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EL PASO CORP/DE
Form DEFA14A
April 03, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C.

SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES
EXCHANGE ACT OF 1934 (AMENDMENT NO.)

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EL PASO CORPORATION

(Name of Registrant as Specified in its Charter)

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EL PASO CORPORATION
OPERATING STATISTICS
FOURTH QUARTER 2002

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EL PASO CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(In Millions, Except per Share Amounts)

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(UNAUDITED)

| | Fourth Quarter Ended December 31, | | Twelve Months Ended December 31, | |
|---|--------------------------------------|----------|-------------------------------------|-----------|
| | 2002 | 2001 | 2002 | 2001 |
| Operating revenues | \$ 2,796 | \$ 2,759 | \$ 12,194 | \$ 13,649 |
| Operating expenses | | | | |
| Cost of products and services | 1,944 | 1,084 | 6,447 | 6,353 |
| Operation and maintenance | 728 | 679 | 2,606 | 2,876 |
| Restructuring and merger-related costs | 18 | (7) | 81 | 1,520 |
| (Gain) loss on long-lived assets | 311 | 19 | 282 | 183 |
| Western Energy Settlement | 899 | - | 899 | - |
| Ceiling test charges | 2 | - | 269 | 135 |
| Depreciation, depletion and amortization | 348 | 345 | 1,405 | 1,327 |
| Taxes, other than income taxes | 65 | 43 | 277 | 334 |
| | 4,315 | 2,163 | 12,266 | 12,728 |
| Operating income (loss) | (1,519) | 596 | (72) | 921 |
| Equity earnings and other income (expense) | (163) | 301 | (153) | 708 |
| Earnings before interest expense, income taxes and other charges | (1,682) | 897 | (225) | 1,629 |
| Interest and debt expense | 392 | 290 | 1,400 | 1,156 |
| Returns on preferred interests of consolidated subsidiaries | 38 | 48 | 159 | 217 |
| Income (loss) before income taxes | (2,112) | 559 | (1,784) | 256 |
| Income taxes | (600) | 180 | (495) | 184 |
| Income (loss) from continuing operations before extraordinary items and cumulative effect of accounting changes | (1,512) | 379 | (1,289) | 72 |
| Discontinued operations, net of income taxes | (2) | (4) | (124) | (5) |
| Extraordinary items, net of income taxes | - | - | - | 26 |
| Cumulative effect of accounting changes, net of income taxes | (222) | - | (54) | - |
| Net income (loss) | \$ (1,736) | \$ 375 | \$ (1,467) | \$ 93 |
| Diluted earnings (loss) per common share | \$ (2.92) | \$ 0.72 | \$ (2.62) | \$ 0.18 |
| Diluted average common shares outstanding | | | | |

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| | | | | |
|---------|---------|---------|---------|---------|
| (000's) | 593,894 | 529,154 | 559,521 | 515,591 |
| | ===== | ===== | ===== | ===== |

EL PASO CORPORATION

CONSOLIDATED ANALYSIS OF NON-RECURRING ITEMS

(In Millions, Except per Share Amounts)

(UNAUDITED)

| | Fourth Quarter Ended December 31, | | Twelve Months Ended December 31, | |
|---|--------------------------------------|---------|-------------------------------------|----------|
| | 2002 | 2001 | 2002 | 2001 |
| Reported net income (loss) | \$ (1,736) | \$ 375 | \$ (1,467) | \$ 93 |
| Non-recurring items affecting EBIT | | | | |
| Restructuring and merger-related costs | 18 | (7) | 81 | 1,520 |
| Impairment of long-lived assets | 549 | 16 | 549 | 178 |
| Impairment of equity investments | 291 | 34 | 578 | 77 |
| Impairments of cost basis investments | - | 6 | 56 | 66 |
| Net gain on sale of long-lived assets | (237) | - | (246) | - |
| Net loss on sale of equity investments | 20 | - | 51 | - |
| Changes in accounting estimates (a) | - | - | - | 316 |
| Western Energy Settlement | 899 | - | 899 | - |
| Ceiling test charges | 2 | - | 269 | 135 |
| Total non-recurring items affecting EBIT | 1,542 | 49 | 2,237 | 2,292 |
| Currency loss on Euro bond offering- reported as interest and debt expense | - | - | 45 | - |
| Income taxes- tax effect of above non-recurring items | (437) | (16) | (632) | (635) |
| Discontinued coal operations, net of income taxes | 2 | 4 | 124 | 5 |
| Extraordinary items, net of income taxes-FTC ordered asset sales | - | - | - | (26) |
| Cumulative effect of accounting changes, net of income taxes | | | | |
| Adoption of EITF No. 02-3 | 222 | - | 222 | - |
| Adoption of Derivatives Issue C-16 | - | - | (14) | - |
| Adoption of SFAS No. 141- elimination of negative goodwill | - | - | (154) | - |
| Pro forma net income (loss) | \$ (407) | \$ 412 | \$ 361 | \$ 1,729 |
| Diluted earnings (loss) per common share: Pro forma diluted earnings per common share | \$ (0.69) | \$ 0.79 | \$ 0.64 | \$ 3.31 |

