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EL PASO CORP/DE
Form DEFA14A
May 14, 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.)

Filed by the Registrant [X]
Filed by a Party other than the Registrant []

Check the appropriate box:

- [] Preliminary Proxy Statement
 [] Confidential, for Use of the Commission Only (as permitted by
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 [] Definitive Proxy Statement
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EL PASO CORPORATION

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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(3) Filing Party:

(4) Date Filed:

Q1 2003 EARNINGS CONFERENCE CALL SLIDE PRESENTATION

EL PASO

FIRST QUARTER 2003
EARNINGS REVIEW

MAY 13, 2003

CAUTIONARY STATEMENT REGARDING
FORWARD-LOOKING STATEMENTS

This presentation includes forward-looking statements and projections, made in reliance on the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The company has made every reasonable effort to ensure that the information and assumptions on which these statements and projections are based are current, reasonable, and complete. However, a variety of factors could cause actual results to differ materially from the projections, anticipated results or other expectations expressed in this presentation, including, without limitation, the successful implementation of the 2003 business plan; the successful implementation of the settlement related to the western energy crisis; actions by credit rating agencies; our ability to attract and retain qualified members of the Board of Directors and senior management; our ability to divest of certain non-core assets; material and adverse impacts from our proxy contest with Selim Zilkha/Oscar Wyatt; changes in commodity prices for oil, natural gas, and power; general economic and weather conditions in geographic regions or markets served by El Paso Corporation and its affiliates, or where operations of the company and its affiliates are located; the uncertainties associated with governmental regulation; competition; and other factors described in the company's (and its affiliates') Securities and Exchange Commission filings. While the company makes these statements and projections in good faith, neither the company nor its management can guarantee that anticipated future results will be achieved. Reference must be made to those filings for additional important factors that may affect actual results. The company assumes no obligation to publicly update or revise any forward-looking statements made herein or any other forward-looking statements made by the Company, whether as a result of new

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information, future events, or otherwise.

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ADDITIONAL IMPORTANT INFORMATION

In this presentation we include certain financial information that is calculated and presented on the basis of methodologies other than in accordance with generally accepted accounting principles (GAAP). A presentation of the most directly comparable financial measure calculated and presented in accordance with GAAP, and a reconciliation of the differences between each non-GAAP financial measure used in this presentation with the most directly comparable financial measure calculated and presented in accordance with GAAP, is provided on our website, www.elpaso.com. This information may be accessed in the For Investors section by clicking on the "First Quarter 2003 Operating Statistics" or by clicking the "First Quarter 2003 Earnings Review" presentation in the Presentations section of the For Investors section.

On May 12, 2003, El Paso Corporation began the process of mailing its definitive proxy statement, together with a WHITE proxy card. Shareholders are strongly advised to read El Paso's proxy statement as it contains important information.

Shareholders may obtain an additional copy of El Paso's definitive proxy statement and any other documents filed by El Paso with the Securities and Exchange Commission for free at the Internet Web site maintained by the Securities and Exchange Commission at www.sec.gov. Copies of the definitive proxy statement are available for free at El Paso's Internet Web site at www.elpaso.com or by writing to El Paso Corporation, Investor Relations, P.O. Box 2511, Houston, TX 77252. In addition, copies of El Paso's proxy materials may be requested by contacting El Paso's proxy solicitor, MacKenzie Partners, Inc. at (800) 322-2885 Toll-Free or by email at proxy@mackenziepartners.com.

Information regarding the names, affiliation and interests of individuals who may be deemed participants in the solicitation of proxies of El Paso's shareholders is contained in El Paso's definitive proxy statement.

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RECONCILIATION OF EBIT TO GAAP OPERATING INCOME

FIRST QUARTER 2003

PIPELINE GROUP	PRODUCTION	FIELD SERVICES	MERCHANT ENERGY	CORPORATE AND OTHER	CONSOLIDATED TOTAL
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GAAP operating

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income	\$ 384	\$ 235	\$ -	\$ (514)	\$ (44)	\$ 61
Equity and other income	45	9	27	(242)	(24)	(185)
Reported EBIT	429	244	27	(756)	(68)	(124)
Non-recurring items	-	12	1	663	22	698
PRO FORMA EBIT	\$ 429	\$ 256	\$ 28	\$ (93)	\$ (46)	\$ 574

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RECONCILIATION OF EBIT TO
GAAP OPERATING INCOME

FIRST QUARTER 2002

	PIPELINE GROUP	PRODUCTION	FIELD SERVICES	MERCHANT ENERGY	CORPORATE AND OTHER	CONSOLIDATED TOTAL
GAAP operating income	\$ 357	\$ 175	\$ 38	\$ 455	\$ (13)	\$1,012
Equity and other income	42	1	13	(362)	7	(299)
Reported EBIT	399	176	51	93	(6)	713
Non-recurring items	-	33	-	342	-	375
PRO FORMA EBIT	\$ 399	\$ 209	\$ 51	\$ 435	\$ (6)	\$1,088

