the amounts reported for the medical plans. A one-percentage point change in assumed health care cost trend rates would have the following effects:

	1-Percentage Point Increase	1-Percentage Point Decrease
Effect on total of service and interest costs components	$ 19,982	$ (16,560)
Effect on accumulated postretirement benefit obligation	$ 284,573	$ (239,754)

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Assumed discount rates also have a significant effect on the amounts reported for both pension and other benefit costs. A one-quarter percentage point change in assumed discount rate would have the following effect on benefit costs:

	0.25 Percentage Point Increase	0.25 Percentage Point Decrease
Pension benefit costs (decrease) increase	$ (1,301)	$ 1,306
Other postemployment benefits costs (decrease) increase	$ (4,117)	$ 4,387

Plan Assets:

There are no assets in the other postretirement benefit plans at September 30, 2007 or 2006. CONSOL Energy s pension benefit plans weighted average asset allocations at September 30, 2007 and 2006 are as follows:

	Pension Plan Assets at September 30,	
	2007	2006
Asset Category:		
Equity Securities	60%	60%
Debt Securities	40%	40%
Total	100%	100%

The weighted-average target asset allocations for the Employee Retirement Plans of CONSOL Energy Inc. are as follows: U.S. Equities 45%, International Equities 15% and Debt Securities 40% (U.S. and International). The aggregate amount of International Equity and International Fixed Income shall not exceed 50% of total account assets. The allowable asset allocation ranges are as follows: U.S. Equities 20-60%, International Equities 10-40% and Debt Securities 10-50%. The investment policy performance objective is to exceed a benchmark portfolio by at least 100 basis points over a three-year period. The benchmark portfolio consists of the following indices: S&P 500 (Large Cap), S&P 400 (Mid Cap), Russell 2000 (Small Cap), MSCI EAFE (International), Lehman Aggregate and Salomon World Government (Bonds).

There are no investments in CONSOL Energy stock held by these plans at September 30, 2007 or 2006.

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Cash Flows:

CONSOL Energy expects to contribute $28,400 to our pension plan trust in 2008. Pension benefit payments are primarily funded from the trust. CONSOL Energy does not expect to contribute to the other postemployment plan in 2008. We intend to pay benefit claims as they are due.

The following benefit payments, reflecting expected future service, are expected to be paid:

	Pension Benefits	Other Benefits
2008	$ 41,039	$ 148,020
2009	$ 32,704	$ 158,364
2010	$ 30,434	$ 166,522
2011	$ 29,650	$ 174,336
2012	$ 34,394	$ 178,963
Year 2013-2017	$ 212,096	$ 930,493

Note 17 Coal Workers Pneumoconiosis (CWP) and Workers Compensation:

CONSOL Energy is responsible under the Federal Coal Mine Health and Safety Act of 1969, as amended, for medical and disability benefits to employees and their dependents resulting from occurrences of coal workers pneumoconiosis disease. CONSOL Energy is also responsible under various state statutes for pneumoconiosis benefits. CONSOL Energy primarily provides for these claims through a self-insurance program. The calculation of the actuarial present value of the estimated pneumoconiosis obligation is based on an annual actuarial study by independent actuaries. The calculation is based on assumptions regarding disability incidence, medical costs, indemnity levels, mortality, death benefits, dependents and interest rates. These assumptions are derived from actual company experience and outside sources. Actuarial gains associated with CWP have resulted from numerous legislative changes over many years which have resulted in lower approval rates for filed claims than our assumptions originally reflected. Actuarial gains have also resulted from lower incident rates and lower severity of claims filed than our assumption originally reflected.

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CONSOL Energy is also responsible to compensate individuals who sustain employment related physical injuries or some types of occupational diseases, and on some occasions, for costs of their rehabilitation. Workers compensation laws will also compensate survivors of workers who suffer employment related deaths. Workers compensation laws are administered by state agencies with each state having its own set of rules and regulations regarding compensation that is owed to an employee that is injured in the course of employment. CONSOL Energy primarily provides for these claims through a self-insurance program. CONSOL Energy recognizes an actuarial present value of the estimated workers compensation obligation calculated by independent actuaries. The calculation is based on claims filed and an estimate of claims incurred but not yet reported as well as various assumptions. The assumptions include discount rate, future health care trend rate, benefit duration, and recurrence of injuries. Actuarial gains associated with workers compensation have resulted from discount rate changes, several years of favorable claims experience, various favorable state legislation changes and overall lower incident rates than our assumptions.

	CWP December 31,		Workers Compensation December 31,	
	2007	2006	2007	2006
Change in benefit obligation:				
Benefit obligation at beginning of period	$ 195,609	$ 216,037	$ 166,668	$ 173,383
AMVEST acquisition	8,055		1,744	
Service cost	5,856	5,962	29,659	30,295
Interest cost	11,401	12,068	8,356	8,368
Actuarial (gain) loss	(30,303)	(30,408)	(11,422)	(12,222)
Benefits paid and other costs	(7,746)	(8,050)	(32,945)	(33,156)
Benefit obligation at end of period	$ 182,872	$ 195,609	$ 162,060	$ 166,668
Current liabilities	$ (10,976)	$ (11,185)	$ (45,000)	$ (44,000)
Noncurrent liabilities	(171,896)	(184,424)	(117,060)	(122,668)
Net obligation recognized	$ (182,872)	$ (195,609)	$ (162,060)	$ (166,668)
Amounts recognized in accumulated other comprehensive income consist of:				
Net actuarial gain	$ (219,563)	$ (211,631)	$ (43,952)	$ (35,180)
Prior service credit	(3,489)	(4,217)		
Net amount recognized (before tax effect)	$ (223,052)	$ (215,848)	$ (43,952)	$ (35,180)

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The components of the net periodic cost (credit) are as follows:

	CWP			Workers Compensation		
	For the Years Ended December 31,			For the Years Ended December 31,		
	2007	2006	2005	2007	2006	2005
Components of Net Periodic Cost (Credit):						
Service cost	$ 5,856	$ 5,962	$ 3,793	$ 29,659	$ 30,295	$ 28,648
Interest cost	11,401	12,068	11,963	8,356	8,368	8,436
Legal and administrative costs	2,700	2,700	2,700	3,259	3,487	3,874
Amortization of prior service cost	(728)	(728)	(728)			
Legal and administrative costs	(22,371)	(21,121)	(21,881)	(3,953)	(2,767)	(3,487)
State administrative fees and insurance bond premiums				10,591	7,603	19,215
Net periodic cost (credit)	$ (3,142)	$ (1,119)	$ (4,153)	$ 47,912	$ 46,986	$ 56,686

Amounts included in accumulated other comprehensive income, expected to be recognized in 2008 net periodic benefit costs:

	CWP Benefits	Workers Compensation Benefits
Prior service benefit recognition	$ (728)	$
Actuarial gain recognition	$ (23,383)	$ (4,938)

Assumptions:

The weighted-average discount rate used to determine benefit obligations and net periodic (benefit) cost are as follows:

	CWP			Workers Compensation		
	For years Ended December 31,			For years Ended December 31,		
	2007	2006	2005	2007	2006	2005
Benefit obligations	6.62%	6.00%	5.75%	5.94%	6.00%	5.75%

Net Periodic (benefit) costs	6.00%	5.75%	6.00%	6.00%	5.75%	6.00%

Assumed discount rates have a significant effect on the amounts reported for both CWP benefits and Workers Compensation costs. A one-quarter percentage point change in assumed discount rate would have the following effect on benefit costs:

	0.25 Percentage Point Increase	**0.25 Percentage Point Decrease**
CWP benefit (decrease) increase	$ 655	$ (643)
Workers Compensation costs (decrease) increase	$ (54)	$ 59

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Cash Flows:

CONSOL Energy does not intend to make contributions to the CWP or Workers Compensation plans in 2008. We intend to pay benefit claims as they become due.

