

Financial Highlights

(UNAUDITED)



| | Three months ended December 31, | | Years ended December 31, | |
|---|------------------------------------|-----------|-----------------------------|------------|
| | 2005 | 2004 | 2005 | 2004 |
| <i>(Millions, except per-share amounts)</i> | | | | |
| Revenues | \$ 3,676.1 | \$2,964.2 | \$ 12,583.6 | \$12,461.3 |
| Income from continuing operations | \$ 68.8 | \$ 95.5 | \$ 317.4 | \$ 93.2 |
| Income (loss) from discontinued operations | \$ (0.3) | \$ (22.1) | \$ (2.1) | \$ 70.5 |
| Cumulative effect of change in accounting principle | \$ (1.7) | \$ - | \$ (1.7) | \$ - |
| Net income applicable to common stock | \$ 66.8 | \$ 73.4 | \$ 313.6 | \$ 163.7 |
| Basic earnings (loss) per common share: | | | | |
| Income from continuing operations | \$.12 | \$.17 | \$.55 | \$.18 |
| Income (loss) from discontinued operations | \$ - | \$ (.04) | \$ - | \$.13 |
| Cumulative effect of change in accounting principle | \$ - | \$ - | \$ - | \$ - |
| Net income | \$.12 | \$.13 | \$.55 | \$.31 |
| Average shares (thousands) | 573,371 | 552,272 | 570,420 | 529,188 |
| Diluted earnings (loss) per common share: | | | | |
| Income from continuing operations | \$.11 | \$.17 | \$.53 | \$.18 |
| Income (loss) from discontinued operations | \$ - | \$ (.04) | \$ - | \$.13 |
| Cumulative effect of change in accounting principle | \$ - | \$ - | \$ - | \$ - |
| Net income | \$.11 | \$.13 | \$.53 | \$.31 |
| Average shares (thousands) | 609,106 | 586,497 | 605,847 | 535,611 |
| Shares outstanding at December 31 (thousands) | | | 573,592 | 557,957 |

Consolidated Statement of Operations

(UNAUDITED)