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RECONCILIATION OF EBIT TO
GAAP OPERATING INCOME

FOURTH QUARTER 2002

PIPELINE	FIELD	MERCHANT	CORPORATE	CONSOLIDATED
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	GROUP	PRODUCTION	SERVICES	ENERGY	AND OTHER	TOTAL
GAAP operating income	\$ (103)	\$ 170	\$ 177	\$ (1,525)	\$ (238)	\$ (1,519)
Equity and other income	(103)	2	16	(95)	(33)	(213)
Reported EBIT	(206)	172	193	(1,620)	(271)	(1,732)
Non-recurring items	561	6	(166)	972	169	1,542
PRO FORMA EBIT	\$ 355	\$ 178	\$ 27	\$ (648)	\$ (102)	\$ (190)

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1ST QUARTER SUMMARY

\$ MILLIONS, EXCEPT EPS

	QUARTER ENDED		
	MARCH 31, 2003	DECEMBER 31, 2002	MARCH 31, 2002
Reported diluted earnings per share	\$ (.66)	\$ (2.92)	\$.72
Non-recurring items	.90	2.23	.21
Pro forma diluted earnings per share	\$.24	\$ (.69)	\$.93
Funds from operations	\$ 585	\$ 446	\$ 739
Working capital and other	\$ (674)	\$ (1,169)	\$ (653)
Cash provided (used) from operations	\$ (89)	\$ (723)	\$ 86

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CORE BUSINESS
POSTED STRONG RESULTS

\$ MILLIONS

	QUARTER ENDED		
	MARCH 31, 2003	DECEMBER 31, 2002	MARCH 31, 2002
Pipelines	\$ 429	\$ 355	\$ 399
Production	256	178	209
Field Services	28	27	51
PRO FORMA EBIT	\$ 713	\$ 560	\$ 659

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PROGRESS AND
NEW INITIATIVES

PROGRESS AGAINST 2003 OPERATIONAL
AND FINANCIAL PLAN

- o \$2.3 billion (67%) of \$3.4 billion asset sales program announced or completed
- o Significant improvement in liquidity
- o Simplification of balance sheet
- o Proposed Western energy settlement
- o Extension of \$3 billion bank facility
- o \$1.9 billion of financings
- o Sale of European natural gas trading book

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NEXT STEPS

- o The Board of Directors has formed a long-range planning committee to ensure that El Paso maximizes all opportunities inherent in its core businesses

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- o Undertaking top-to-bottom analysis to achieve substantial further cost reductions and design most cost-efficient structure possible for our businesses
- o Targeting at least \$250 MM of additional pre-tax cost savings and business efficiencies beyond \$150 MM previously announced by the end of 2004
 - Expected from corporate expense reductions and budgeted cost savings and revenue enhancements at business unit level

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LONG RANGE PLANNING PROCESS

- o Initial review of appropriate leverage capability of core assets
 - Self-sustaining leverage to allow for maintenance and growth capital
 - Investment grade ratio comparison
- o Evaluating options to achieve additional debt reduction
- o Process will streamline and optimize core businesses
 - Reduce costs
 - Minimize capital
 - Generate free cash flow

WE WILL PROVIDE DETAILED UPDATE TO THE INVESTMENT
COMMUNITY UPON COMPLETION OF THIS PROCESS

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BUSINESS UNIT RESULTS

PIPELINE GROUP

\$ MILLIONS

	QUARTER ENDED MARCH 31,	
	2003	2002
Reported EBIT	\$ 429	\$ 399

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Total throughput (BBtu/d) 23,609 21,727

- o Expansions and 9% increase in throughput led to stronger results
- o TGP, SNG, ANR, and FGT established peak-day throughput records during the quarter
- o Continuing improvement in capacity values
 - Return to normal or slightly colder-than-normal winter weather
 - Record low storage inventories at the end of 1st quarter
 - Recognition by LDCs and state utility commissions of increased value of long-term capacity

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EL PASO PRODUCTION

\$ MILLIONS

	QUARTER ENDED MARCH 31,	
	2003	2002
Reported EBIT	\$ 244	\$ 176
Non-recurring items	12	33
Pro forma EBIT	\$ 256	\$ 209
Production (Bcfe)	124	163
Natural gas price (\$/Mcf)	\$ 4.60	\$ 3.46
Oil and liquids price (\$/Bbl)	\$ 27.33	\$ 15.68