The following benefit payments, which reflect expected future claims as appropriate, are expected to be paid:

	CWP Benefits	Total Benefits	Workers Compensation Actuarial Benefits	Other Benefits
2008	$ 10,976	$ 45,000	$ 34,563	$ 10,437
2009	$ 11,273	$ 47,145	$ 36,291	$ 10,854
2010	$ 11,598	$ 49,394	$ 38,105	$ 11,289
2011	$ 11,949	$ 51,751	$ 40,011	$ 11,740
2012	$ 12,319	$ 54,221	$ 42,011	$ 12,210
Year 2013-2017	$ 66,813	$ 312,523	$ 243,745	$ 68,778

Note 18 Other Employee Benefit Plans:

UMWA Pension and Benefit Trusts:

Certain subsidiaries of CONSOL Energy were required under prior National Bituminous Coal Wage Agreements (NBCWA) with the United Mine Workers of America (UMWA) to pay amounts to the UMWA Pension Trusts based principally on hours worked by UMWA represented employees. These multi-employer pension trusts provide benefits to eligible retirees through a defined benefit plan. A five-year labor agreement was reached in December 2006 and is effective from January 1, 2007 through December 31, 2011. The 2007 agreement requires contributions to be paid to the UMWA 1974 Pension Trust based on a rate per hour worked by UMWA employees. The contribution per hour is as follows: $2.00 per hour worked in 2007, $3.50 per hour worked in 2008, $4.25 per hour worked in 2009, $5.00 per hour worked in 2010, $5.50 per hour worked in 2011. Total contributions for a year may differ from total expenses for the year due to the timing of actual contributions compared to the date of assessment. Total contributions to the UMWA 1974 Pension Trust were $11,354 for the year ended December 31, 2007. Total expenses related to the UMWA 1974 Pension Trust were $12,292 for the year ended December 31, 2007. There were no expenses or contributions related to the UMWA 1974 Pension Trust in the years ended December 31, 2006 or 2005. The Employee Retirement Income Security Act of 1974 (ERISA), as amended in 1980, imposes certain liabilities on contributors to multi-employer pension plans in the event of a contributor s withdrawal from the plan. The withdrawal liability would be calculated based on the contributor s proportionate share of the plan s unfunded vested liabilities.

The Coal Industry Retiree Health Benefit Act of 1992 (the Act) created two multi-employer benefit plans: (1) the United Mine Workers of America Combined Benefit Fund (the Combined Fund) into which the former UMWA Benefit Trusts were merged, and (2) the 1992 Benefit Fund. CONSOL Energy subsidiaries account for required contributions to these multi-employer trusts as expense when incurred.

The Combined Fund provides medical and death benefits for all beneficiaries of the former UMWA Benefit Trusts who were actually receiving benefits as of July 20, 1992. The 1992 Benefit Fund provides medical and death benefits to orphan UMWA-represented members eligible for retirement on February 1, 1993, and who actually retired between July 20, 1992 and September 30, 1994. The Act provides for the assignment of beneficiaries to former employers and the allocation of unassigned beneficiaries (referred to as orphans) to

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companies using a formula set forth in the Act. The Act requires that responsibility for funding the benefits to be paid to beneficiaries be assigned to their former signatory employers or related companies. This cost is recognized when contributions are assessed. Total contributions may be different than total costs in a given year due to the timing of actual contributions compared to the date of assessment. Total contributions under the Act were $32,916, $38,147 and $19,409 for the years ended December 31, 2007, 2006 and 2005, respectively. Total costs under the Act were $2,523, $26,777 and $30,424 for the years ended December 31, 2007, 2006 and 2005, respectively. Costs were reduced in 2007 by $30,389 due to the March 2007 settlement agreement with the Combined Fund that resolved all previous issues relating to the calculation of payments to the Combined Fund. See Note 26 Commitments and Contingent in Notes to Audited Financial Statements for additional details on the settlement agreement. Based on available information at December 31, 2007, CONSOL Energy s obligation for the Act is estimated at approximately $233,000.

The UMWA 1993 Benefit Plan is a defined contribution plan that was created as the result of negotiations for the NBCWA of 1993. This plan provides health care benefits to orphan UMWA retirees who are not eligible to participate in the Combined Fund, the 1992 Benefit Fund, or whose last employer signed the 1993 or a later NBCWA and who subsequently goes out of business. Contributions to the trust under the 2007 agreement are $2.00 per hour worked by UMWA represented employees for the 2007 period, comprised of a $0.50 per hour worked under the labor agreement and $1.50 per hour worked by UMWA represented employees under the Tax Relief and Health Care Act of 2006 (the 2006 Act). The contribution rate will decrease in the 2008 period to $1.77 per hour worked by UMWA represented employees, comprised of $0.50 per hour worked under the labor agreement and $1.27 per hour worked under the 2006 Act. Total contributions may be different than total costs in a given year due to the timing of actual contributions compared to the date the liability is incurred. Total contributions were $11,627, $3,356 and $3,642 for the years ended December 31, 2007, 2006 and 2005, respectively. Total costs were $10,945, $3,319 and $3,681 for the years ended December 31, 2007, 2006 and 2005, respectively.

Pursuant to the provisions of the 2006 Act and the 1992 Plan, CONSOL Energy is required to provide security in an amount based on the annual cost of providing health care benefits for all individuals receiving benefits from the 1992 Plan who are attributable to CONSOL Energy, plus all individuals receiving benefits from an individual employer plan maintained by CONSOL Energy who are entitled to receive such benefits. In accordance with the 2006 Act and the 1992 Plan, the outstanding letters of credit to secure our obligation were $62,464 and $180,273 for December 31, 2007 and 2006, respectively. The 2006 security amount was based on three times the annual cost of providing health care benefits. The calculation was changed in 2007 to equal the annual cost of providing health care benefits and included a reduction in the number of eligible employees.

At December 31, 2007, approximately 36% of CONSOL Energy s workforce was represented by the UMWA.

Equity Incentive Plans:

CONSOL Energy has an equity incentive plan that provides grants of stock-based awards to key employees and to non-employee directors. See Note 19 for a further discussion of CONSOL Energy s stock-based compensation.

CNX has adopted the CNX Gas Equity Incentive Plan on June 30, 2005, and amended the plan on August 1, 2005. The plan was further amended on October 11, 2006 when CNX Gas adopted a Long-Term Incentive Program. The equity incentive plan consists of the following components: stock options, stock appreciation

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rights, restricted stock units, performance awards, performance share units, cash awards and other stock-based awards. The total number of shares of CNX Gas common stock with respect to which awards may be granted under CNX Gas plan is 2,500,000. CNX Gas stock-based compensation expense resulted in pre-tax expense of $3,260, $3,733 and $205 to CONSOL Energy for the years ended December 31, 2007, 2006 and 2005, respectively.

