



Financial Review
Park Shaper

Agenda

- Cash Flow
- 2004 Budget
- Balance Sheet
- Return on Investment
- Customer Credit
- Summary

KMP Distributable Cash Per Unit

| | 2002 | 2003 (a) | 2004E | Growth Rate 03-04 |
|---|------------------|------------------|------------------|----------------------|
| Net Income | \$608,377 | \$693,872 | \$800,291 | |
| DD&A | 177,616 | 224,607 | 283,968 | |
| Sustaining Capex | <u>(76,967)</u> | <u>(92,837)</u> | <u>(115,948)</u> | |
| Total Distributable Cash Flow | 709,026 | 825,642 | 968,311 | 17% |
| General Partner's Interest | <u>(270,816)</u> | <u>(326,489)</u> | <u>(384,495)</u> | |
| Distributable Cash Flow | \$438,210 | \$499,153 | \$583,816 | 17% |
| Net Income - \$/unit | \$1.96 | \$1.98 | \$2.12 | 7% |
| DD&A - \$/unit | 1.03 | 1.21 | 1.45 | |
| Sustaining capex - \$/unit | <u>(0.45)</u> | <u>(0.50)</u> | <u>(0.59)</u> | |
| Distributable cashflow - \$/unit | \$2.54 | \$2.69 | \$2.98 | 11% |
| Total distribution - \$/unit | \$2.435 | \$2.63 | \$2.84 | 8% |

(a) 2003 numbers exclude gain from change in accounting principle.

KMI Cash Per Share

| | 2002 | 2003 | 2004E | Growth Rate 03-04 |
|----------------------------|----------------|----------------|---------------|----------------------|
| Recurring Earnings | \$349,628 | \$411,941 | \$460,437 | |
| <i>Diluted EPS</i> | <i>\$2.84</i> | <i>\$3.33</i> | <i>\$3.71</i> | <i>11%</i> |
| Add: DD&A | 106,496 | 117,528 | 119,716 | |
| Less: Sustaining Capital | (86,164) | (83,469) | (99,298) | |
| Add: Book –Cash Taxes | <u>115,160</u> | <u>112,031</u> | <u>96,785</u> | |
| Free Cash Flow | \$485,120 | \$558,031 | \$577,640 | |
| | | | | |
| Average Shares Outstanding | 123,402 | 123,824 | 124,121 | |
| Free Cash Flow Per Share | \$3.93 | \$4.51 | \$4.65 | 3% |

Reconciliation of Book-Cash Tax Difference

| Primary Differences | 2004E | Nature |
|---------------------------------------|------------------|-----------------------------|
| 1. KMR | \$40.9 | Recurring |
| 2. Tax depreciation in excess of book | 27.9 | Non-recurring (temporary) |
| 3. Non-qualified stock option | 17.1 | Recurring and non-recurring |
| 4. Tax Credits | 6.0 | Recurring |
| 5. KMP book income in excess of tax | 1.7 | Non-recurring |
| 6. Dividend income exclusion | 1.5 | Recurring |
| 7. KMI dividends paid | 1.5 | Recurring |
| Book Taxes less Cash Taxes | \$96.6 | |
| Total Recurring | ~\$50- 60 | |

KMP 2004 Budget

| | <u>2004E</u> | <u>2003 (a)</u> | <u>Change</u> <u>03 – 04</u> | <u>% Change</u> |
|---|------------------|------------------|---------------------------------|-----------------|
| Segment Earnings before DD&A | | | | |
| Products Pipelines | \$483,060 | \$441,600 | 41,460 | 9% |
| Natural Gas Pipelines | 383,534 | 373,350 | 10,184 | 3% |
| CO₂ | 322,240 | 203,599 | 118,641 | 58% |
| Terminals | 256,726 | 240,776 | 15,950 | 7% |
| Total Segment Earnings Before DD&A | <u>1,445,560</u> | <u>1,259,325</u> | <u>186,235</u> | <u>15%</u> |
| DD&A | (283,968) | (224,607) | (59,361) | 26% |
| G&A | (151,245) | (150,435) | (810) | 1% |
| Interest | (201,302) | (181,357) | (19,945) | 11% |
| Minority Interest | (8,754) | (9,054) | 300 | (3%) |
| Net Income | <u>800,291</u> | <u>693,872</u> | <u>106,419</u> | <u>15%</u> |
| GP Share | (384,495) | (326,489) | (58,006) | 18% |
| Limited Partner's Net Income | <u>\$415,796</u> | <u>\$367,383</u> | <u>48,413</u> | <u>13%</u> |

