
Consol Energy announces Q2 2010 results

Saturday, 31 Jul, 2010

Consol Energy Inc has reported record revenue of USD 1.289 billion in the quarter ended June 30th 2010, up by 20% YoY than the revenue of USD 1.071 billion for the quarter ended June 30th 2009. The Coal Division contributed a record USD 1.002 billion towards the total as compared to USD 841 million in the year earlier quarter.

Adjusted EBITDA was USD 350 million for the quarter ended June 30th 2010, up by 18% YoY than the USD 297 million reported in the year earlier quarter. Adjusted earnings for the second quarter were USD 103 million. During the quarter, Consol Energy incurred acquisition and financing fees and a charge for the settlement of the Yukon litigation. Additionally, certain non cash charges were accrued for a Fola Mine reclamation project.

Despite achieving record revenue in the second quarter, adjusted earnings were lower than the USD 122 million for the year earlier quarter because of increased interest expense associated with the acquisition of the Dominion Appalachian E&P assets. As Consol aggressively drills its largely undeveloped Marcellus Shale acreage, the company fully expects to achieve superior earnings in line with its expected rising revenues.

Consol Energy reported GAAP net income of USD 67 million in the quarter ended June 30th 2010. This compares to USD 113 million in the quarter ended June 30th 2009.

Every year in the second quarter, Consol Energy recalculates the present value of its expected reclamation liabilities. The GAAP net income for the quarter ended June 30th 2009 includes a USD 23 million reduction in the present value of the reclamation liabilities, due to changes in engineering estimates of water quality and flows, as well as to changes in the discount rate.

Additionally, GAAP net income for the quarter ended June 30th 2010 was affected by a USD 14 million increase in actuarial liabilities because of a lowering of the assumed discount rate at December 31st 2009.

Second Quarter 2010 Highlights:

1. Reduced lost time incidents at our mines by 28%; maintained zero incidents at our gas fields
2. Record revenue of USD 1.289 billion
3. Grew quarterly gas production by 42% to a record 31.9 billion cubic feet
4. Calculated expected ultimate recoveries for 2010 Marcellus Shale wells that range from 5.5 to 9.9 billion cubic feet per well
5. Entered into a 15 year firm transportation agreement for Marcellus Shale gas with Dominion Transmission for approximately 200 million cubic feet per day, beginning in late 2012
6. Loaded a record 43 vessels at Baltimore Terminal containing nearly 3.3 million tonnes
7. Completed face extension, to 1,500 feet, at Bailey Mine resulting in the widest panel ever mined in the history of CONSOL. Loveridge Mine also began mining a wider panel during the quarter.

Mr J Brett Harvey chairman, president & CEO of Consol Energy said that "Consol Energy just completed a transformative quarter with the USD 3.475 billion acquisition of Dominion's Appalachian gas assets and the subsequent take in of CNX Gas Corporation. With these two events, Consol Energy is now the largest gas producer in Appalachia, the largest coal producer in Appalachia, and therefore, the largest fossil fuel producer in Appalachia. Our gas portfolio now includes low cost, high margin coalbed methane production, as well as a leading position in the Marcellus Shale, with over 750,000 acres. Nearly 500,000 of the Marcellus acres are held by production, while another 160,000 acres are owned outright by Consol. These attributes translate into a competitive advantage for Consol, because in most cases we only pay a one eighth royalty on acreage held by production and no royalty on the acres that we own outright. Furthermore, if gas prices stay low, we don't have to drill to hold acreage. While a few companies hold more Marcellus Shale acreage in total, we don't believe that any company has as much acreage with these attributes."

He added that "Our tentative 2010 Marcellus Shale drilling results are nothing short of outstanding, with the details described later in this release. With these results in hand, I have asked operations to further accelerate our development of the Marcellus Shale. When we released first quarter earnings, I spoke of Consol adding a second horizontal rig in July and taking an option on a third rig later in the year. We are now committed to having four horizontal rigs running by the end of 2010. Our ability to accelerate our drilling in the second half of the year is due in part to the contribution of the Dominion staff, which was an important part of the transaction. As a result of this increased drilling, we now expect that CONSOL Energy will produce 127 billion cubic feet in 2010 and 170 billion cubic feet in 2011. This will put us on target to achieve our 2015 production goal of 350 billion cubic feet. We believe that we'll be able to fund this growth in gas production with the cash generated from our gas and coal businesses and from our borrowing capacity. Our coal portfolio consists of three products: low volume met coal, high volume met coal, and thermal coal."

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