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| | | | | |
|--|-----------|---------|-----------|---------|
| Restructuring and merger-related costs | (0.02) | 0.01 | (0.10) | (2.14) |
| Impairment of long-lived assets | (0.66) | (0.02) | (0.71) | (0.23) |
| Impairment of equity investments | (0.35) | (0.04) | (0.74) | (0.10) |
| Impairments of cost basis investments | - | (0.01) | (0.07) | (0.08) |
| Net gain on sale of long-lived assets | 0.28 | - | 0.32 | - |
| Net loss on sale of equity investments | (0.03) | - | (0.07) | - |
| Changes in accounting estimates (a) | - | - | - | (0.40) |
| Western Energy Settlement | (1.08) | - | (1.16) | - |
| Ceiling test charges | - | - | (0.35) | (0.17) |
| Currency loss on Euro bond offering | - | - | (0.06) | - |
| Discontinued coal operations | - | (0.01) | (0.22) | (0.01) |
| Extraordinary items-FTC ordered asset sales | - | - | - | 0.05 |
| Cumulative effect of accounting changes | | | | |
| Adoption of EITF No. 02-3 | (0.37) | - | (0.40) | - |
| Adoption of Derivatives Issue C-16 | - | - | 0.03 | - |
| Adoption of SFAS No. 141- elimination of negative goodwill | - | - | 0.27 | - |
| Adjustment for antidilution (b) | - | - | - | (0.05) |
| | ----- | ----- | ----- | ----- |
| Reported diluted earnings (loss) per common share | \$ (2.92) | \$ 0.72 | \$ (2.62) | \$ 0.18 |
| | ===== | ===== | ===== | ===== |
| Reported diluted average common shares outstanding (000's) | 593,894 | 529,154 | 559,521 | 515,591 |
| | ===== | ===== | ===== | ===== |
| Adjusted pro forma diluted average common shares outstanding (000's) (b) | 593,894 | 529,154 | 560,466 | 530,494 |
| | ===== | ===== | ===== | ===== |

EL PASO CORPORATION
SEGMENT INFORMATION
(UNAUDITED)

| (In Millions) | 2002 | | | | 2001 | | |
|--|--------|--------|--------|--------|--------|--------|--------|
| | First | Second | Third | Fourth | First | Second | Third |
| Operating revenues | | | | | | | |
| Pipelines | \$ 703 | \$ 629 | \$ 609 | \$ 664 | \$ 792 | \$ 652 | \$ 609 |
| Production | 550 | 560 | 499 | 517 | 571 | 588 | 609 |
| Merchant Energy | 2,011 | 1,346 | 1,071 | 1,162 | 1,905 | 1,689 | 1,416 |
| Field Services | 540 | 501 | 551 | 437 | 757 | 737 | 559 |
| All other and eliminations | (49) | (49) | (74) | 16 | (58) | 91 | (27) |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Consolidated total | 3,755 | 2,987 | 2,656 | 2,796 | 3,967 | 3,757 | 3,166 |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Depreciation, depletion and amortization | | | | | | | |

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| | | | | | | | |
|--|---------|--------|--------|----------|---------|--------|--------|
| Pipelines | \$ 91 | \$ 95 | 94 | \$ 94 | 96 | \$ 95 | 95 |
| Production | 207 | 193 | 181 | 192 | 160 | 165 | 177 |
| Merchant Energy | 34 | 31 | 34 | 30 | 24 | 28 | 26 |
| Field Services | 19 | 15 | 11 | 11 | 28 | 26 | 29 |
| All other and eliminations | 14 | 18 | 20 | 21 | 11 | 11 | 11 |
| Consolidated total | 365 | 352 | 340 | 348 | 319 | 325 | 338 |
| Operating income (loss) | | | | | | | |
| Pipelines | \$ 357 | \$ 277 | \$ 259 | \$ (103) | \$ 294 | \$ 31 | \$ 240 |
| Production | 175 | 5 | 179 | 170 | 188 | 286 | 168 |
| Merchant Energy | 455 | (25) | (241) | (1,525) | 168 | 59 | 147 |
| Field Services | 38 | 36 | 20 | 177 | 20 | 39 | 31 |
| All other and eliminations | (13) | (59) | (16) | (238) | (887) | (350) | (109) |
| Operating income (loss) as reported | 1,012 | 234 | 201 | (1,519) | (217) | 65 | 477 |
| Earnings (loss) before interest expense and income taxes as reported | | | | | | | |
| Pipelines | \$ 399 | \$ 323 | \$ 302 | \$ (206) | \$ 333 | \$ 69 | \$ 274 |
| Production | 176 | 7 | 179 | 172 | 185 | 289 | 169 |
| Merchant Energy | 93 | 60 | (171) | (1,620) | 257 | 137 | 253 |
| Field Services | 51 | 54 | (11) | 193 | 36 | 55 | 43 |
| All other and eliminations | (6) | (33) | 34 | (221) | (880) | (397) | (91) |
| Consolidated total | 713 | 411 | 333 | (1,682) | (69) | 153 | 648 |
| Non-recurring charges | 375 | 287 | 33 | 1,542 | 1,159 | 804 | 280 |
| Pro forma earnings (loss) before interest and taxes | \$1,088 | \$ 698 | \$ 366 | \$ (140) | \$1,090 | \$ 957 | \$ 928 |

EL PASO CORPORATION

CONSOLIDATED NET INCOME
(UNAUDITED)

| (In Millions, Except per Share Amounts) | 2002 | | | | 2001 | | |
|--|---------|---------|---------|---------|---------|---------|---------|
| | First | Second | Third | Fourth | First | Second | Third |
| Operating revenues | \$3,755 | \$2,987 | \$2,656 | \$2,796 | \$3,967 | \$3,757 | \$3,166 |
| Operating expenses | 2,743 | 2,753 | 2,455 | 4,315 | 4,184 | 3,692 | 2,689 |
| Operating income (loss) | 1,012 | 234 | 201 | (1,519) | (217) | 65 | 477 |
| Equity earnings and other income | (299) | 177 | 132 | (163) | 148 | 88 | 171 |