(a) Excludes gain from change in accounting principle

KMP 2004 Budget Per Unit

| | <u>2004E</u> | <u>2003 (a)</u> | <u>Change 03 – 04</u> | <u>% Change</u> |
|------------------------------|--------------|-----------------|---------------------------|-----------------|
| Limited Partners' Net Income | \$415,796 | \$367,383 | \$48,413 | 13% |
| Units Outstanding (avg) | 195,744 | 185,494 | 10,250 | 6% |
| Income Per Unit | \$2.12 | \$1.98 | .14 | 7% |
| DD&A per unit | 1.45 | 1.21 | .24 | 20% |
| Sustaining Capex per unit | (0.59) | (0.50) | (0.09) | 18% |
| Distributable Cash Flow | \$2.98 | \$2.69 | \$.29 | 11% |
| Total Distributions | \$2.84 | \$2.63 | \$.21 | 8% |

(a) Excludes gain from change in accounting principle

KMI 2004 Budget

| | <u>2004E</u> | <u>2003</u> | <u>Change 03 – 04</u> | <u>% Change</u> |
|-----------------------------|------------------|------------------|-----------------------|-----------------|
| KMP | 539,034 | 464,967 | 74,067 | 16% |
| NGPL | 388,777 | 376,167 | 12,610 | 3% |
| Transcolorado | 26,122 | 23,112 | 3,010 | 13% |
| Retail | 68,693 | 65,482 | 3,211 | 5% |
| Power | 13,453 | 22,076 | (8,623) | (39%) |
| Total Segment Income | 1,036,079 | 951,804 | 84,275 | 9% |
| Equity Income | 0 | (7) | 7 | (100%) |
| G&A | (75,793) | (71,741) | (4,052) | 6% |
| Interest | (133,878) | (143,738) | 9,860 | (7%) |
| TRUPS | (21,912) | (21,912) | 0 | 0% |
| Minority Interest | (47,476) | (41,316) | (6,160) | 15% |
| Other | 202 | 1,982 | (1,780) | (90%) |
| Pre-tax Income | 757,222 | 675,072 | 82,150 | 12% |
| Income Tax | (296,785) | (263,131) | (33,654) | 13% |
| Net Income | 460,437 | 411,941 | 48,496 | 12% |
| Shares Outstanding (avg) | 124,121 | 123,824 | 297 | 0% |
| Per Unit | \$3.71 | \$3.33 | \$0.38 | 11% |

Quarterly Earnings and Distributions

| | <u>Q1</u> | <u>Q2</u> | <u>Q3</u> | <u>Q4</u> | <u>Total</u> |
|---------------------|-----------|-----------|-----------|-----------|--------------|
| KMI Earnings | | | | | |
| 2004E | >25% | <25% | <25% | >25% | \$3.71 |
| 2003 | 27% | 23% | 23% | 27% | \$3.33 (b) |
| 2002 (a) | 26% | 21% | 24% | 29% | \$2.84 (b) |
| KMP Earnings | | | | | |
| 2004E | < 25% | < 25% | ~ 25% | > 25% | \$2.12 |
| 2003 | 25% | 24% | 25% | 26% | \$1.98 (c) |
| 2002 | 24% | 24% | 26% | 26% | \$1.96 |

- (a) Quarterly numbers were adjusted for tax rate change which occurred in 4Q.
- (b) Excluding special items.
- (c) Excludes gain from change in accounting principle