Effective October 11, 2006, CNX Gas adopted a long-term incentive program. This program allows for the award of performance share units (PSU s). A PSU represents a contingent right to receive a cash payment, determined by reference to the value of one share of the company s common stock. The total number of units earned, if any, by a participant will be based on the company s total stockholder return relative to the stockholder return of a pre-determined peer group of companies. The performance period is from October 11, 2006 to December 31, 2009. CNX Gas will recognize compensation costs on a straight-line basis over the requisite service period. The basis of the compensation costs will be re-valued quarterly. As of December 31, 2007, there were 218,012 PSU s issued with a fair value of approximately $7,803. CNX Gas recognized approximately $2,231 in compensation costs in the year ended December 31, 2007.

Investment Plan:

CONSOL Energy has an investment plan available to all domestic, non-represented employees. For employees hired prior to August 1, 2004, CONSOL Energy matches employee contributions for an amount up to 6% of the employee s base pay (for Fairmont Supply Company the employer match is 50% of the first 12% of base pay). For employees hired or rehired effective August 1, 2004 or later, CONSOL Energy matches employee contributions for an amount up to 9% of the employee s base pay excluding Fairmont Supply Company employees whose company match remains unchanged. Effective January 1, 2006, the company match was changed to 6% of base pay for all non-represented employees except for those employees of Fairmont Supply Company whose match remains at 50% of the first 12% of base pay. In addition, effective January 1, 2007, the definition of eligible compensation for employee deferrals and company match was amended to include overtime for all non-represented employees except for those employees of Fairmont Supply Company whose definition of eligible compensation will remain unchanged. Total payments and costs were $17,896, $14,527 and $12,392 for the years ended December 31, 2007, 2006 and 2005, respectively.

Long-Term Disability:

CONSOL Energy has a Long-Term Disability Plan available to all full-time salaried employees. The benefits for this plan are based on a percentage of monthly earnings, offset by all other income benefits available to the disabled.

	For The Years Ended December 31,		
	2007	**2006**	**2005**

Benefit Costs	$ 3,050	$ 4,260	$ 4,170
Discount rate assumption used to determine net periodic benefit obligations	5.99%	6.00%	5.75%

Liabilities included in Deferred Credits and Other Liabilities Other and Other Accrued Liabilities amounted to $27,659, and $25,395 at December 31, 2007 and 2006, respectively.

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Note 19 Stock-Based Compensation:

CONSOL Energy adopted the CONSOL Energy Inc. Equity Incentive Plan on April 7, 1999. The plan provides for grants of stock-based awards to key employees and to non-employee directors. Amendments to the plan have been approved by the Board of Directors since the commencement of the plan, and the total number of shares of common stock that can be covered by grants at December 31, 2007 is 18,200,000 of which 2,600,000 are available for issuance of awards other than stock options. No award of stock options may be exercised under the plan after the tenth anniversary of the effective date of the award.

The total stock-based compensation expense recognized was $20,983, $19,113 and $3,609 for the years ended December 31, 2007, 2006 and 2005, respectively. The related deferred tax benefit totaled $7,938, $7,339 and $1,404, for the years ended December 31, 2007, 2006 and 2005, respectively. Prior to January 1, 2006, CONSOL Energy accounted for stock-based compensation under the recognition and measurement provisions of Accounting Principles Board Opinion (APB) No. 25, Accounting for Stock Issued to Employees, as amended. Generally, no stock-based employee compensation cost for stock options is reflected in net income, as all options granted under the plans had an exercise price equal to the market value of the underlying common stock on the date of the grant. Prior to January 1, 2006, CONSOL Energy provided pro forma disclosure amounts in accordance with Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation Transition and Disclosure an Amendment of SFAS No. 123 (SFAS 148), as if the fair value method defined by Statement of Financial Accounting Standard No. 123, Accounting for Stock-Based Compensation (SFAS 123) had been applied to its stock-based compensation.

Effective January 1, 2006, CONSOL Energy adopted the fair value recognition provisions of SFAS 123R, Share-Based Payment (SFAS 123R) using the modified prospective transition method and therefore has not restated prior periods results. Under this transition method, stock-based compensation expense for the years ended December 31, 2007 and 2006 included compensation expense for all stock-based compensation awards granted prior to, but not yet vested as of, January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123. Stock-based compensation expense for all share-based payment awards granted after January 1, 2006 is based on the grant date fair value estimated in accordance with the provisions of SFAS 123R. CONSOL Energy recognizes these compensation costs net of an estimated forfeiture rate and recognizes the compensation costs for only those shares expected to vest on a straight-line basis over the requisite service period of the award, which is generally the option vesting term, or to an employee s eligible retirement date, if earlier and applicable.

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The pro forma table below reflects net earnings and basic and diluted net earnings per share for the year ended December 31, 2005 had CONSOL Energy applied the fair value recognition provisions of SFAS 123, as follows:

	December 31, 2005
Net income as reported	$ 580,861
Add: Stock-based compensation due to change in vesting period (A)	955
Add: Stock-based compensation expense for restricted stock units (A)	2,654
Deduct: Total stock-based employee compensation expense determined under Black-Scholes option pricing model and stock-based compensation expense for restricted stock units, net of tax	(9,137)
Pro forma net income	$ 575,333
Earnings per share:	
Basic as reported	$ 3.17
Basic pro forma	$ 3.14
Dilutive as reported	$ 3.13
Dilutive pro forma	$ 3.10

(A) The tax benefit related to stock-based compensation expense was $1,404 for the year ended December 31, 2005.

As a result of SFAS 123R, CONSOL Energy reevaluated its assumptions used in estimating the fair value of employee options granted. As part of this assessment, management determined that a combination of historical and implied volatility is a better indicator of expected volatility and future stock price trends than solely historical volatility. Therefore, expected volatility for the years ended December 31, 2007 and 2006 was based on a combination of historical and market-based implied volatility. The change in estimating the fair value of employee options was not significant in regards to earnings before income taxes, net income and earnings per share.

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As part of its SFAS 123R adoption, CONSOL Energy also examined its historical pattern of option exercises in an effort to determine if there were any discernable activity patterns based on certain employee populations. From this analysis, CONSOL Energy identified two distinct employee populations. CONSOL Energy used the Black-Scholes option pricing model to value the options for each of the employee populations. The table below presents the weighted average expected term in years of the two employee populations. The expected term computation is based upon historical exercise patterns and post-vesting termination behavior of the populations. The risk-free interest rate was determined for each vesting tranche of an award based upon the calculated yield on U.S. Treasury obligations for the expected term of the award. The expected forfeiture rate is based upon historical forfeiture activity. The fair value of share-based payment awards was estimated using the Black-Scholes option pricing model with the following assumptions and weighted average fair values:

		December 31,	
	2007	2006	2005
Weighted average fair value of grants	$ 11.93	$ 15.46	$ 5.96
Risk-free interest rate	4.7%	5.0%	3.6%
Expected dividend yield	0.8%	0.6%	1.5%
Expected forfeiture rate	2.0%	2.0%	%
Expected volatility	38.2%	38.5%	45.6%
Expected term in years	4.07 years	4.17 years	2.48 years

A summary of the status of stock options granted is presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Balance at December 31, 2006	6,189,843	$ 17.35	6.81	
Granted	830,656	$ 34.92		
Exercised	(1,581,583)	$ 12.16		
Forfeited	(37,416)	$ 28.86		
Balance at December 31, 2007	5,401,500	$ 21.50	6.58	$ 270,209
Vested and expected to vest at December 31, 2007	5,386,598	$ 21.45	6.53	$ 269,727
Exercisable at December 31, 2007	3,328,446	$ 14.78	5.49	$ 188,870

These stock options will terminate ten years after the date on which they were granted. The employee stock options, covered by the Equity Incentive Plan adopted April 7, 1999, vest 25% per year, beginning one year after the grant date for awards granted prior to 2007. Employee

stock options awarded after December 31, 2006 vest 33% per year, beginning one year after the grant date. There are 4,672,669 stock options outstanding under the Equity Incentive plan. Additionally, there are 594,653 employee stock options outstanding which are fully vested under vesting terms ranging from six months to one year. Non-employee director stock options vest 33% per year, beginning one year after the grant date. There are 134,178 stock options outstanding under these grants. The vesting of the options will accelerate in the event of death, disability or retirement and may accelerate upon a change of control of CONSOL Energy.