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| | | | | | | | |
|---|---------|----------|----------|-----------|----------|----------|---------|
| Earnings (loss) before interest expense, income taxes and other charges | 713 | 411 | 333 | (1,682) | (69) | 153 | 648 |
| Interest and debt expense | 307 | 359 | 342 | 392 | 295 | 291 | 280 |
| Returns on preferred interests of consolidated subsidiaries | 40 | 43 | 38 | 38 | 62 | 56 | 51 |
| Income (loss) before income taxes and other charges | 366 | 9 | (47) | (2,112) | (426) | (194) | 317 |
| Income taxes | 118 | 1 | (14) | (600) | (35) | (63) | 102 |
| Income (loss) from continuing operations | 248 | 8 | (33) | (1,512) | (391) | (131) | 215 |
| Discontinued operations, net of income taxes | (19) | (67) | (36) | (2) | 1 | (3) | 1 |
| Extraordinary items, net of income taxes | - | - | - | - | (10) | 41 | (5) |
| Cumulative effect of accounting changes, net of income taxes | 154 | 14 | - | (222) | - | - | - |
| Consolidated net income (loss) | \$ 383 | \$ (45) | \$ (69) | \$(1,736) | \$ (400) | \$ (93) | \$ 211 |
| Pro forma diluted earnings per common share (a) | \$ 0.93 | \$ 0.44 | \$(0.02) | \$ (0.69) | \$ 0.96 | \$ 0.79 | \$ 0.78 |
| Reported diluted earnings (loss) per common share | \$ 0.72 | \$(0.08) | \$(0.12) | \$ (2.92) | \$(0.80) | \$(0.18) | \$ 0.41 |
| Adjusted pro forma diluted average common shares outstanding (000's) | 546,472 | 539,975 | 586,079 | 593,894 | 524,963 | 531,556 | 528,099 |
| Reported diluted average common shares outstanding (000's) | 538,015 | 532,163 | 586,079 | 593,894 | 502,401 | 505,083 | 519,642 |

(a) First quarter 2002 pro forma net income and pro forma diluted earnings per share exclude after-tax impairments of investments in Argentina of \$(232) million, an after-tax ceiling test charge of \$(23) million, discontinued operations net of taxes of \$(19) million and an after-tax cumulative effect of an accounting change of \$154 million from the adoption of SFAS No. 141. First quarter 2001 pro forma net income and pro forma diluted earnings per share exclude after-tax merger related costs of \$(889) million, discontinued operations net of taxes of \$1 million and an after-tax net extraordinary loss related to FTC-ordered asset sales of \$(10) million.

Second quarter 2002 pro forma net income and pro forma diluted earnings per share exclude an after-tax ceiling test charge of \$(159) million, after-tax restructuring costs of \$(43) million, an after-tax gain on sale of Field Services' Dragon Trail plant of \$7 million, discontinued operations net of tax of \$(67) million, an after-tax cumulative effect of an accounting change of \$14 million from the adoption of Derivatives Issue C-16 and after-tax currency loss on Euro bond offering reported as interest expense of \$(31) million. Second quarter 2001 pro forma net income and pro forma diluted earnings per share exclude after-tax merger-related costs of \$(545) million, discontinued operations net of taxes of \$(3) million and the after-tax impact of extraordinary items related to FTC-ordered asset sales of \$41 million.

Third quarter 2002 pro forma net income and pro forma diluted earnings per share exclude discontinued operation net of tax of \$(36) million and after-tax loss on sale of asset disposals of \$(22) million. Third quarter

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2001 pro forma net income and pro forma diluted earnings per share exclude after-tax merger-related costs of \$(98) million, an after-tax ceiling test charge of \$(91) million, discontinued operations net of taxes of \$1 million and the after-tax impact of extraordinary items related to FTC-ordered asset sales of \$(5) million.

For an explanation of the fourth quarter 2002 and 2001 excluded charges refer to the Consolidated Analysis of Non-recurring Items on page 3.

EL PASO CORPORATION

CONSOLIDATED EARNINGS BEFORE INTEREST EXPENSE AND INCOME TAXES

(UNAUDITED)

| (In Millions) | 2002 | | | | 2001 | | |
|---|--------|--------|--------|-----------|---------|--------|--------|
| | First | Second | Third | Fourth | First | Second | Third |
| Operating revenues | | | | | | | |
| Pipelines | \$ 703 | \$ 629 | \$ 609 | \$ 664 | \$ 792 | \$ 652 | \$ 609 |
| Production | 550 | 560 | 499 | 517 | 571 | 588 | 609 |
| Merchant Energy | 2,011 | 1,346 | 1,071 | 1,162 | 1,905 | 1,689 | 1,416 |
| Field Services | 540 | 501 | 551 | 437 | 757 | 737 | 559 |
| All other and eliminations | (49) | (49) | (74) | 16 | (58) | 91 | (27) |
| Total | 3,755 | 2,987 | 2,656 | 2,796 | 3,967 | 3,757 | 3,166 |
| Operating expenses | | | | | | | |
| Cost of products and services | 1,613 | 1,472 | 1,418 | 1,944 | 1,923 | 1,965 | 1,381 |
| Operation and maintenance | 662 | 584 | 632 | 728 | 658 | 815 | 724 |
| Restructuring and merger-related costs | - | 63 | - | 18 | 1,011 | 489 | 27 |
| (Gain) loss on long-lived assets | (15) | (15) | 1 | 311 | 153 | 4 | 7 |
| Western energy settlement | - | - | - | 899 | - | - | - |
| Ceiling test charges | 33 | 234 | - | 2 | - | - | 135 |
| Depreciation, depletion and amortization | 365 | 352 | 340 | 348 | 319 | 325 | 338 |
| Taxes, other than income taxes | 85 | 63 | 64 | 65 | 120 | 94 | 77 |
| Total | 2,743 | 2,753 | 2,455 | 4,315 | 4,184 | 3,692 | 2,689 |
| Consolidated operating income (loss) | 1,012 | 234 | 201 | (1,519) | (217) | 65 | 477 |
| Equity earnings and other income | (299) | 177 | 132 | (163) | 148 | 88 | 171 |
| Earnings (loss) before interest expense, income taxes and other charges | \$ 713 | \$ 411 | \$ 333 | \$(1,682) | \$ (69) | \$ 153 | \$ 648 |