KMP Preliminary Balance Sheet

| | December 31, | |
|--|-----------------|-----------------|
| | 2003 | 2002 |
| Cash and cash equivalents | \$ 23 | \$ 41 |
| Other Current Assets | 683 | 628 |
| Property, Plant and Equipment, net | 7,092 | 6,245 |
| Investments | 404 | 451 |
| Other Assets | 932 | 989 |
| Total Assets | \$ 9,134 | \$ 8,354 |
| Notes payable | \$ 2 | \$ - |
| Current portion of long-term debt | - | - |
| Other Current Liabilities | 809 | 813 |
| | 811 | 813 |
| Long-term debt | 4,317 | 3,660 |
| Market value of interest rate swaps | 121 | 167 |
| Other Long-term Liabilities | 334 | 256 |
| Minority Interest | 40 | 42 |
| Partners' Capital | 3,511 | 3,416 |
| Total Liabilities and Partners' Capital | \$ 9,134 | \$ 8,354 |

KMI Preliminary Balance Sheet

| | December 31, | |
|--|-----------------|------------------|
| | 2003 | 2002 |
| Cash and Cash Equivalents | \$ 11 | \$ 36 |
| Other Current Assets | 265 | 385 |
| Property, Plant and Equipment, Net | 6,065 | 6,048 |
| Investment in Kinder Morgan Energy Partners | 3,268 | 3,311 |
| Other Assets | 366 | 323 |
| Total Assets | <u>\$ 9,975</u> | <u>\$ 10,103</u> |
| Current Maturities of Long-term Debt | \$ 5 | \$ 501 |
| Notes Payable | 128 | - |
| Other Current Liabilities | 344 | 365 |
| Total Current Liabilities | <u>477</u> | <u>866</u> |
| Deferred Income taxes | 2,446 | 2,436 |
| Other Deferred Credits | 187 | 211 |
| Minority Interests in Equity of Subsidiaries | 1,010 | 968 |
| Long-term Debt: | | |
| Outstanding | 2,837 | 2,852 |
| Market Value of Interest Rate Swaps | 88 | 140 |
| | <u>2,925</u> | <u>2,992</u> |
| Trust Preferred Securities | 284 | 275 |
| Common Stockholders' Equity | 2,646 | 2,355 |
| | <u>2,930</u> | <u>2,630</u> |
| Total Liabilities and Equity | <u>\$ 9,975</u> | <u>\$ 10,103</u> |