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between CONSOL Energy s closing stock price on the last trading day of the year ended December 31, 2007, and

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the option s exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on December 31, 2007. This amount varies based on the fair market value of CONSOL Energy s stock. Total intrinsic value of options exercised for the year ended December 31, 2007, 2006 and 2005 was $65,294, $23,677 and $61,181, respectively.

Cash received from option exercises for the years ended December 31, 2007, 2006 and 2005 was $19,224, $14,670 and $39,150, respectively. The excess tax benefit realized for the tax deduction from option exercises totaled $23,682 and $38,545 for the year ended December 31, 2007 and 2006, respectively. This excess tax benefit is included in cash flows from financing activities in the Consolidated Statement of Cash Flows.

Under the Equity Incentive Plan, CONSOL Energy granted certain employees and non-employee directors restricted stock unit awards. These awards entitle the holder to receive shares of common stock as the award vests. Compensation expense will be recognized over the vesting period of the units. The total fair value of shares vested during the years ended December 31, 2007, 2006 and 2005 was $3,641, $2,492 and $1,747, respectively. The following represents the unvested restricted stock units and corresponding fair value (based upon the closing share price) at the date of grant:

	Number of Shares	Weighted Average Grant Date Fair Value	
Nonvested at December 31, 2006	495,257	$	26.69
Granted	176,937	$	36.02
Vested	(173,235)	$	21.02
Forfeited	(6,397)	$	29.17
Nonvested at December 31, 2007	492,562	$	31.75

Under the Equity Incentive Plan, CONSOL Energy granted certain employees performance share unit awards. These awards entitle the holder to receive shares of common stock subject to the achievement of certain market and performance goals. Compensation expense will be recognized over the performance measurement period of the units in accordance with the provisions of SFAS 123R for awards with market and performance vesting conditions. At December 31, 2007, achievement of the market and performance goals is believed to be probable. The following represents the unvested performance share unit awards and their corresponding fair value (based upon the closing share price) at the date of grant:

	Number of Shares	Weighted Average Grant Date Fair Value	
Nonvested at December 31, 2006		$	
Granted	76,007	$	42.59

Nonvested at December 31, 2007	76,007	$	42.59

As of December 31, 2007, $15,640 of total unrecognized compensation cost related to unvested awards is expected to be recognized over a weighted-average period of 2.15 years. When employee stock options are exercised and restricted stock unit awards become vested, the issuances are made from CONSOL Energy s treasury stock shares which have been acquired as part of CONSOL Energy s share repurchase program as previously discussed in Note 1.

Prior to the adoption of SFAS 123R on January 1, 2006, CONSOL Energy followed the nominal vesting period approach under APB No. 25 for awards with retirement eligible provisions. Upon adoption of SFAS

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123R, CONSOL Energy changed to the non-substantive vesting period approach for awards with retirement eligible provisions. If CONSOL Energy would have followed the non-substantive vesting period approach for awards with retirement eligible provisions, we would have recorded $1,186 of additional expense, net of tax, for restricted stock units for the year ended December 31, 2005. Additionally, we would have disclosed $1,706 of additional expense, net of tax, for stock options for the year ended December 31, 2005.

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Note 20 Accumulated Other Comprehensive Loss:

Components of accumulated other comprehensive loss consist of the following:

	Treasury Rate Lock	Change in Fair Value of Cash Flow Hedges	Minimum Pension Liability	Adjustments for FASB Statement No. 158	Accumulated Other Comprehensive Loss
Balance at December 31, 2004	$ 582	$ (5,657)	$ (84,118)	$	$ (89,193)
Current period change	(80)	(29,075)	6,754		(22,401)
Minority Interest in change		6,432			6,432
Balance at December 31, 2005	502	(28,300)	(77,364)		(105,162)
Current period change	(81)	36,382	77,364	(377,343)	(263,678)
Minority Interest in change		(6,736)		(141)	(6,877)
Balance at December 31, 2006	421	1,346		(377,484)	(375,717)
Current period change	(81)	4,214		(47,009)	(42,876)
Minority Interest in change		(769)		78	(691)
Balance at December 31, 2007	$ 340	$ 4,791	$	$ (424,415)	$ (419,284)

The cash flow hedges that CONSOL Energy holds are disclosed in Note 25. The adjustments for FASB Statement No. 158 are disclosed in Note 16 and Note 17.

Note 21 Research and Development Costs:

CONSOL Energy operates a research and development facility devoted to providing technical support to coal, gas and other functions. Costs related to research and development are expensed as incurred. These costs were $3,876, $2,884 and $2,170 for the years ended December 31, 2007, 2006 and 2005, respectively.

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Note 22 Supplemental Cash Flow Information:

	For the Years Ended December 31,		
	2007	2006	2005
Cash paid during the year for:			
Interest (net of amounts capitalized)	$ 40,978	$ 34,097	$ 30,553
Income taxes	$ 103,194	$ 80,272	$ 41,441
Non-cash investing and financing activities:			
Variable Interest Entity acquired			
Fair value of assets acquired	$	$	$ (62,421)
Liabilities assumed	$	$	$ (62,421)
Adoption of FIN 48			
Change in Assets	$ (39,207)	$	$
Change in Liabilities	$ (39,207)	$	$
Businesses acquired (Note 2)			
Fair value of assets acquired	$ (132,694)	$ (2,776)	$
Liabilities assumed	$ (132,694)	$ (2,776)	$
Note received from property sales	$ (200)	$	$ 9
Note given on purchase of property	$	$	$ (235)
Capital Lease Obligation			
Change in Assets	$ (1,083)	$ (113,671)	$
Change in Liabilities	$ (1,083)	$ (113,671)	$
Purchase Obligation for Real Estate			
Change in Assets	$	$ (811)	$
Change in Liabilities	$	$ (811)	$
Purchase of Property, Plant and Equipment			
Change in Assets	$ 3,219	$ (31,136)	$
Change in Liabilities	$ 3,219	$ (31,136)	$
Stock dividends issued	$	$	$ 25
Accounting for Mine Closing, Reclamation and Gas Well Closing Costs			
Change in Assets	$ 3,403	$ (18,647)	$ (46,906)
Change in Liabilities	$ 3,403	$ (18,647)	$ (46,906)

Note 23 Concentration of Credit Risk and Major Customers:

CONSOL Energy markets steam coal, principally to electric utilities in the United States, Canada and Western Europe, and metallurgical coal to steel and coke producers worldwide. As of December 31, 2007 and 2006, accounts receivable from utilities were $174,536 and $180,603, respectively, and from steel and coke producers were $23,214 and $29,240, respectively. Credit is extended based on an evaluation of the customer s financial condition, and generally collateral is not required. Credit losses consistently have been minimal.