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PIPELINE GROUP

EARNINGS BEFORE INTEREST EXPENSE AND INCOME TAXES
(EXCLUDES INTRASEGMENT TRANSACTIONS)

| (In Millions) | 2002 | | | | 2001 | | |
|---|--------|--------|--------|----------|--------|--------|--------|
| | First | Second | Third | Fourth | First | Second | Third |
| Revenues | \$ 703 | \$ 629 | \$ 609 | \$ 664 | \$ 792 | \$ 652 | \$ 609 |
| Operating expenses | | | | | | | |
| Operation and maintenance | 227 | 223 | 226 | 240 | 273 | 265 | 243 |
| Restructuring and merger-related costs | - | 1 | - | - | 88 | 207 | (4) |
| (Gain) loss on long-lived assets | (12) | (2) | 2 | (1) | 1 | 19 | 2 |
| Western Energy Settlement | - | - | - | 412 | - | - | - |
| Depreciation, depletion and amortization | 91 | 95 | 94 | 94 | 96 | 95 | 95 |
| Taxes, other than income taxes | 40 | 35 | 28 | 22 | 40 | 35 | 33 |
| Total | 346 | 352 | 350 | 767 | 498 | 621 | 369 |
| Operating income (loss) as reported | 357 | 277 | 259 | (103) | 294 | 31 | 240 |
| Equity earnings and other income (expense) | 42 | 46 | 43 | (103) | 39 | 38 | 34 |
| Earnings before interest expense and income taxes as reported | \$ 399 | \$ 323 | \$ 302 | \$ (206) | \$ 333 | \$ 69 | \$ 274 |
| Earnings before interest expense and income taxes as reported | \$ 399 | \$ 323 | \$ 302 | \$ (206) | \$ 333 | \$ 69 | \$ 274 |
| Non-recurring charges: | | | | | | | |
| Operations and Maintenance | - | 1 | - | - | 89 | 246 | (4) |
| Western Energy Settlement | - | - | - | 412 | - | - | - |
| Equity earnings and other income | - | - | - | 149 | - | - | 3 |
| Pro forma earnings before interest expense and income taxes | \$ 399 | \$ 324 | \$ 302 | \$ 355 | \$ 422 | \$ 315 | \$ 273 |

PIPELINE GROUP

THROUGHPUT

(EXCLUDES INTRASEGMENT VOLUMES)

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(BBtu/d)

| | 2002 | | | | 2001 | | |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | First | Second | Third | Fourth | First | Second | Third |
| Tennessee Gas Pipeline | 4,789 | 4,235 | 4,472 | 4,889 | 5,045 | 4,092 | 4,162 |
| American Natural Resources | 3,779 | 3,604 | 3,746 | 3,634 | 3,938 | 3,776 | 3,655 |
| Southern Natural Gas | 2,283 | 1,780 | 1,823 | 2,195 | 2,231 | 1,657 | 1,692 |
| El Paso Natural Gas | 4,203 | 4,046 | 4,069 | 3,943 | 4,826 | 4,552 | 4,550 |
| Colorado Interstate Gas | 2,789 | 2,429 | 2,460 | 2,896 | 2,431 | 2,284 | 2,136 |
| Total | 17,843 | 16,094 | 16,570 | 17,557 | 18,471 | 16,361 | 16,195 |
| Equity Investments (Ownership Percentage) | | | | | | | |
| Citrus (50%) | 887 | 1,048 | 1,151 | 919 | 619 | 782 | 954 |
| Portland (30%) | 51 | 31 | 43 | 46 | 26 | 19 | 34 |
| Australia (33%) | 286 | 309 | 320 | 304 | 293 | 296 | 347 |
| Great Lakes (50%) | 1,245 | 1,099 | 1,221 | 1,192 | 1,146 | 1,095 | 1,143 |
| Alliance (2%) | 224 | 208 | 199 | 136 | 202 | 222 | 210 |
| Total | 2,693 | 2,695 | 2,934 | 2,597 | 2,286 | 2,414 | 2,688 |
| Total throughput | 20,536 | 18,789 | 19,504 | 20,154 | 20,757 | 18,775 | 18,883 |

PRODUCTION

EARNINGS BEFORE INTEREST EXPENSE AND INCOME TAXES

(EXCLUDES INTRASEGMENT TRANSACTIONS)

| (In Millions) | 2002 | | | | 2001 | | |
|---------------------------------|------------|------------|------------|------------|------------|------------|------------|
| | First | Second | Third | Fourth | First | Second | Third |
| Operating revenues | | | | | | | |
| Natural gas | \$ 480 | \$ 441 | \$ 403 | \$ 434 | \$ 480 | \$ 501 | \$ 523 |
| Oil, condensate and liquids | 82 | 115 | 92 | 84 | 86 | 80 | 80 |
| Other | (12) | 4 | 4 | (1) | 5 | 7 | 6 |
| Total operating revenues | 550 | 560 | 499 | 517 | 571 | 588 | 609 |