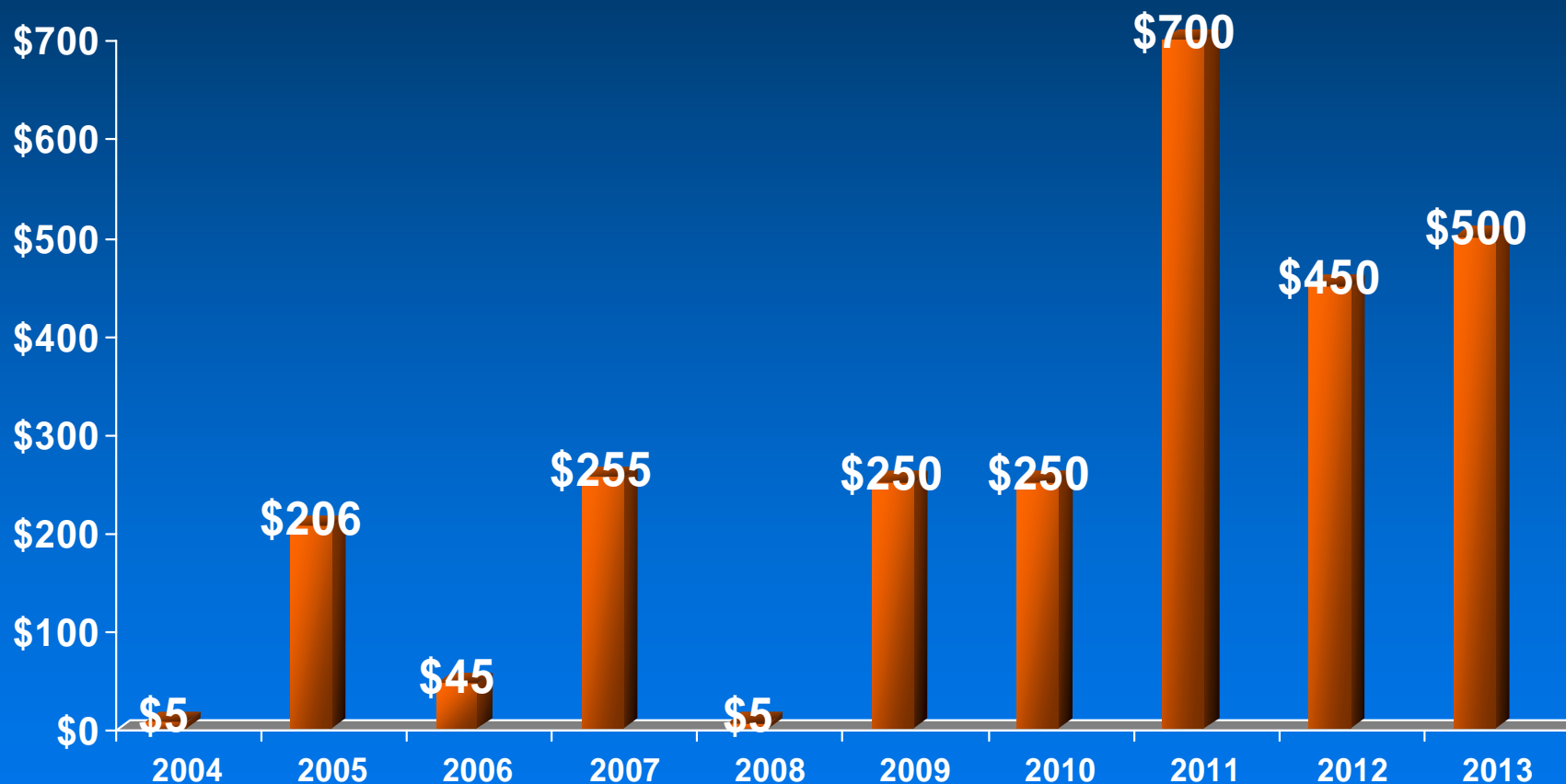
KMP Debt Outstanding

| <u>Description</u> | <u>Maturity</u> | <u>Amount</u> | <u>Swapped Amount</u> |
|---------------------------|-----------------|--------------------|-----------------------|
| KMP 8.00% Senior Note | 3/15/2005 | \$200,000 | \$200,000 |
| KMP 5.35% Senior Note | 8/15/2007 | 250,000 | 200,000 |
| KMP 6.30% Senior Note | 2/1/2009 | 250,000 | 250,000 |
| KMP 7.50% Senior Note | 11/1/2010 | 250,000 | |
| KMP 6.75% Senior Note | 3/15/2011 | 700,000 | |
| KMP 7.125% Senior Note | 3/15/2012 | 450,000 | 200,000 |
| KMP 5.00% Senior Notes | 12/15/2013 | 500,000 | 250,000 |
| KMP 7.40% Senior Note | 3/15/2031 | 300,000 | 300,000 |
| KMP 7.75% Senior Note | 3/15/2032 | 300,000 | 200,000 |
| KMP 7.30% Senior Note | 8/15/2033 | <u>500,000</u> | <u>400,000</u> |
| Total Senior Notes | | \$3,700,000 | \$2,000,000 |