For the years ended December 31, 2007 and 2006, no customer comprised over 10% of our revenues. In 2005, sales to our then largest customer, Allegheny Energy, comprised over 10% of our revenues. Coal (including spot sales) and gas sales to Allegheny Energy were $354,012 for the year ended December 31, 2005.

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Note 24 Fair Values 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 notes payable: The carrying amount reported in the balance sheets for short-term notes payable approximates its fair value due to the short-term maturity of these instruments.

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 sheets for capital leases approximates its fair value due to recording the liability at the present value of minimum lease payments.

The carrying amounts and fair values of financial instruments, excluding derivative financial instruments disclosed in Note 25, are as follows:

	December 31, 2007		December 31, 2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 41,651	$ 41,651	$ 223,883	$ 223,883
Short-term notes payable	$ (247,500)	$ (247,500)	$	$
Long-term debt	$ (406,451)	$ (420,203)	$ (442,232)	$ (456,242)
Capital leases	$ (100,757)	$ (100,757)	$ (110,031)	$ (110,031)

Note 25 Derivative Instruments:

CONSOL Energy holds or purchases derivative financial instruments for purposes other than trading to convert the market prices related to these anticipated sales of natural gas to fixed prices. These instruments are designated as cash flow hedges and extend through 2010. The net fair values of the outstanding instruments are an asset of $9,619 and $4,083 at December 31, 2007 and 2006, respectively.

CONSOL Energy entered into cash flow hedges for natural gas in 2007, 2006 and 2005. Gains or losses related to these derivative instruments were recognized when the sale of the natural gas affected earnings. The ineffective portion of the changes in the fair value of these contracts was insignificant in 2007, 2006 and 2005.

For these cash flow hedge strategies, the fair values of the derivatives are recorded on the balance sheet. The effective portions of the changes in fair values of the derivatives are recorded in other comprehensive income or loss and are reclassified to sales in the period in which earnings are impacted by the hedged items or in the period that the transaction no longer qualifies as a cash flow hedge. There were no transactions that ceased to qualify as a cash flow hedge in 2007, 2006 or 2005. CONSOL Energy s Consolidated Balance Sheets is reflected on a net asset/liability basis for each counterparty.

Assuming market rates remain constant with rates at December 31, 2007, $4,173 of the $5,863 net gain included in accumulated other comprehensive income is expected to be recognized in earnings over the next 12 months. The remaining net gain is expected to be recognized through 2010.

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CONSOL Energy did not have any derivatives designated as fair value hedges in 2007, 2006 or 2005.

On February 19, 2002, CONSOL Energy entered into an interest rate lock agreement with a notional amount of $250,000 to manage the interest rate volatility prior to March 7, 2002, the pricing date of CONSOL Energy s bond offering. This agreement essentially fixed the underlying treasury rate of the bonds at 4.928% and resulted in a net payment of $1,332 to CONSOL Energy. This receipt resulted in other comprehensive income of $814 (net of $518 deferred tax), which will be amortized to interest income over the life of the notes using the straight-line method. For the years ended December 31, 2007, 2006 and 2005, $81, $81, and $80 was amortized to interest income, respectively.

Note 26 Commitments and Contingent Liabilities:

CONSOL Energy and its subsidiaries are 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 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.

The Pennsylvania Department of Conservation and Natural Resources filed on January 30, 2008 a six-count Complaint asserting claims in both tort and contract against the Company for alleged damage to park property owned by the Commonwealth allegedly due to the Company s underground mining activities. The matter was the subject of a mediation process with an independent, neutral mediator prior to the filing of the Complaint. That process terminated with no resolution and the Commonwealth then filed its Complaint. The Commonwealth claims that the Company s underground longwall mining activities in the Summer of 2005 in Green County, Pennsylvania, caused cracks and seepage damage to the nearby Ryerson Park Dam. The Commonwealth demolished the Ryerson Dam s spillway allegedly under its role of Parens Patrie to protect persons and property, thereby eliminating the Ryerson Park lake. The Commonwealth claims that the Company is liable for dam reconstruction costs, lake restoration costs, and natural resources damages totaling $58,000. The theories of liability include general allegations of negligence, breach of contract, strict liability, nuisance, an administrative remedy claim under the Bituminous Mine Subsidence Act and a claim of fraud, the last claim seeking punitive damages.

The Company has not yet filed its response to the Complaint, including any preliminary motions regarding the propriety of the claims filed by the Commonwealth. The Company believes it was not responsible for the damage to the dam, that there exist numerous grounds upon which to attack the propriety of the claims, and it will vigorously defend the case.

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,

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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 year ended December 31, 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 coalbed methane (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. An updated damages report was recently provided by CDX to CNX to account for additional accused wells that have been drilled by CNX, the details of which are currently being reviewed by CNX Gas damages expert. Cross-motion for summary judgment as to infringement, invalidity and unenforceability have been filed and briefed by CNX Gas and CDX and were before a Special Master for decision in the form of a report and recommendation to the District Court. The Special Master issued his report and recommended on November 19, 2007, denying both the CNX Gas and CDX motions for summary judgment in view of what he identified as genuine issues of material fact. The Special Master did, however, find that CNX had produced sufficient evidence to call into serious question the validity and enforceability of the CDX patents-in-suit. Both CNX Gas and CDX subsequently filed objections to the report and recommendation, which are presently pending for decision by the 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 Transformer site. On September 16, 2005, the EPA, CONSOL Energy and two other PRPs entered into an

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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 $30,000. There was $1,780, $4,820 and $3,000 of expense recognized in Cost of Goods Sold and Other Charges for the years ended December 31, 2007, 2006 and 2005 respectively. CONSOL Energy funded $1,256 in the year ended December 31, 2007 to an independent trust established for this remediation. CONSOL Energy has funded $3,759 since inception of the independent trust established for this remediation. The remaining liability of $5,842 is included in Other Accrued Liabilities at December 31, 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 year ended December 31, 2007 related to the additional areas of Ward Transformer. The related liability is included in Other Accrued Liabilities at December 31, 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 (ICCC). 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 ICCC 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 ICCC 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.

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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 court order prohibiting CCC from depositing water from its Buchanan Mine into the void spaces of ICCC 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 Energy 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 Energy 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

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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 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. On December 19, 2007, the court granted CNX Gas and Island Creek s motions to dismiss all counts, with leave for GeoMet to file an amended complaint. GeoMet has not filed an amended complaint at this time, but they have indicated their intention to do so. 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 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

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calculation of the annual per beneficiary premium rate owed by assigned operators, including subsidiaries of CONSOL Energy, to the Combined 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 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. The reimbursement was reflected as a reduction to cost of goods sold and other changes in the year ended December 31, 2007.