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| | | | | | | | |
|---|--------|--------|--------|--------|--------|--------|--------|
| Transportation and net product costs | (22) | (33) | (29) | (29) | (37) | (19) | (19) |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Total operating margin | 528 | 527 | 470 | 488 | 534 | 569 | 590 |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Operating expenses | | | | | | | |
| Operation and maintenance | 97 | 92 | 97 | 100 | 75 | 83 | 86 |
| Restructuring and merger-related costs | - | - | - | - | 47 | - | - |
| (Gain) loss on long-lived assets | (2) | - | - | 5 | 16 | - | - |
| Ceiling test charges | 33 | 234 | - | 2 | - | - | 135 |
| Depreciation, depletion and amortization | 207 | 193 | 181 | 192 | 160 | 165 | 177 |
| Taxes, other than income taxes | 18 | 3 | 13 | 19 | 48 | 35 | 24 |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Total | 353 | 522 | 291 | 318 | 346 | 283 | 422 |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Operating income | 175 | 5 | 179 | 170 | 188 | 286 | 168 |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Equity Earnings and Other income (expense) | 1 | 2 | - | 2 | (3) | 3 | 1 |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Earnings before interest expense and income taxes as reported | \$ 176 | \$ 7 | \$ 179 | \$ 172 | \$ 185 | \$ 289 | \$169 |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Earnings before interest expense and income taxes as reported | \$ 176 | \$ 7 | \$ 179 | \$ 172 | \$ 185 | \$ 289 | \$ 169 |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Non-recurring charges: | | | | | | | |
| Operations and Maintenance | - | - | - | 4 | 63 | 7 | 3 |
| Ceiling test charges | 33 | 234 | - | 2 | - | - | 135 |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Pro forma earnings before interest expense and income taxes | \$ 209 | \$ 241 | \$ 179 | \$ 178 | \$ 248 | \$ 296 | \$ 307 |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |

PRODUCTION

SALES VOLUMES AND REALIZED PRICES

| | 2002 | | | | 2001 | | |
|----------------------------------|--------|--------|--------|--------|--------|--------|--------|
| | First | Second | Third | Fourth | First | Second | Third |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Natural Gas Sales Volumes (MMcf) | | | | | | | |
| Onshore | 82,122 | 69,866 | 68,612 | 62,619 | 72,764 | 77,493 | 84,098 |
| Offshore | 40,024 | 38,239 | 36,991 | 35,818 | 54,033 | 52,231 | 51,362 |

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| | | | | | | | |
|---|----------|----------|----------|----------|----------|----------|---------|
| Coal Seam | 7,261 | 8,223 | 9,957 | 10,350 | 5,530 | 6,878 | 7,785 |
| International | 3,859 | 3,692 | 4,532 | 4,759 | 1,617 | 2,675 | 3,121 |
| <hr/> | | | | | | | |
| Total Natural Gas Sales Volumes | 133,266 | 120,020 | 120,092 | 113,546 | 133,944 | 139,277 | 146,366 |
| <hr/> | | | | | | | |
| Oil, Condensate and Liquids Sales | | | | | | | |
| Volumes (MBbls) | | | | | | | |
| Onshore | 2,132 | 1,778 | 1,416 | 1,261 | 1,575 | 1,901 | 1,507 |
| Offshore | 2,586 | 2,913 | 2,323 | 2,053 | 1,545 | 1,429 | 1,858 |
| International | 270 | 275 | 247 | 260 | 14 | 23 | 197 |
| <hr/> | | | | | | | |
| Total Oil, Condensate and Liquids Sales Volumes | 4,988 | 4,966 | 3,986 | 3,574 | 3,134 | 3,353 | 3,562 |
| <hr/> | | | | | | | |
| Equivalent Sales Volumes (MMcf) | | | | | | | |
| Onshore | 94,913 | 80,534 | 77,109 | 70,184 | 82,213 | 88,900 | 93,140 |
| Offshore | 55,538 | 55,719 | 50,931 | 48,134 | 63,300 | 60,805 | 62,510 |
| Coal Seam | 7,261 | 8,223 | 9,957 | 10,350 | 5,530 | 6,878 | 7,785 |
| International | 5,481 | 5,340 | 6,011 | 6,324 | 1,699 | 2,812 | 4,307 |
| <hr/> | | | | | | | |
| Total Equivalent Sales Volumes | 163,193 | 149,816 | 144,008 | 134,992 | 152,742 | 159,395 | 167,742 |
| <hr/> | | | | | | | |
| Weighted Average Realized Prices | | | | | | | |
| Natural Gas (\$/Mcf) | \$ 3.46 | \$ 3.45 | \$ 3.21 | \$ 3.61 | \$ 3.48 | \$ 3.49 | \$ 3.46 |
| Natural Gas (\$/Mcf) before Hedging | \$ 2.18 | \$ 2.40 | \$ 2.93 | 3.79 | \$ 7.14 | \$ 4.37 | \$ 2.85 |
| Oil, Condensate and Liquids (\$/bbl) | \$ 15.68 | \$ 22.14 | \$ 22.19 | \$ 22.39 | \$ 27.42 | \$ 22.98 | \$21.62 |
| Oil, Condensate and Liquids (\$/bbl) before Hedging | \$ 15.02 | \$ 21.99 | \$ 22.93 | \$ 23.14 | \$ 28.64 | \$ 24.02 | \$22.46 |
| <hr/> | | | | | | | |

MERCHANT ENERGY GROUP

EARNINGS BEFORE INTEREST EXPENSE AND INCOME TAXES

(EXCLUDES INTRASEGMENT TRANSACTIONS)

| (In Millions) | 2002 | | | | 2001 | | |
|--------------------------------|-------|--------|-------|---------|-------|--------|-------|
| | First | Second | Third | Fourth | First | Second | Third |
| Gross margin and other revenue | \$819 | \$307 | \$101 | \$(312) | \$638 | \$460 | \$478 |
| Operating expenses | | | | | | | |
| Operation and maintenance | 319 | 277 | 295 | 359 | 301 | 347 | 298 |