| | Three months ended December 31, | | Years ended December 31, | |
|---|------------------------------------|------------|-----------------------------|------------|
| | 2005 | 2004 | 2005 | 2004 |
| <i>(Millions, except per-share amounts)</i> | | | | |
| REVENUES | | | | |
| Power | \$ 2,786.7 | \$ 2,038.6 | \$ 9,093.9 | \$ 9,272.4 |
| Gas Pipeline | 374.7 | 351.3 | 1,412.8 | 1,362.3 |
| Exploration & Production | 420.2 | 214.1 | 1,269.1 | 777.6 |
| Midstream Gas & Liquids | 890.9 | 867.1 | 3,232.7 | 2,882.6 |
| Other | 7.8 | 6.5 | 27.2 | 32.8 |
| Intercompany eliminations | (804.2) | (513.4) | (2,452.1) | (1,866.4) |
| Total revenues | 3,676.1 | 2,964.2 | 12,583.6 | 12,461.3 |
| SEGMENT COSTS AND EXPENSES | | | | |
| Costs and operating expenses | 3,162.9 | 2,543.5 | 10,871.0 | 10,751.7 |
| Selling, general and administrative expenses | 98.6 | 97.8 | 325.4 | 355.5 |
| Other (income) expense – net | 62.5 | (77.4) | 61.2 | (51.6) |
| Total segment costs and expenses | 3,324.0 | 2,563.9 | 11,257.6 | 11,055.6 |
| General corporate expenses | 48.6 | 35.3 | 154.9 | 119.8 |
| OPERATING INCOME (LOSS) | | | | |
| Power | (46.5) | (50.8) | (236.8) | 86.5 |
| Gas Pipeline | 85.5 | 148.0 | 542.2 | 557.6 |
| Exploration & Production | 200.5 | 67.7 | 568.4 | 223.9 |
| Midstream Gas & Liquids | 102.9 | 247.0 | 446.6 | 552.2 |
| Other | 9.7 | (11.6) | 5.6 | (14.5) |
| General corporate expenses | (48.6) | (35.3) | (154.9) | (119.8) |
| Total operating income | 303.5 | 365.0 | 1,171.1 | 1,285.9 |
| Interest accrued | (176.4) | (171.5) | (671.7) | (834.4) |
| Interest capitalized | 2.9 | 1.0 | 7.2 | 6.7 |
| Investing income (loss) | (21.2) | 16.8 | 23.7 | 48.0 |
| Early debt retirement costs | (0.4) | (29.7) | (0.4) | (282.1) |
| Minority interest in income of consolidated subsidiaries | (8.9) | (5.4) | (25.7) | (21.4) |
| Other income – net | 14.6 | 7.5 | 27.1 | 21.8 |
| Income from continuing operations before income taxes and cumulative effect of change in accounting principle | 114.1 | 183.7 | 531.3 | 224.5 |
| Provision for income taxes | 45.3 | 88.2 | 213.9 | 131.3 |
| Income from continuing operations | 68.8 | 95.5 | 317.4 | 93.2 |
| Income (loss) from discontinued operations | (0.3) | (22.1) | (2.1) | 70.5 |
| Income before cumulative effect of change in accounting principle | 68.5 | 73.4 | 315.3 | 163.7 |
| Cumulative effect of change in accounting principle | (1.7) | - | (1.7) | - |
| Net income applicable to common stock | \$ 66.8 | \$ 73.4 | \$ 313.6 | \$ 163.7 |
| EARNINGS (LOSS) PER SHARE | | | | |
| Basic earnings (loss) per common share: | | | | |
| Income from continuing operations | \$.12 | \$.17 | \$.55 | \$.18 |
| Income (loss) from discontinued operations | - | (.04) | - | .13 |
| Income before cumulative effect of change in accounting principle | .12 | .13 | .55 | .31 |
| Cumulative effect of change in accounting principle | - | - | - | - |
| Net income | \$.12 | \$.13 | \$.55 | \$.31 |
| Diluted earnings (loss) per common share: | | | | |
| Income from continuing operations | \$.11 | \$.17 | \$.53 | \$.18 |
| Income (loss) from discontinued operations | - | (.04) | - | .13 |
| Income before cumulative effect of change in accounting principle | .11 | .13 | .53 | .31 |
| Cumulative effect of change in accounting principle | - | - | - | - |
| Net income | \$.11 | \$.13 | \$.53 | \$.31 |

See accompanying notes.

Notes to Consolidated Statement of Operations

(UNAUDITED)



1. BASIS OF PRESENTATION

Discontinued operations

The following are presented as discontinued operations in our Consolidated Statement of Operations:

- Refining, retail and pipeline operations in Alaska, part of the previously reported Petroleum Services segment;
- Straddle plants in western Canada, previously part of the Midstream segment.

Unless indicated otherwise, the information in the Notes to Consolidated Statement of Operations relates to our continuing operations.

Cumulative effect of change in accounting principle

In March 2005, the Financial Accounting Standards Board (FASB) issued Interpretation 47, "Accounting for Conditional Asset Retirement Obligations – an interpretation of FASB Statement No. 143". The Interpretation clarifies that the term "conditional asset retirement" as used in Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations," refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The Interpretation also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation.

We adopted the Interpretation on December 31, 2005, and as a result, we recorded a cumulative effect of change in accounting principle of \$1.7 million (net of \$1 million of taxes).

2. HEDGE ACCOUNTING – POWER SEGMENT

As a result of our past intent to exit the Power business, our Power segment did not previously qualify for hedge accounting. Therefore, we reported changes in the forward fair value of our derivative contracts in earnings as unrealized gains or losses. However, with the decision to retain the business, Power became eligible for hedge accounting under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and elected hedge accounting beginning October 1, 2004, on a prospective basis for certain qualifying derivative contracts. Under cash flow hedge accounting, to the extent that the hedges are effective, prospective changes in the forward fair value of the hedges are reported as changes in other comprehensive income in the equity section of the balance sheet, and then reclassified to earnings when the

underlying hedged transactions (i.e. power sales and gas purchases) affect earnings.