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. The mine atmosphere was continually monitored to determine the impact of the roof falls on the mine s ventilation system and the overall mine atmosphere. Two mine atmosphere monitoring stations showed levels of carbon monoxide above ambient levels for several months after the roof falls damaged the ventilation controls. Efforts to eliminate carbon monoxide in the mine were narrowed to an underground area about 400 feet in diameter into which the company pumped inert gas through a number of bore holes that had been drilled. The underground area of the Buchanan Mine encompasses about five square miles. In compliance with safety agency requirements, the mine was temporarily sealed in late November as a final step before reentry into the mine. On January 20, 2008, the restart of the fans was approved by the Commonwealth of Virginia Department of Mines, Minerals and Energy, and by the federal Mine Safety and Health Administration. The temporary mine seals were removed and the ventilation fans were restarted. Specially trained mine rescue teams re-entered the mine on January 28, 2008 and are in the process of evaluating the extent of damage to the mine s ventilation system and making temporary repairs. This incident is covered under our property and business interruption insurance policy, subject to certain deductibles. Insurance recoveries under our property insurance coverage of $15,000 were recognized as a reduction of Cost of Goods Sold and Other Charges in the year ended December 31, 2007. Business interruption recoveries of $10,000 were recognized as Other Income in the year ended December 31, 2007. The total insurance recoveries of $25,000 were reflected in Other Receivables at December 31, 2007. The majority of this receivable was collected in January 2008. The maximum amount recoverable for this incident under our insurance policy is $75,000. CONSOL Energy is pursuing additional reimbursement from the insurance carriers. There can be no assurance that we will obtain any additional recovery from our insurance carriers.

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 December 31, 2007 and 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 during 1991 through 1999 were determined to be unconstitutional. CONSOL Energy subsidiaries filed with the Internal Revenue Service (IRS) claims seeking

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refunds of these excise taxes that were paid during 1994 through 1999 and accordingly recognized receivables for these claims in 2001. The refunds for the 1994 through 1999 claims, which included interest, were received in 2003 and 2002. CONSOL Energy subsidiaries also filed suit to recover excise taxes paid during the period 1991-1993, which came to be known as the Tucker Act period. In a test case addressing Tucker Act period claims of certain coal producers, the United States Court of Appeals for the Federal Circuit upheld the producer s entitlement to sue in court for damages in the amount of the taxes paid during the Tucker Act period, even though a timely administrative claim had not been filed with the IRS for refund of these taxes. The United States Supreme Court denied the Government s petition for review of the Federal Circuit s decision. CONSOL Energy recorded a receivable of $26,006, which excluded an interest component, for this portion of the claim classified in Other Assets at December 31, 2006. CONSOL Energy also recorded a payable of $1,914 related to this claim classified in Other Liabilities at December 31, 2006. In 2004, a judgment in favor of certain unrelated coal producers was entered which provided for refund of the principal amount of coal excise taxes paid during the Tucker Act period relevant to those coal producers, but without interest. On January 22, 2007, a three-judge panel of the U.S. Court of Appeals for the Federal Circuit affirmed the judgment as it awarded a refund of principal and reversed the judgment which withheld interest. On March 7, 2007, the Government filed a petition for rehearing before the entire U.S. Court of Appeals. The petition for rehearing was denied on April 30, 2007, thereby confirming 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. On December 3, 2007 the United States Supreme Court granted the Government s new petition to hear the case. The Supreme Court s granting of the petition makes collection of the refund by CONSOL Energy no longer highly probable because of rulings on similar Tucker Act cases during 2007. Accordingly, CONSOL Energy reversed the $26,006 export excise tax receivable (which had been reflected in Other Assets) and the $1,914 related liabilities (which had been reflected in Other Liabilities) until the Supreme Court decides the appeal. We intend to vigorously pursue this action, although there is no assurance that CONSOL Energy will receive any tax refund.

At December 31, 2007, CONSOL Energy and certain subsidiaries have provided the following financial guarantees and unconditional purchase obligations. 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.

	Amount and Duration of Commitments				
	Total Amounts Committed	**Less Than 1 Year**	**1-3 Years**	**3-5 Years**	**Beyond 5 Years**
Letters of Credit:					
Employee-Related	$ 174,784	$ 152,320	$ 22,464	$	$
Environmental	74,343	33,994	40,349		
Gas	14,933	14,913	20		
Other	9,602	9,602			
Total Letters of Credit	273,662	210,829	62,833		
Surety Bonds:					
Employee-Related	204,308	204,308			
Environmental	294,816	291,438	3,375	3	
Gas	2,981	2,921	60		
Other	8,981	8,652	329		

Total Surety Bonds	511,086	507,319	3,764	3

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		Amount and Duration of Commitments			
	Total Amounts Committed	Less Than 1 Year	1-3 Years	3-5 Years	Beyond 5 Years
Guarantees and unconditional purchase obligations:					
Coal	97,008	27,457	46,223	20,231	3,097
Gas	29,370	26,270			3,100
Gas Firm Transportation	49,292	7,870	14,379	9,948	17,095
Other	203,529	21,606	41,433	21,166	119,324
Total Guarantees	379,199	83,203	102,035	51,345	142,616
Total Commitments	$ 1,163,947	$ 801,351	$ 168,632	$ 51,348	$ 142,616

Employee-related financial guarantees have primarily been provided to support the United Mine Workers of America s 1992 Benefit Plan and various state workers compensation self-insurance programs. Environmental financial guarantees have primarily been provided 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 our subsidiaries have unconditional purchase obligations related to securing pipeline capacity to transport gas to primary delivery points. 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 27 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 year ended December 31, 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 year ended December 31, 2007, the Central Appalachian aggregated segment includes the following mines: Jones Fork, Mill Creek, Wiley-Mill Creek. It also includes the following mines acquired with the AMVEST acquisition: Fola Complex and Terry Eagle Complex. For the year ended December 31, 2007, the Metallurgical aggregated segment includes the following mines: Buchanan and Amonate. 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 mines. 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 segment includes terminal services, river and dock services, industrial supply services and other business activities, including rentals of buildings and flight operations. Intersegment sales have been recorded at amounts approximating market. Operating profit for each segment is based on sales less

identifiable operating and non-operating expenses. Certain reclassifications of 2006 and 2005 segment information have been made to conform to the 2007 presentation.

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Segment results for the year ended December 31, 2007:

	Northern Appalachian	Central Appalachian	Metallurgical	Other Coal	Total Coal	Gas	All Other	Corporate Adjustments & Eliminations	Consolidated
Sales Outside	$ 1,988,526	$ 272,131	$ 237,266	$ 180,758	$ 2,678,681	$ 410,211	$ 235,454	$	$ 3,324,346(A)
Sales Purchased Gas						7,628			7,628
Sales Gas Royalty Interests						46,586			46,586
Freight Outside				186,909	186,909				186,909
Intersegment Transfers						6,242	129,648	(135,890)	
Total Sales and Freight	$ 1,988,526	$ 272,131	$ 237,266	$ 367,667	$ 2,865,590	$ 470,667	$ 365,102	$ (135,890)	$ 3,565,469
Earnings (Loss) Before Income Taxes	$ 353,255	$ 25,428	$ 65,080	$ (166,256)	$ 277,507	$ 214,874	$ 15,152	$ (78,576)	$ 428,957(B)
Segment assets					$ 4,039,513	$ 1,378,709	$ 253,792	$ 536,076	$ 6,208,090(C)
Depreciation, depletion and amortization					$ 257,349	$ 48,961	$ 18,405	$	$ 324,715
Capital Expenditures					$ 681,408	$ 304,088	$ 54,342	$	$ 1,039,838

(A) There were no sales to customers aggregating over 10% in 2007.