KMP Debt Outstanding

| <u>Description</u> | <u>Maturity</u> | <u>Amount</u> | <u>Swapped Amount</u> |
|---------------------------------|-----------------|--------------------|-----------------------|
| IMT Floating Rate Note | 3/15/2006 | 40,000 | |
| Cora Hamilton 6.00% Note | 4/21/2015 | 252 | |
| Central FL 7.84% Senior Notes | 7/23/2008 | 25,000 | |
| SFPP McRae Note 7.00% | 8/6/2017 | 89 | |
| Perth Amboy Floating Rate Note | 1/15/2018 | 25,000 | |
| Tax Exempt Revenue Bond | 4/26/2024 | 23,700 | |
| Industrial Revenue Bonds | Various | 87,930 | |
| KMBT RGZ 7.00% | | 1,145 | |
| Amistad Note | | <u>863</u> | |
| Subtotal | | 203,979 | |
| Total Senior Notes (prior page) | | <u>3,700,000</u> | |
| Total Long Term Debt | | 3,903,979 | |
| Add: Commercial Paper | | <u>426,130</u> | <u>(100,000)</u> |
| Total Debt Outstanding (a) | | \$4,330,109 | \$1,900,000 |

KMP 10 Year Debt Maturity Schedule



KMI Debt Outstanding

| <u>Description</u> | <u>Maturity</u> | <u>Amount</u> | <u>Swapped Amount</u> |
|-------------------------------|-----------------|-----------------------|-----------------------|
| KMI 6.65% Senior Note | 3/1/2005 | 500,000 | |
| KMI 6.80% Senior Note | 3/1/2008 | 300,000 | |
| KMI 6.50% Senior Note | 9/1/2012 | 1,000,000 | 1,000,000 |
| KMI 6.50% Debentures | 9/1/2013 | 50,000 | |
| KMI 8.75% Debentures | 10/15/2024 | 75,000 | |
| KMI 7.35% Debentures | 8/1/2026 | 125,000 | |
| KMI 6.67% Debentures | 11/1/2027 | 150,000 | |
| KMI 7.25% Debentures | 3/1/2028 | 493,000 | 500,000 |
| KMI 7.45% Debentures | 3/1/2098 | <u>150,000</u> | |
| Total Long Term Debt | | \$2,843,000 | \$1,500,000 |
| Add: Commercial Paper | | <u>127,900</u> | |
| Total Debt Outstanding | | \$2,970,900 | |
| 8.56% Trust Preferred | 4/15/2027 | 103,100 | |
| 7.63% Trust Preferred | 4/15/2028 | 180,500 | |

(a) Difference between total debt outstanding as presented above and the 12/31/03 balance sheet is unamortized discount/premium.

KMI 10 Year Debt Maturity Schedule



Balance Sheet Ratios

| | <u>2004E</u> | <u>2003</u> | <u>2002</u> | <u>2001</u> | <u>2000</u> | <u>1999</u> |
|-------------------|--------------|-------------|-------------|-------------|-------------|-------------|
| <u>KMI</u> | | | | | | |
| Debt to Capital | 41% | 43% | 48% | 47% | 61% | 67% |
| Debt/EBITDA | 2.8 | 3.1 | 3.8 | 3.9 | 5.0 | 7.4 |
| EBITDA/Interest | 7.7 | 6.9 | 5.4 | 3.6 | 2.6 | 2.1 |
| <u>KMP</u> | | | | | | |
| Debt to Capital | 54% | 55% | 51% | 46% | 46% | 39% |
| Debt/EBITDA | 3.5 | 3.8 | 3.7 | 3.5 | 3.9 | 3.9 |
| EBITDA/Interest | 6.5 | 6.2 | 5.5 | 4.6 | 5.1 | 5.6 |

Liquidity

| | <u>KMP</u> | <u>KMI</u> |
|--|--------------|------------|
| Commercial Paper capacity | 1,050 | 800 |
| Year-end CP balance | <u>426</u> | <u>128</u> |
| Remaining capacity | 624 | 672 |
| Current CP rates | 1.17% | 1.12% |
| 2004 Maturities | 5 | 0 |
| October – 364 day credit facilities | 570 | 445 |
| Spreads: | | |
| 10-Yr | 94 | 72 |
| Oil Hedge Position: | | |
| BBIs Hedged (millions) | 37.1 | |
| Margin Threshold | \$240.0 | |
| Market to Market (as of 1/13/04) | <u>204.0</u> | |
| Remaining capacity | \$36.0 | |