3. SEGMENT REVENUES AND PROFIT (LOSS)

Our reportable segments are strategic business units that offer different products and services. The segments are managed separately because each segment requires different technology, marketing strategies and industry knowledge. Other primarily consists of corporate operations and certain continuing operations that were included within the previously reported International and Petroleum Services segments.

We currently evaluate performance based on segment profit (loss) from operations, which includes segment revenues from external and internal customers, operating costs and expenses, depreciation, depletion and amortization, equity earnings (losses) and income (loss) from investments, including impairments related to investments accounted for under the equity method. Intersegment sales are generally accounted for at current market prices as if the sales were to unaffiliated third parties.

During 2004, Power was party to intercompany interest rate swaps with the corporate parent, the effect of which is included in Power's segment revenues and segment profit (loss) as shown in the reconciliation within the following tables. We terminated all interest-rate derivatives in the fourth quarter of 2004.

The majority of energy commodity hedging by certain of our business units is done through intercompany derivatives with Power which, in turn, enters into offsetting derivative contracts with unrelated third parties. Power bears the counterparty performance risks associated with the unrelated third parties. External revenues of our Exploration & Production segment includes third-party oil and gas sales, more than offset by transportation expenses and royalties due third parties on intercompany sales.

Notes to Consolidated Statement of Operations (continued)
(UNAUDITED)



3. SEGMENT REVENUES AND PROFIT (LOSS) (continued)

| (millions) | Power | Gas Pipeline | Exploration & Production | Midstream Gas & Liquids | Other | Eliminations | Total |
|---|-------------------|-----------------|--------------------------|-------------------------|------------------|-------------------|-------------------------------|
| Three months ended December 31, 2005 | | | | | | | |
| Segment revenues: | | | | | | | |
| External | \$ 2,510.1 | \$ 365.6 | \$ (81.3) | \$ 878.1 | \$ 3.6 | \$ - | \$ 3,676.1 |
| Internal | 276.6 | 9.1 | 501.5 | 12.8 | 4.2 | (804.2) | - |
| Total segment revenues | \$ 2,786.7 | \$ 374.7 | \$ 420.2 | \$ 890.9 | \$ 7.8 | \$ (804.2) | \$ 3,676.1 |
| Segment profit (loss) | \$ (69.4) | \$ 92.8 | \$ 206.4 | \$ 112.4 | \$ (30.3) | \$ - | \$ 311.9 |
| Less: | | | | | | | |
| Equity earnings (losses) | 0.1 | 7.3 | 5.9 | 9.2 | (2.0) | - | 20.5 |
| Income (loss) from investments | (23.0) | - | - | 0.3 | (38.0) | - | (60.7) |
| Segment operating income (loss) | \$ (46.5) | \$ 85.5 | \$ 200.5 | \$ 102.9 | \$ 9.7 | \$ - | 352.1 |
| General corporate expenses | | | | | | | <u>(48.6)</u> |
| Consolidated operating income | | | | | | | <u><u>\$ 303.5</u></u> |