(B) Includes equity in earnings of unconsolidated affiliates of $1,027, $2,174 and $3,350 for Other Coal, Gas and All Other, respectively.

(C) Includes investments in unconsolidated equity affiliates of $3,101 and $56,865 and $34,900 for Other Coal, Gas and All Other, respectively.

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Segment results for the year ended December 31, 2006:

	Northern Appalachian	Central Appalachian	Metallurgical	Other Coal	Total Coal	Gas	All Other	Corporate Adjustments & Eliminations	Consolidated
Sales Outside	$ 1,861,388	$ 230,781	$ 357,103	$ 245,173	$ 2,694,445	$ 389,174	$ 202,903	$	$ 3,286,522(D)
Sales Purchased Gas						43,973			43,973
Sales Gas Royalty Interests						51,054			51,054
Freight Outside				162,761	162,761				162,761
Intersegment Transfers						4,372	128,824	(133,196)	
Total Sales and Freight	$ 1,861,388	$ 230,781	$ 357,103	$ 407,934	$ 2,857,206	$ 488,573	$ 331,727	$ (133,196)	$ 3,544,310
Earnings (Loss) Before Income Taxes	$ 261,702	$ 7,911	$ 152,490	$ (81,511)	$ 340,592	$ 252,250	$ 20,396	$ (62,318)	$ 550,920(E)
Segment assets					$ 3,540,276	$ 1,152,256	$ 224,477	$ 746,323	$ 5,663,332(F)
Depreciation, depletion and amortization					$ 240,582	$ 37,999	$ 17,656	$	$ 296,237
Capital Expenditures					$ 488,876	$ 154,243	$ 47,427	$	$ 690,546

(D) There were no sales to customers aggregating over 10% in 2006.
(E) Includes equity in earnings (losses) of unconsolidated affiliates of $977 and $224 for Gas and All Other, respectively.
(F) Includes investments in unconsolidated equity affiliates of $52,283 and $31,936 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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CONSOL ENERGY INC. AND SUBSIDIARIES

NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

Segment results for the year ended December 31, 2005:

	Northern Appalachian	Central Appalachian	Metallurgical	Other Coal	Total Coal	Gas	All Other	Corporate Adjustments & Eliminations	Consolidated
Sales Outside	$ 1,878,267	$ 233,444	$ 211,272	$ 199,165	$ 2,522,148	$ 281,455	$ 127,330	$	$ 2,930,933(G)
Sales Purchased Gas						275,148			275,148
Sales Gas Royalty Interests						45,351			45,351
Sales Related parties				4,749	4,749				4,749
Freight Outside				119,343	119,343				119,343
Freight Related parties				468	468				468
Intersegment Transfers						1,628	108,209	(109,837)	
Total Sales and Freight	$ 1,878,267	$ 233,444	$ 211,272	$ 323,725	$ 2,646,708	$ 603,582	$ 235,539	$ (109,837)	$ 3,375,992
Earnings (Loss) Before Income Taxes	$ 327,769	$ (358)	$ 21,789	$ (97,847)	$ 251,353	$ 165,225	$ (17,722)	$ 255,828	$ 654,684(H)
Segment assets					$ 3,239,674	$ 849,100	$ 139,584	$ 843,605	$ 5,071,963(I)
Depreciation, depletion and amortization					$ 213,271	$ 35,039	$ 13,541	$	$ 261,851
Capital Expenditures					$ 415,423	$ 110,752	$ 6,621	$	$ 532,796

(G) Included in the Coal and Gas segment are sales of $349,537 and $4,475, respectively, to Allegheny Energy.
(H) Includes equity in earnings (losses) of unconsolidated affiliates of $(1,758), $444 and $4,164 for Other Coal, Gas and All Other, respectively.
(I) Includes investments in unconsolidated equity affiliates of $49,528 and $2,733 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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CONSOL ENERGY INC. AND SUBSIDIARIES

NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

Reconciliation of Segment Information to Consolidated Amounts:

Revenue and Other Income:

	For the Years Ended December 31,		
	2007	**2006**	**2005**
Total segment sales and freight from external customers	$ 3,565,469	$ 3,544,310	$ 3,375,992
Other income not allocated to segments (Note 4)	196,728	170,861	107,131
Gain on Sale of 18.5% interest in CNX Gas			327,326
Total Consolidated Revenue and Other Income	$ 3,762,197	$ 3,715,171	$ 3,810,449
Earnings Before Income Taxes:			
Segment Earnings Before Income Taxes for total reportable business segments	$ 492,381	$ 592,842	$ 416,578
Segment Earnings (Loss) Before Income Taxes for all other businesses	15,152	20,396	(17,722)
Incentive Compensation(J)	(26,770)	(19,181)	(32,739)
Compensation from restricted stock unit grants, stock option expense and performance share unit expense(J)	(20,983)	(19,113)	(3,609)
Gain on Sale of 18.5% of CNX Gas			327,326
Interest income (expense), net and other non-operating activity(J)	(30,823)	(24,024)	(35,150)
Earnings Before Income Taxes	$ 428,957	$ 550,920	$ 654,684

	December 31,		
	2007	**2006**	**2005**
Total Assets:			
Segment assets for total reportable business segments	$ 5,418,222	$ 4,692,532	$ 4,088,774
Segment assets for all other businesses	253,792	224,477	139,584
Items excluded from segments assets:			
Cash and other investments(J)	9,978	118,085	321,543
Deferred tax assets	505,631	625,227	519,958
Recoverable income taxes	19,090	1,278	
Bond issuance costs	1,377	1,733	2,104
Total Consolidated Assets	$ 6,208,090	$ 5,663,332	$ 5,071,963

(J) Excludes amounts specifically related to gas segment.

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CONSOL ENERGY INC. AND SUBSIDIARIES

NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

Enterprise-Wide Disclosures:

CONSOL Energy s Revenues by geographical location:

	For the Years Ended December 31,		
	2007	2006	2005
United States	$ 3,077,573	$ 3,218,779	$ 3,104,847
Europe	332,280	199,532	188,271
Canada	115,361	95,850	59,672
South America	40,255	30,149	22,052
Other			1,150
Total Revenues and Freight from External Customers(K)	$ 3,565,469	$ 3,544,310	$ 3,375,992

(K) CONSOL Energy attributes revenue to individual countries based on the location of the customer.