- o Strong natural gas and oil prices fueled 2003 results
- o Lower production volumes due to asset sales
- o Approximately 375 MMcfe/d expected to come on during remainder of 2003

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FIELD SERVICES

\$ MILLIONS

	QUARTER ENDED MARCH 31,	
	2003	2002

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Reported EBIT	\$ 27	\$ 51
Non-recurring items	1	-
Pro forma EBIT	\$ 28	\$ 51
Equity earnings from EPN	\$ 29	\$ 15

- o EBIT decline reflects significant asset sales in 2002
- o Equity earnings and cash distributions from EPN both doubled from last year

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MERCHANT ENERGY GROUP RESULTS

\$ MILLIONS

	QUARTER ENDED MARCH 31,	
	2003	2002
Reported EBIT	\$ (756)	\$ 93
Non-recurring items	663	342
Pro forma EBIT	\$ (93)	\$ 435
Power	46	303
Petroleum and LNG	47	87
Trading	(186)	45
Total pro forma	\$ (93)	\$ 435

- o Power assets performed as planned
- o Petroleum refining margins strong
- o 1Q 2003 Trading results impacted by cost to exit business and 1Q liquidity
- o 1Q 2002 results benefited from power contract restructurings

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KEY COMPONENTS OF
1Q 2003 TRADING LOSS

- o Costs to sell or early terminate positions to conserve working capital and liquidate portfolio (estimated \$34 MM)

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- o Losses on gas transportation and storage positions and related hedges not offset through physical shipments (estimated \$66 MM)
- o Net change in forward mark-to-market value of gas and power positions still accounted for as derivatives (estimated \$33 MM)
- o G&A/depreciation expense (\$35 MM, including \$10 MM Europe)

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CONTINUED PROGRESS ON LIQUIDATION OF TRADING BUSINESS IN 1Q 2003

- o Reduced active deal count from roughly 40,000 positions to 27,000 in quarter (33% reduction)
- o On track for positions to fall below 12,000 by year-end 2003
- o Reduced transportation capacity portfolio from 4.4 Bcf/d to 2.2 Bcf/d (50% reduction)
- o Reduced storage portfolio from 125 Bcf to 55 Bcf (56% reduction)
- o Sold European natural gas trading book

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FINANCIAL REVIEW

QUARTERLY EARNINGS SUMMARY

\$ MILLIONS

	QUARTER ENDED		
	MARCH 31, 2003	DECEMBER 31, 2002	MARCH 31, 2002
Operating income	\$ 61	\$ (1,519)	\$1,012
Reported EBIT	(124)	(1,732)	713
Non-recurring items	698	1,542	375
Pro forma EBIT:			
Pipelines	429	355	399

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Cash flow from operating activities	(89)	86
Cash flow from investing activities	(477)	(346)
Cash flow from financing activities	757	380
CHANGE IN CASH	\$ 191	\$ 120

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1ST QUARTER WORKING CAPITAL USE

\$ MILLIONS			
CATEGORY	TARGET	PROJECTED USE	APPROXIMATE ACTUAL USE
Trade book and Production hedges (gas price exposure)	\$40 for \$.10/Mcf (1)	\$216	\$350
Stress demand	\$2,200 (2)	400	275
Normal 1st quarter	-	50	50
TOTAL		\$666	\$675

(1) Movement of approximately \$.54/Mcf for 12-month strip during the period

(2) \$1.8 billion of working capital and other uses through December 31, 2002

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WORKING CAPITAL OUTLOOK FOR
APRIL-DECEMBER 2003

EXPECT WORKING CAPITAL RECOVERY OF
\$1.2 BILLION FOR REMAINDER OF 2003

- o \$500 MM from letters of credit backed by \$3 billion facility
- o \$225 MM roll off of production hedges
- o \$300 MM impact of higher prices on production or production hedges
- o \$(60) MM settlements from trading book

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- o \$200 MM related to petroleum asset sales

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LIQUIDITY UPDATE

	\$ BILLIONS		
	DECEMBER 31, 2002	MARCH 31, 2003	APRIL 30, 2003
BALANCE SHEET CASH	\$1.6	\$1.8	N/A
Available cash	\$1.1	\$1.5	\$1.9
Availability under \$3 billion bank facility	1.5	1.5	1.0
Available under \$1 billion bank facility	.5	-	.1
NET AVAILABLE LIQUIDITY	\$3.1	\$3.0	\$3.0

Note: \$3 billion bank facility matures in June 2005 and \$1 billion bank facility matures in August 2003

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REDUCTION OF NET OBLIGATIONS SENIOR TO
COMMON OF APPROXIMATELY \$350 MM