Three months ended December 31, 2004

| | | | | | | | |
|--|-------------------|-----------------|-----------------|-----------------|------------------|-------------------|-------------------------------|
| Segment revenues: | | | | | | | |
| External | \$ 1,784.8 | \$ 345.7 | \$ (27.7) | \$ 859.2 | \$ 2.2 | \$ - | \$ 2,964.2 |
| Internal | 256.7 | 5.6 | 241.8 | 7.9 | 4.3 | (516.3) | - |
| Total segment revenues | 2,041.5 | 351.3 | 214.1 | 867.1 | 6.5 | (516.3) | 2,964.2 |
| Less intercompany interest rate swap income | 2.9 | - | - | - | - | (2.9) | - |
| Total revenues | \$ 2,038.6 | \$ 351.3 | \$ 214.1 | \$ 867.1 | \$ 6.5 | \$ (513.4) | \$ 2,964.2 |
| Segment profit (loss) | \$ (44.4) | \$ 156.8 | \$ 70.9 | \$ 235.7 | \$ (21.0) | \$ - | \$ 398.0 |
| Less: | | | | | | | |
| Equity earnings (losses) | 3.5 | 8.8 | 3.2 | 5.5 | (9.3) | - | 11.7 |
| Loss from investments | - | - | - | (16.8) | (.1) | - | (16.9) |
| Intercompany interest rate swap income | 2.9 | - | - | - | - | - | 2.9 |
| Segment operating income (loss) | \$ (50.8) | \$ 148.0 | \$ 67.7 | \$ 247.0 | \$ (11.6) | \$ - | 400.3 |
| General corporate expenses | | | | | | | <u>(35.3)</u> |
| Consolidated operating income | | | | | | | <u><u>\$ 365.0</u></u> |

Notes to Consolidated Statement of Operations (continued)

(UNAUDITED)



3. SEGMENT REVENUES AND PROFIT (LOSS) (continued)

| <i>(millions)</i> | Power | Gas Pipeline | Exploration & Production | Midstream Gas & Liquids | Other | Eliminations | Total |
|---|-------------------|-------------------|--------------------------|-------------------------|-------------------|---------------------|--------------------|
| Year ended December 31, 2005 | | | | | | | |
| Segment revenues: | | | | | | | |
| External | \$ 8,192.5 | \$ 1,395.0 | \$ (201.6) | \$ 3,187.6 | \$ 10.1 | \$ - | \$ 12,583.6 |
| Internal | 901.4 | 17.8 | 1,470.7 | 45.1 | 17.1 | (2,452.1) | - |
| Total segment revenues | \$ 9,093.9 | \$ 1,412.8 | \$ 1,269.1 | \$ 3,232.7 | \$ 27.2 | \$ (2,452.1) | \$ 12,583.6 |
| Segment profit (loss) | \$ (256.7) | \$ 585.8 | \$ 587.2 | \$ 471.2 | \$ (105.0) | \$ - | \$ 1,282.5 |
| Less: | | | | | | | |
| Equity earnings (losses) | 3.1 | 43.6 | 18.8 | 23.6 | (23.5) | - | 65.6 |
| Income (loss) from investments | (23.0) | - | - | 1.0 | (87.1) | - | (109.1) |
| Segment operating income (loss) | \$ (236.8) | \$ 542.2 | \$ 568.4 | \$ 446.6 | \$ 5.6 | \$ - | 1,326.0 |
| General corporate expenses | | | | | | | (154.9) |
| Consolidated operating income | | | | | | | \$ 1,171.1 |
| Year ended December 31, 2004 | | | | | | | |
| Segment revenues: | | | | | | | |
| External | \$ 8,346.2 | \$ 1,345.0 | \$ (84.0) | \$ 2,844.7 | \$ 9.4 | \$ - | \$ 12,461.3 |
| Internal | 912.5 | 17.3 | 861.6 | 37.9 | 23.4 | (1,852.7) | - |
| Total segment revenues | 9,258.7 | 1,362.3 | 777.6 | 2,882.6 | 32.8 | (1,852.7) | 12,461.3 |
| Less intercompany interest rate swap loss | (13.7) | - | - | - | - | 13.7 | - |
| Total revenues | \$ 9,272.4 | \$ 1,362.3 | \$ 777.6 | \$ 2,882.6 | \$ 32.8 | \$ (1,866.4) | \$ 12,461.3 |
| Segment profit (loss) | \$ 76.7 | \$ 585.8 | \$ 235.8 | \$ 549.7 | \$ (41.6) | \$ - | \$ 1,406.4 |
| Less: | | | | | | | |
| Equity earnings (losses) | 3.9 | 29.2 | 11.9 | 14.6 | (9.7) | - | 49.9 |
| Loss from investments | - | (1.0) | - | (17.1) | (17.4) | - | (35.5) |
| Intercompany interest rate swap loss | (13.7) | - | - | - | - | - | (13.7) |
| Segment operating income (loss) | \$ 86.5 | \$ 557.6 | \$ 223.9 | \$ 552.2 | \$ (14.5) | \$ - | 1,405.7 |
| General corporate expenses | | | | | | | (119.8) |
| Consolidated operating income | | | | | | | \$ 1,285.9 |