CONSOL Energy s Property, Plant and Equipment by geographical location are:

	December 31,	
	2007	2006
United States	$ 4,930,339	$ 4,005,720
Canada	34,565	34,425
Belgium	138	142
Total Property, Plant and Equipment	$ 4,965,042	$ 4,040,287

Note 28 Guarantor Subsidiaries Financial Information:

The payment obligations under the $250,000, 7.875 percent per annum notes due March 1, 2012 issued by CONSOL Energy 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 (SEC), 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 include investments in subsidiaries and certain intercompany balances and transactions. CONSOL Energy, the parent, and a guarantor subsidiary manage several assets and liabilities of all other 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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CONSOL ENERGY INC. AND SUBSIDIARIES

NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

Income Statement for the Year Ended December 31, 2007

	Parent	CNX Gas Guarantor	Other Subsidiary Guarantors	Non-Guarantors	Elimination	Consolidated
Sales Outside	$	$ 416,453	$ 2,718,493	$ 201,018	$ (11,618)	$ 3,324,346
Sales Purchased gas		7,628				7,628
Sales Gas Royalty Interest		46,586				46,586
Freight Outside			186,909			186,909
Other Income (including equity earnings)	333,581	8,815	141,735	40,093	(327,496)	196,728
Total Revenue and Other Income	333,581	479,482	3,047,137	241,111	(339,114)	3,762,197
Cost of Goods Sold and Other Operating Charges	63,899	102,278	1,915,666	61,864	207,800	2,351,507
Purchased Gas Costs		7,162				7,162
Gas Royalty Interest		40,011			(90)	39,921
Related Party Activity	(4,601)		87,459	134,213	(217,071)	
Freight Expense			186,909			186,909
Selling, General and Administrative Expense		54,825	51,029	2,810		108,664
Depreciation, Depletion and Amortization	7,666	48,961	259,825	10,343	(2,080)	324,715
Interest Expense	24,932	5,606	(250)	563		30,851
Taxes Other Than Income	5,790		270,762	6,959		283,511
Total Costs	97,686	258,843	2,771,400	216,752	(11,441)	3,333,240
Earnings (Loss) Before Income Taxes	235,895	220,639	275,737	24,359	(327,673)	428,957
Income Taxes (Benefit)	(31,887)	84,961	73,848	9,215		136,137
Earnings (Loss) Before Minority Interest	267,782	135,678	201,889	15,144	(327,673)	292,820
Minority Interest					(25,038)	(25,038)
Net Income (Loss)	$ 267,782	$ 135,678	$ 201,889	$ 15,144	$ (352,711)	$ 267,782

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CONSOL ENERGY INC. AND SUBSIDIARIES

NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

Balance Sheet for December 31, 2007:

	Parent	CNX Gas Guarantor	Other Subsidiary Guarantors	Non-Guarantors	Elimination	Consolidated
Assets:						
Current Assets:						
Cash and Cash Equivalents	$ 6,519	$ 32,048	$	$ 3,084	$	$ 41,651
Accounts and Notes Receivable:						
Trade		38,680		141,865		180,545
Other	840	2,428	34,619	31,884		69,771
Inventories			135,132	28,061		163,193
Deferred Income Taxes	132,089	(1,269)				130,820
Recoverable Income Taxes	18,118	972				19,090
Prepaid Expenses	18,130	13,859	40,985	5,111		78,085
Total Current Assets	175,696	86,718	210,736	210,005		683,155
Property, Plant and Equipment:						
Property, Plant and Equipment	103,223	1,480,446	7,274,197	87,446		8,945,312
Less-Accumulated Depreciation, Depletion and Amortization	52,103	251,367	3,638,286	38,514		3,980,270
Property, Plant and Equipment Net	51,120	1,229,079	3,635,911	48,932		4,965,042
Other Assets:						
Deferred Income Taxes	563,226	(188,415)				374,811
Investment in Affiliates	2,817,974	56,865	1,305,043		(4,085,016)	94,866
Other	30,242	6,772	35,600	17,602		90,216
Total Other Assets	3,411,442	(124,778)	1,340,643	17,602	(4,085,016)	559,893
Total Assets	$ 3,638,258	$ 1,191,019	$ 5,187,290	$ 276,539	$ (4,085,016)	$ 6,208,090
Liabilities and Stockholders Equity:						
Current Liabilities:						
Accounts Payable	$ 71,558	$ 30,263	$ 110,370	$ 26,121	$	$ 238,312
Accounts Payable (Recoverable)-Related Parties	1,592,539		(1,714,595)	122,056		
Short-Term Notes Payable	247,500					247,500
Current Portion of Long-Term Debt		5,819	10,464	2,000		18,283
Other Accrued Liabilities	99,169	25,333	378,788	9,012		512,302
Total Current Liabilities	2,010,766	61,415	(1,214,973)	159,189		1,016,397
Long-Term Debt	258,848	66,949	154,143	8,985		488,925
Deferred Credits and Other Liabilities:						
Postretirement Benefits Other Than Pensions		2,700	2,334,109			2,336,809

Pneumoconiosis			171,896			171,896
Mine Closing			388,710	10,923		399,633
Workers Compensation			118,356			118,356
Deferred Revenue			3,162			3,162
Salary Retirement	67,065	327				67,392
Reclamation			14,497	19,820		34,317
Other	87,160	36,391	52,958	17,157		193,666
Total Deferred Credits and Other Liabilities	154,225	39,418	3,083,688	47,900		3,325,231
Minority Interest					163,118	163,118
Stockholders Equity	1,214,419	1,023,237	3,164,432	60,465	(4,248,134)	1,214,419
Total Liabilities and Stockholders Equity	$ 3,638,258	$ 1,191,019	$ 5,187,290	$ 276,539	$ (4,085,016)	$ 6,208,090

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CONSOL ENERGY INC. AND SUBSIDIARIES

NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

Condensed Statement of Cash Flows

For the Year Ended December 31, 2007:

	Parent	CNX Gas Guarantor	Other Subsidiary Guarantors	Non-Guarantors	Elimination	Consolidated
Net Cash Provided by Operating Activities	$ (258,800)	$ 272,448	$ 649,136	$ 21,249	$	$ 684,033
Cash Flows from Investing Activities:						
Capital Expenditures	$	$ (348,631)	$ (372,424)	$ (22,059)	$	$ (743,114)
Acquisition of AMVEST			(296,724)			(296,724)
Investment in Equity Affiliates		(5,783)	(1,274)			(7,057)
Purchase of Stock in Subsidiary			(10,000)			(10,000)
Proceeds from Sale of Assets		187	83,754	850		84,791
Net Cash Used in Investing Activities	$	$ (354,227)	$ (596,668)	$ (21,209)	$	$ (972,104)
Cash Flows from Financial Activities:						
Dividends Paid	$ (56,475)	$	$	$	$	$ (56,475)
Proceeds from Revolver	247,500					247,500
Purchase of Treasury Stock	(80,157)					(80,157)
Payments on Long Term Notes			(45,000)			(45,000)
Other Financing Activities	42,906	6,654	(7,589)	(2,000)		39,971
Net Cash Used in Financing Activities	$ 153,774	$ 6,654	$ (52,589)	$ (2,000)	$	$ 105,839

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CONSOL ENERGY INC. AND SUBSIDIARIES

NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

Income Statement for the Year Ended December 31, 2006:

	Parent	CNX Gas Guarantors	Other Subsidiary Guarantors	Non-Guarantors	Elimination	Consolidated
Sales Outside	$	$ 393,546	$ 2,707,277	$ 196,322	$ (10,623)	$ 3,286,522
Sales Purchased Gas		43,973				43,973
Sales Gas Royalty Interest		51,054				51,054
Freight Outside			162,761			162,761
Freight Related Parties						
Other Income (including equity earnings)	459,550	26,264	98,852	35,521	(449,326)	170,861
Total Revenue and Other Income	459,550	514,837	2,968,890	231,843	(459,949)	3,715,171
Cost of Goods Sold and Other Operating Charges	45,285	93,519	1,895,786	43,857	171,329	2,249,776
Purchased Gas Costs			44,843			44,843
Gas Royalty Interest		41,998	(119)			41,879
Related Party Activity	(4,821)	44,843	(128)	137,341	(177,235)	
Freight Expense			162,761			162,761
Selling, General and Administrative Expense		39,168	47,775	4,207		91,150
Depreciation, Depletion and Amortization	6,959	37,999	243,869			