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| | | | | | | | |
|---|-------|------|---------|-----------|-------|-------|-------|
| Restructuring and merger-related costs | - | 11 | 1 | 17 | 4 | 25 | (1) |
| (Gain) loss on long-lived assets | - | (3) | (2) | 306 | 132 | (9) | - |
| Western Energy Settlement | - | - | - | 487 | - | - | - |
| Depreciation, depletion and amortization | 34 | 31 | 34 | 30 | 24 | 28 | 26 |
| Taxes other than income taxes | 11 | 16 | 14 | 14 | 9 | 10 | 8 |
| | ----- | --- | ----- | ----- | ----- | ----- | ----- |
| Total | 364 | 332 | 342 | 1,213 | 470 | 401 | 331 |
| | ----- | --- | ----- | ----- | ----- | ----- | ----- |
| Operating income (loss) as reported | 455 | (25) | (241) | (1,525) | 168 | 59 | 147 |
| Equity earnings and other income (expense) | (362) | 85 | 70 | (95) | 89 | 78 | 106 |
| | ----- | --- | ----- | ----- | ----- | ----- | ----- |
| Earnings before interest expense and income taxes as reported | \$ 93 | \$60 | \$(171) | \$(1,620) | \$257 | \$137 | \$253 |
| | ----- | --- | ----- | ----- | ----- | ----- | ----- |
| Earnings before interest expense and income tax as reported | \$ 93 | \$60 | \$(171) | \$(1,620) | \$257 | \$137 | \$253 |
| Non-recurring charges: | | | | | | | |
| Operation and maintenance | - | 11 | 1 | 326 | 134 | 91 | 61 |
| Western Energy Settlement | - | - | - | 487 | - | - | - |
| Equity earnings and other income (expense) | 342 | - | (16) | 159 | - | 39 | - |
| | ----- | --- | ----- | ----- | ----- | ----- | ----- |
| Pro forma earnings before interest expense and income taxes | \$435 | \$71 | \$(186) | \$(648) | \$391 | \$267 | \$314 |
| | ----- | --- | ----- | ----- | ----- | ----- | ----- |

MERCHANT ENERGY GROUP

ANALYSIS OF PRO FORMA EARNINGS BEFORE INTEREST EXPENSE AND INCOME TAXES BY DIVISION

| (In Millions) | 2002 | | | | 2001 | | |
|-------------------------|-------|--------|-------|--------|-------|--------|-------|
| | First | Second | Third | Fourth | First | Second | Third |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Power | | | | | | | |
| Electron management fee | \$ 46 | \$ 46 | \$ 47 | \$ 46 | \$ 37 | \$ 37 | \$ 37 |
| Other Domestic | 354 | 69 | 19 | 4 | 55 | 47 | 32 |
| International | 14 | 114 | 49 | 47 | 36 | 52 | 65 |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Total | 414 | 229 | 115 | 97 | 128 | 136 | 134 |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |

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| | | | | | | | |
|--|-------|-------|----------|----------|-------|-------|-------|
| Petroleum | | | | | | | |
| Refineries | 15 | (16) | (84) | 10 | 45 | - | 32 |
| Chemicals, Terminals, Marine, & Other | 1 | - | (1) | (11) | 12 | 18 | 9 |
| Petroleum & LNG Trading | 4 | 19 | 17 | 42 | 48 | 48 | 26 |
| | ---- | ---- | ---- | ---- | ---- | ---- | ---- |
| Total | 20 | 3 | (68) | 41 | 105 | 66 | 67 |
| | ---- | ---- | ---- | ---- | ---- | ---- | ---- |
| Trading | | | | | | | |
| Gas and Power | 68 | (108) | (170) | (713) | 194 | 112 | 160 |
| | ---- | ---- | ---- | ---- | ---- | ---- | ---- |
| Total | 68 | (108) | (170) | (713) | 194 | 112 | 160 |
| | ---- | ---- | ---- | ---- | ---- | ---- | ---- |
| Admin. G&A | (67) | (53) | (63) | (73) | (36) | (47) | (47) |
| | ---- | ---- | ---- | ---- | ---- | ---- | ---- |
| Total | \$435 | \$ 71 | \$ (186) | \$ (648) | \$391 | \$267 | \$314 |
| | ---- | ---- | ---- | ---- | ---- | ---- | ---- |

MERCHANT ENERGY GROUP

OPERATING DATA

(EXCLUDES INTRASEGMENT TRANSACTIONS)

| | 2002 | | | | 2001 | | |
|---|----------|----------|----------|---------|----------|----------|----------|
| | First | Second | Third | Fourth | First | Second | Third |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| PRICE RISK MANAGEMENT STATISTICS | | | | | | | |
| Forward Trading Book (In Millions) | \$ 995 | \$ 1,078 | \$ 968 | \$ (59) | \$ 1,151 | \$ 1,158 | 1,026 |
| Forward Non-trading Book (In Millions) | 984 | 979 | 963 | 968 | - | - | - |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Total Forward Book (In Millions) | \$ 1,979 | \$ 2,057 | \$ 1,931 | \$ 909 | \$ 1,151 | \$ 1,158 | \$ 1,026 |
| | | | | | | | |
| Average VAR (In Millions) * | \$ 18 | \$ 13 | \$ 16 | \$ 16 | \$ 35 | \$ 25 | \$ 24 |
| Physical Gas Delivery (BBtu/d) | 13,221 | 13,639 | 12,425 | 8,232 | 13,847 | 9,187 | 7,318 |
| Physical Power Sales (MMwh) | 104,659 | 107,698 | 141,022 | 116,098 | 35,488 | 44,537 | 60,551 |
| Financial Settlements (BBtue/d)** | 222,745 | 201,637 | 207,683 | 195,215 | 247,596 | 186,860 | 231,942 |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| ASSET STATISTICS | | | | | | | |
| Power Assets Capacity (Net Megawatts) | | | | | | | |
| Domestic | 2,228 | 2,228 | 2,183 | 2,192 | 3,517 | 3,117 | 3,117 |
| Electron | 3,931 | 3,931 | 3,465 | 3,457 | 4,202 | 4,722 | 3,714 |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Total Domestic | 6,159 | 6,159 | 5,648 | 5,649 | 7,719 | 7,839 | 6,831 |
| International | 4,389 | 4,535 | 5,302 | 4,836 | 3,806 | 3,685 | 3,685 |