	\$ BILLIONS	
	MARCH 31, 2003	DECEMBER 31, 2002
Cash	\$ 1.8	\$ 1.6
Financing obligations and notes payable	20.7	18.6
Minority and preferred interests	2.2	3.4
Common equity	8.0	8.4
TOTAL BOOK CAPITALIZATION	\$30.9	\$30.4
Guarantees per bank agreement	\$ 1.8	\$ 2.9

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Debt to total capitalization ratio(1) 67% 63%

(1) Per bank agreement, debt includes guarantees and equity is adjusted for some non-cash charges. In this calculation \$.5 billion was added back to book equity, and debt was reduced by \$.9 billion for non-recourse project finance debt

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PRO FORMA BALANCE SHEET

\$ BILLIONS				
	FINANCING OBLIGATIONS AND NOTES PAYABLE	MINORITY AND PREFERRED INTERESTS (1)	GUARANTEES PER BANK FACILITY	PRO FORMA

Balance at March 31, 2003	\$ 20.7	\$ 2.2	\$ 1.80	\$ 24.7
ELECTRON AND GEMSTONE:				
Gemstone notes due 2004	1.0	-	(1.0)	-
Gemstone project debt	0.1	-	-	0.1
Electron project and restructuring debt	1.6	-	-	1.6
Intercompany eliminations	(0.4)	(0.4)	-	(0.8)
Linden sale	(0.6)	-	-	(0.6)
BANK FINANCING ACTIVITIES:				
Clydesdale refinancing	0.8	(0.8)	-	-
Operating leases	0.6	-	(0.6)	-
Coastal Securities Company, Ltd.	0.1	(0.1)	-	-

PRO FORMA BALANCE AT MARCH 31, 2003	\$ 23.9	\$ 0.9	\$ 0.2	\$ 25.0

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DEBT REDUCTION PLAN

\$ BILLIONS	
Pro forma obligations senior to common at March 31, 2003	\$ 25.0

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Less:	
Cash in excess of \$500 MM	(1.0)
Remaining 2003 asset sales	(1.9)
Other asset sales identified for debt reduction	(2.5)
Return of trading and hedge margin	(1.3)
Conversion of equity security units (mandatory August 2005)	(0.6)

Target obligations senior to common	\$ 17.7
Less non-recourse obligations:	
Utility Contract Funding	(0.8)
Mohawk River Funding	(0.1)
Cedar Brakes I and II	(0.7)
Other project debt	(0.3)

Target recourse obligations senior to common	\$ 15.8
	=====

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2003 EPS OUTLOOK

- o Expect 2003 pro forma EPS in-line with current First Call consensus of \$.87

- o Changes from original assumptions used in setting \$1.00 per share pro forma earnings expectation:
 - Pipelines slightly above top end of expected range
 - Production at or above top end of expected range
 - o Production rate currently below target
 - o Prices at \$5.50 MMBtu for remainder of 2003
 - Midstream at low end of expected range
 - Trading losses of SG&A for remainder of 2003 (approximately \$100 MM)
 - Petroleum/LNG positive margins through 2nd quarter
 - Power at mid-point of previous expected range

- o Potential changes from original assumptions used in setting breakeven reported earnings expectation:
 - Decision to divest Aruba and Telecom and the charges associated with cost reduction activities will result in additional losses in 2003
 - Aruba book value of approximately \$1.3 billion; Telecom book value of approximately \$365 MM

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SUMMARY

- o El Paso's core businesses performing very well
- o Continued solid execution of operational and financial plan
- o Aggressively pursuing \$400 MM cost reduction target
- o Asset sales and working capital recovery will yield significant debt reduction
- o Long range planning committee will deliver final part of restructuring process
 - Deliver solid earnings power of core business
 - Reduce debt to appropriate level
 - Generate free cash flow while investing prudently in core businesses
- o We WILL deliver shareholder value

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APPENDIX

1ST QUARTER 2002 SUMMARY OF
NON-RECURRING ITEMS AFFECTING EBIT

\$ MILLIONS

	PRE-TAX IMPACT
Asset impairments	
Argentina equity investments	\$342
Total impairments	\$342
Ceiling test charges	33
TOTAL	\$375

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4TH QUARTER 2002 SUMMARY OF
NON-RECURRING ITEMS AFFECTING EBIT

\$ MILLIONS

	PRE-TAX IMPACT
Asset impairments	
Dark fiber inventory	\$ 168
Turbine inventory	162
Australian pipelines	153
MTBE plant	91
CE Generation Power Investment	74
North Louisiana gathering system	66
Other impairments and losses	146

Total impairments	\$ 860
Western Energy settlement	\$ 899

(Gain)/loss on asset sales	(217)
TOTAL	\$1,542

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[LOGO - EL PASO]

FIRST QUARTER 2003
EARNINGS REVIEW

MAY 13, 2003