Notes to Consolidated Statement of Operations (continued)
(UNAUDITED)



4. ASSET SALES, IMPAIRMENTS AND OTHER ACCRUALS

Significant gains or losses from asset sales, impairments and other accruals included in other (income) expense-net within segment costs and expenses for the three months and the years ended December 31, 2005 and 2004, are as follows:

| | (Income) Expense | | | |
|--|------------------------------------|--------|-----------------------------|--------|
| | Three months ended December 31, | | Years ended December 31, | |
| (millions) | 2005 | 2004 | 2005 | 2004 |
| Power | | | | |
| Accrual for litigation contingencies | \$ 68.7 | \$ - | \$ 82.2 | \$ - |
| Gas Pipeline | | | | |
| Write-off of previously-capitalized costs | - | - | - | 9.0 |
| Exploration & Production | | | | |
| Gain on sale of certain natural gas properties | - | - | (29.6) | - |
| Loss provision related to an ownership dispute | - | 4.1 | - | 15.4 |
| Midstream Gas & Liquids | | | | |
| Impairment of Gulf Liquids assets | - | 2.5 | - | 2.5 |
| Arbitration award on a Gulf Liquids insurance claim dispute | - | (93.6) | - | (93.6) |
| Other | | | | |
| Environmental accrual related to the Augusta refinery facility | - | 11.8 | - | 11.8 |
| Gain on sale of land | (9.0) | - | (9.0) | - |

Power

Accrual for litigation contingencies. This accrual for the year ended December 31, 2005, includes a \$77.2 million charge for agreements reached to substantially resolve exposure related to the inaccurate reporting of natural gas prices and volumes to an industry publication in 2002.

Midstream Gas & Liquids

Arbitration award on a Gulf Liquids insurance claim dispute. Winterthur International Insurance Company (Winterthur) issued policies to Gulf Liquids providing financial assurance related to construction contracts. After disputes arose regarding obligations under the construction contracts, Winterthur disputed coverage resulting in arbitration between Winterthur and Gulf Liquids. In July 2004, the arbitration panel awarded Gulf Liquids \$93.6 million, plus interest of \$9.6 million. Following the arbitration decision, Winterthur filed a petition to vacate the final award in the New York State court and Gulf Liquids filed a cross-petition to confirm the final award. Prior to the State court's ruling,

Winterthur agreed to the terms of the award and on November 1, 2004, remitted the proceeds to us. As a result, we recognized total income of approximately \$103 million related to the arbitration award in fourth-quarter 2004.

Other

Environmental accrual related to the Augusta refinery facility. As a result of information obtained in the fourth quarter of 2004 related to the Augusta refinery site, we accrued additional expense for completion of certain remediation work and other reasonably estimated net remediation costs.

Additional items

Costs and operating expenses within our Gas Pipeline segment for the year ended December 31, 2005 includes:

- An adjustment to reduce costs by \$12.1 million to correct the carrying value of certain liabilities recorded in prior periods;
- Income from a liability reversal of \$14.2 million associated with a favorable ruling involving adjustments to estimated gas purchase costs for operations in prior periods;
- A prior period charge of approximately \$27.5 million related to accounting and valuation corrections for certain inventory items;
- An accrual of approximately \$9.8 million for contingent refund obligations.

Selling, general and administrative expenses within our Gas Pipeline segment for the year ended December 31, 2005, includes:

- An adjustment to reduce costs by \$5.6 million to correct the carrying value of certain liabilities recorded in prior periods;
- A \$17.1 million reduction in pension expense for the cumulative impact of a correction of an error attributable to 2003 and 2004.