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| Total | 10,548 | 10,694 | 10,950 | 10,485 | 11,525 | 11,524 | 10,516 |
|---------------------------------|---------|----------|----------|----------|----------|----------|----------|
| Power Generation Volumes (MMwh) | 1,663 | 1,409 | 1,631 | 1,206 | 819 | 897 | 1,020 |
| Petroleum Assets | | | | | | | |
| Aruba refinery-MBbl/d | 220 | 124 | 118 | 124 | 247 | 142 | 171 |
| Aruba refinery-Margin/Bbl | \$3.324 | \$ 1.619 | \$ 1.659 | \$ 3.103 | \$ 4.345 | \$ 5.482 | \$ 3.657 |
| Eagle Point refinery-MBbl/d | 92 | 124 | 143 | 146 | 122 | 128 | 114 |
| Eagle Point refinery-Margin/Bbl | \$4.351 | \$ 2.942 | \$ 3.261 | \$ 4.174 | \$ 4.027 | \$ 3.624 | \$ 2.480 |

ANALYSIS OF PRICE RISK MANAGEMENT ACTIVITIES AND FORWARD BOOK

Total Portfolio Value at Risk:

| | (In Millions) |
|---|---------------|
| One Day VAR-95% Confidence Level at December 31, 2002 | \$ 11 |
| One Day VAR-99% Confidence Level at December 31, 2002 | \$ 16 |
| Average VAR-95% Confidence Level during 2002 | \$ 16 |
| High VAR-95% Confidence Level during 2002 | \$ 22 |
| Low VAR-95% Confidence Level during 2002 | \$ 9 |

| Risk Management Assets and Liabilities | December 02 (In Millions) | |
|---|---------------------------|--------|
| | Trade Book | Book |
| Mark to Market Value and Cash Liquidation | | |
| 2003 | \$ 26 | \$ 93 |
| 2004 | \$ (21) | \$ 91 |
| 2005 | \$ 18 | \$ 89 |
| 2006 | \$ 3 | \$ 86 |
| 2007 | \$ (12) | \$ 84 |
| Remainder | \$ (73) | \$ 525 |

* 2001 average VAR was calculated using the variance-covariance methodology, and 2002 was calculated using the historical simulation methodology.

** Financial settlements for the second through fourth quarters of 2002 and year-to-date 2002 exclude financial settlements associated with futures.

FIELD SERVICES
EARNINGS BEFORE INTEREST EXPENSE AND INCOME TAXES
(EXCLUDES INTERSEGMENT TRANSACTIONS)

| (In Millions) | 2002 | | | | 2001 | | |
|------------------------------|-------|--------|-------|--------|-------|--------|-------|
| | First | Second | Third | Fourth | First | Second | Third |
| Gross margin | | | | | | | |
| Gathering and transportation | \$ 82 | \$ 41 | \$ 39 | \$ 29 | \$ 76 | \$ 74 | \$ 82 |

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| | | | | | | | |
|---|-------|-------|---------|--------|-------|-------|-------|
| Processing | 39 | 39 | 39 | 30 | 61 | 65 | 61 |
| NGL business | 4 | 4 | 2 | 1 | 13 | 6 | 2 |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Total | 125 | 84 | 80 | 60 | 150 | 145 | 145 |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Operating expenses | | | | | | | |
| Operation and maintenance | 61 | 37 | 44 | 38 | 66 | 64 | 71 |
| Restructuring and merger-related costs | - | 1 | - | - | 29 | 9 | 8 |
| (Gain) loss on long-lived assets | - | (10) | 1 | (170) | - | - | - |
| Depreciation, depletion and amortization | 19 | 15 | 11 | 11 | 28 | 26 | 29 |
| Taxes; other than income taxes | 7 | 5 | 4 | 4 | 7 | 7 | 6 |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Total | 87 | 48 | 60 | (117) | 130 | 106 | 114 |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Operating income (loss) as reported | 38 | 36 | 20 | 177 | 20 | 39 | 31 |
| Equity earnings and other income (expense) | 13 | 18 | (31) | 16 | 16 | 16 | 12 |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Earnings before interest expense and income taxes as reported | \$ 51 | \$ 54 | \$ (11) | \$ 193 | \$ 36 | \$ 55 | \$ 43 |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Earnings before interest expense and income taxes as reported | \$ 51 | \$ 54 | \$ (11) | \$ 193 | \$ 36 | \$ 55 | \$ 43 |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Non-recurring charges: | | | | | | | |
| Operation and maintenance | - | (9) | 1 | (169) | 29 | 10 | 17 |
| Equity earnings and other income | - | - | 47 | 3 | - | - | - |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Pro forma earnings before interest expense and income taxes | \$ 51 | \$ 45 | \$ 37 | \$ 27 | \$ 65 | \$ 65 | \$ 60 |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Equity earnings from El Paso Energy Partners, L.P. (a) | \$ 15 | \$ 18 | \$ 17 | \$ 19 | \$ 16 | \$ 10 | \$ 10 |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Cash Distributions from El Paso Energy Partners, L.P. | | | | | | | |
| Common unit ownership | 6 | 8 | 8 | 8 | 5 | 5 | 5 |
| General partner ownership | 9 | 11 | 11 | 12 | 5 | 6 | 6 |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Total | \$ 15 | \$ 19 | \$ 19 | \$ 20 | 10 | \$ 11 | \$ 11 |

FIELD SERVICES SEGMENT

VOLUMES AND RATES

| 2002 | | | | 2001 | | |
|-------|--------|-------|--------|-------|--------|-------|
| First | Second | Third | Fourth | First | Second | Third |
| ----- | ----- | ----- | ----- | ----- | ----- | ----- |