KMP Return on Investment and Equity

| Return on Investment: | 2000 | 2001 | 2002 | 2003 |
|---|--------------|--------------|--------------|--------------|
| Products Pipelines | 12.0% | 11.8% | 12.8% | 12.9% |
| Natural Gas Pipelines | 13.3 | 15.5 | 12.9 | 13.5 |
| CO ₂ | 27.5 | 24.6 | 22.0 | 21.9 |
| Terminals | 19.1 | 18.2 | 17.7 | 18.4 |
| KMP Return on Investment (a) | 12.3% | 12.7% | 12.6% | 13.1% |
| KMP Return on Equity | 17.4% | 19.0% | 22.1% | 23.8% |

(a) G&A is deducted in calculating overall company return on investment, but is not allocated to the segments and therefore not deducted in calculating the segment information.

KMI Return on Investment and Equity

| Return on Investment: | 2000 | 2001 | 2002 | 2003 |
|-------------------------------------|---------------|--------------|--------------|--------------|
| Investment in KMP | 11.2% | 16.9% | 21.4% | 25.0% |
| NGPL | 11.4 | 11.1 | 10.9 | 11.4 |
| Retail | 13.0 | 11.7 | 15.1 | 14.5 |
| TransColorado | (27.6) | (8.9) | 8.2 | 10.3 |
| Power | 14.3 | 20.2 | 9.7 | 5.8 |
| KMI Return on Investment (a) | 10.5% | 11.7% | 12.4% | 13.4% |
| KMI Return on Equity | 16.6% | 19.0% | 18.7% | 20.0% |

(a) G&A is deducted in calculating overall company return on investment, but is not allocated to the segments and therefore not deducted in calculating the segment information.

Explanation of Return Calculations

| | Formula | Notes |
|------------------------|--|------------|
| Return on Investment = | $\frac{\text{Cash Return}}{\text{Average Total Investment}}$ | (a) (b) |
| Return on Equity = | $\frac{\text{Income}}{\text{Average Equity}}$ | (c) |

- (a) G&A is deducted in calculating overall company return on investment, but is not allocated to the segments and therefore not deducted in calculating the segment information.
- (b) Annual number is calculated based on average of the quarterly Total Investment
- (c) Equity is based on average of book equity over four quarters excluding minority interest

Explanation of Return Calculations

| <u>Cash Return</u> | <u>Total Investment</u> |
|--------------------------------|------------------------------------|
| Net Income | Gross PP&E |
| Add: Taxes <i>(KMI)</i> | Add: Investments |
| DD&A | Intangibles |
| Interest Expense/TRUPS | |
| Minority Interest <i>(KMP)</i> | |
| Less: Sustaining Cap Ex | Less: Cumulative Sustaining Cap Ex |
| G&A <i>(Segments Only)</i> | Minority Interest <i>(KMI)</i> |
| | Deferred Taxes |
| | Assumed Liabilities |
| <u>Cash Return</u> | <u>Total Investment</u> |
| Less: Interest | |
| Cash Taxes <i>(KMI)</i> | |
| <u>Income</u> | |

KMP 2002 ROI Calculation vs. Form 10-K

| | Economic Perspective | | | Form 10-K | | |
|-----------------|----------------------|--------------------------|----------------------|------------------------|----------------------|----------------------|
| | Cash Return | Average Total Investment | Return On Investment | Earnings Before DD&A | Assets | Return On Investment |
| Products | \$391.9 | \$3,073.4 | 12.8% | \$427.3 ^(a) | \$3,088.8 | 13.8% |
| Natural Gas | 310.4 | 2,406.4 | 12.9% | 325.5 | 3,121.7 | 10.4% |
| CO ₂ | 128.5 | 583.4 | 22.0% | 132.2 | 614.0 | 21.5% |
| Terminals | 186.1 | 1,050.3 | 17.7% | 209.0 ^(a) | 1,165.1 | 17.9% |
| Corporate | (120.4) | | | (129.9) ^(b) | 322.9 ^(c) | |
| KMP | \$896.6 | \$7,113.5 | 12.6% | \$964.0 | \$8,312.5 | 11.6% |