General corporate expenses for the year ended December 31, 2005, includes \$13.8 million of expense in our Other segment related to the settlement of certain insurance coverage issues with an insurer that had underwritten portions of the fiduciary insurance applicable to our Employee Retirement Income Security Act litigation settlement and the directors and officers insurance applicable to our pending securities litigation.



Notes to Consolidated Statement of Operations (concluded)

(UNAUDITED)

5. INVESTING INCOME (LOSS)

Investing income (loss) for the three months and the years ended December 31, 2005 and 2004, is as follows:

| (millions) | Three months ended December 31, | | Years ended December 31, | |
|--|------------------------------------|---------|-----------------------------|---------|
| | 2005 | 2004 | 2005 | 2004 |
| Equity earnings* | \$ 20.5 | \$ 11.7 | \$ 65.6 | \$ 49.9 |
| Loss from investments* | (60.7) | (16.9) | (109.1) | (35.5) |
| Impairments of cost-based investments | - | (5.1) | (2.2) | (28.5) |
| Interest income and other | 19.0 | 27.1 | 69.4 | 62.1 |
| Total | \$ (21.2) | \$ 16.8 | \$ 23.7 | \$ 48.0 |

*Item also included in segment profit (see Note 3).

Loss from investments for the year ended December 31, 2005, includes:

- An \$87.2 million additional impairment of our investment in Longhorn Partners Pipeline L.P. (Longhorn), which is included in our Other segment. Of the total impairment, \$38.1 million relates to fourth quarter.
- A \$23 million fourth-quarter additional impairment of our equity interest in Aux Sable Liquids Products, L.P., which is included in our Power segment.

Loss from investments for the year ended December 31, 2004, includes:

- A \$10.8 million impairment of our Longhorn investment;
- \$6.5 million net unreimbursed Longhorn recapitalization advisory fees;
- A \$16.9 million fourth-quarter impairment of our equity investment in Discovery Producer Services LLC, which is included in our Midstream segment.

Impairments of cost-based investments for the years ended December 31, 2005 and 2004 primarily include impairments of certain international investments.

6. EARLY DEBT RETIREMENT

Early debt retirement costs include premiums, fees and expenses related to the retirement of debt.

7. PROVISION FOR INCOME TAXES

We provide for income taxes using the asset and liability method as required by SFAS No. 109, "Accounting for Income Taxes." During 2005, as a result of the reconciliation of our tax basis and book basis assets and liabilities, we recorded a \$20.2 million tax benefit adjustment.

8. DISCONTINUED OPERATIONS

Income (loss) from discontinued operations in 2004 is composed of gains on the sales of the Canadian straddle plants and the Alaska refining, retail and pipeline operations of \$189.8 million and \$3.6 million, respectively, as well as \$22 million in income from our Canadian straddles discontinued operation. Partially offsetting these are \$153 million of charges to increase our accrued liability associated with certain Quality Bank litigation matters involving valuation methodologies for products transported on the Trans-Alaska Pipeline System.

9. RECENT ACCOUNTING STANDARDS

In December 2004, the FASB issued revised SFAS No. 123, "Share-Based Payment." The Statement requires that compensation costs for all share-based awards to employees be recognized in the financial statements at fair value. The Statement, as issued by the FASB, was to be effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. However, in April 2005, the Securities and Exchange Commission adopted a new rule that delayed the effective date for revised SFAS No. 123 to the beginning of the fiscal year that begins after June 15, 2005. We intend to adopt the revised Statement on January 1, 2006.

On June 30, 2005, the Federal Energy Regulatory Commission issued an order, "Accounting for Pipeline Assessment Cost," to be effective January 1, 2006. The order requires companies to expense certain assessment costs that we have historically capitalized. As a result of this order, we anticipate expensing approximately \$27 million to \$35 million in 2006 that previously would have been capitalized.