Gathering and transportation volumes

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| | | | | | | | |
|--|---------|---------|---------|---------|---------|---------|--------|
| (BBtu/d) | 2,153 | 2,265 | 2,209 | 1,839 | 2,442 | 2,363 | 2,22 |
| Gathering and transportation volumes from sold assets(1) | 3,679 | - | - | - | 3,666 | 3,631 | 3,94 |
| Total gathering and transportation volumes (Btu/d) | 5,832 | 2,265 | 2,209 | 1,839 | 6,108 | 5,994 | 6,17 |
| Weighted average gathering and transportation rates (\$/MMBtu) | \$ 0.16 | \$ 0.20 | \$ 0.19 | \$ 0.17 | \$ 0.14 | \$ 0.14 | \$ 0.1 |
| Processing volumes (Inlet BBtu/d) (2) | 3,937 | 3,928 | 3,883 | 3,729 | 3,710 | 4,160 | 4,36 |
| Processing volumes from sold assets (1) | 180 | 28 | - | - | 182 | 180 | 18 |
| Total processing volumes (Inlet BBtu/d) | 4,117 | 3,956 | 3,883 | 3,729 | 3,892 | 4,340 | 4,55 |
| Weighted average processing margins (\$/MMBtu) | \$ 0.10 | \$ 0.11 | \$ 0.11 | \$ 0.09 | \$ 0.17 | \$ 0.16 | \$ 0.1 |
| Total NGL production (Bbl/d) | 162,052 | 181,718 | 153,630 | 134,851 | 143,784 | 172,212 | 184,06 |

| | 2002 | | | | 2001 | | |
|---|---------|---------|---------|---------|---------|---------|--------|
| | First | Second | Third | Fourth | First | Second | Third |
| El Paso Energy Partners, L.P | | | | | | | |
| Natural gas pipelines and plants (BBtu/d) (2) | 2,430 | 6,254 | 5,971 | 6,501 | 1,950 | 2,235 | 1,89 |
| Oil and NGL logistics (Bbls/d) | 231,740 | 240,184 | 219,449 | 209,613 | 201,288 | 248,825 | 234,60 |

EL PASO CORPORATION

SCHEDULE OF NON-RECURRING ITEMS

(UNAUDITED)

| (In Millions) | Fourth Quarter Ended December 31, | | | | | |
|--|-----------------------------------|-----------|---------|-----------|---------|-----------|
| | 2002 | | 2001 | | | |
| | Pre-tax | After-tax | Pre-tax | After-tax | Pre-tax | After-tax |
| Restructuring and merger-related costs | | | | | | |

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| | | | | | |
|--|------------------|------------------|----------------|----------------|------------------|
| Employee severance, retention and transition costs | \$ 18 | \$ 13 | \$ 9 | \$ 6 | \$ 41 |
| Transactions costs and fees | - | - | - | - | 40 |
| Business and operational integration | | | (32) | (22) | - |
| Other | - | - | 16 | 11 | - |
| Total Restructuring and merger-related costs | ----- 18 | ----- 13 | ----- (7) | ----- (5) | ----- 81 |
| Asset impairments and net (gain)/loss on sales | | | | | |
| Long-lived assets impairment | 549 | 393 | 16 | 11 | 549 |
| Equity investments impairment | 291 | 209 | 34 | 23 | 578 |
| Cost basis investments impairment | - | - | 6 | 4 | 56 |
| Long-lived assets net gain on sales | (237) | (169) | - | - | (246) |
| Equity investments net loss on sales | 20 | 14 | - | - | 51 |
| Total (gain)/loss on assets | ----- 623 | ----- 447 | ----- 56 | ----- 38 | ----- 988 |
| Changes in accounting estimates | | | | | |
| Western Energy Settlement | 899 | 644 | - | - | 899 |
| Ceiling test charges | 2 | 1 | - | - | 269 |
| Total charges impacting EBIT | ----- 1,542 | ----- 1,105 | ----- 49 | ----- 33 | ----- 2,237 |
| Currency Loss | - | - | - | - | 45 |
| Discontinued operations, net of income taxes | - | 2 | - | 4 | - |
| Extraordinary items, net of income taxes | - | - | - | - | - |
| Cumulative effect of accounting changes, net of income taxes | - | 222 | - | - | - |
| Total non-recurring items | ----- \$1,542 | ----- \$1,329 | ----- \$ 49 | ----- \$ 37 | ----- \$2,282 |

| | Fourth Quarter 2002 | | | Twelve M |
|-----------------------|---------------------|------------------|---------------------|------------------|
| | Pro forma EBIT | Non-Rec Charges | Reported EBIT | Pro forma EBIT |
| Total EBIT by segment | ----- | ----- | ----- | ----- |
| Pipelines | \$ 355 | \$ 561 | \$ (206) | \$1,380 |
| Production | 178 | 6 | 172 | 807 |
| Merchant Energy | (648) | 972 | (1,620) | (328) |
| Field Services | 27 | (166) | 193 | 160 |
| Corporate and Other | (52) | 169 | (221) | (7) |
| Total | ----- \$ (140) | ----- \$1,542 | ----- \$ (1,682) | ----- \$2,012 |

| | Fourth Quarter 2001 | | | Twelve M |
|-----------------------|---------------------|-----------------|---------------|----------------|
| | Pro forma EBIT | Non-Rec Charges | Reported EBIT | Pro forma EBIT |
| Total EBIT by segment | ----- | ----- | ----- | ----- |
| Pipelines | \$ 362 | \$ - | \$ 362 | 1,372 |
| Production | 277 | - | 277 | 1,128 |

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| | | | | |
|---------------------|--------|-------|--------|---------|
| Merchant Energy | 307 | 50 | 257 | 1,279 |
| Field Services | 61 | - | 61 | 251 |
| Corporate and Other | (61) | (1) | (60) | (109) |
| | ----- | ----- | ----- | ----- |
| Total | \$ 946 | 49 | \$ 897 | \$3,921 |
| | ----- | ----- | ----- | ----- |