- a) Excludes a non-recurring environmental expense adjustment, resulting in a \$15.7 million loss to Products and a \$16.0 million gain to Terminals.
- b) All other KMP expenses that are not included in segments, but excluding interest
- c) Less Cash and cash equivalents

KMI 2002 ROI Calculation vs. Form 10-K

| | Economic Perspective | | | Form 10-K | | |
|-------------------|----------------------|--------------------------|----------------------|----------------------|-------------------|----------------------|
| | Cash Return | Average Total Investment | Return on Investment | Earnings before DD&A | Assets | Return on Investment |
| Investment in KMP | \$338.5 | \$1,582.0 | 21.4% | 392.1 | 2,034.2 | 19.3% |
| NGPL | 378.2 | 3,471.4 | 10.9% | 447.2 | 5,629.4 | 7.9% |
| Retail | 70.3 | 467.0 | 15.1% | 79.1 | 406.8 | 19.4% |
| TransColorado | 13.4 | 163.6 | 8.2% | 13.7 | 258.6 | 5.3% |
| Power | 39.8 | 411.9 | 9.7% | 39.8 | 389.6 | 10.2% |
| Corporate/Other | (81.4) | 20.4 | | (420.3) | 1,384.2 | |
| KMI | \$758.6 | \$6,116.2 | 12.4% | \$551.6 | \$10,102.8 | 5.5% |

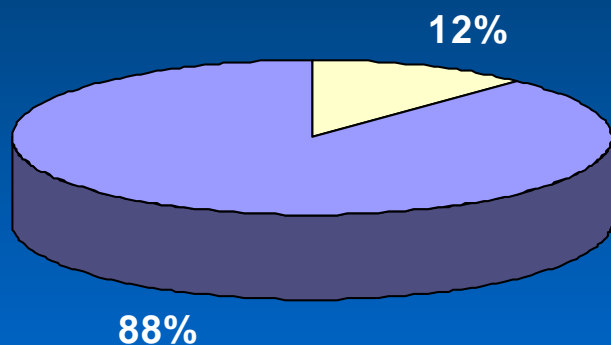
KMP and KMI 2002 ROE Calculation vs. Form 10-K

| | Economic Perspective | | | Form 10-K | | |
|-----|----------------------|----------------|------------------|-----------|-----------|------------------|
| | Income | Average Equity | Return on Equity | Income | Capital | Return on Equity |
| KMP | \$718.3 | \$3,245.8 | 22.1% | \$608.4 | \$3,415.9 | 17.8% |
| KMI | \$482.4 | \$2,581.5 | 18.7% | \$302.7 | \$2,355.0 | 12.9% |

KMP Exposure to Non-Investment Grade Customers has Declined

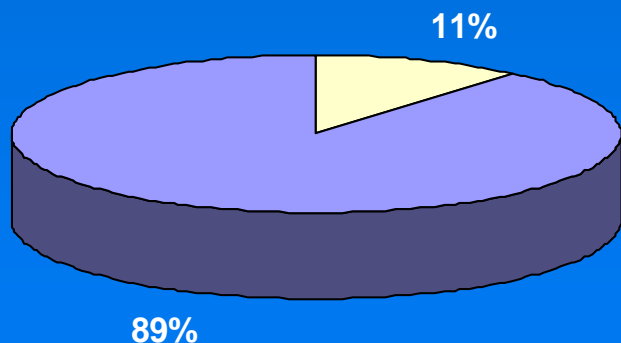
2002 Average Monthly Revenue

■ Non-Investment Grade ■ Investment Grade



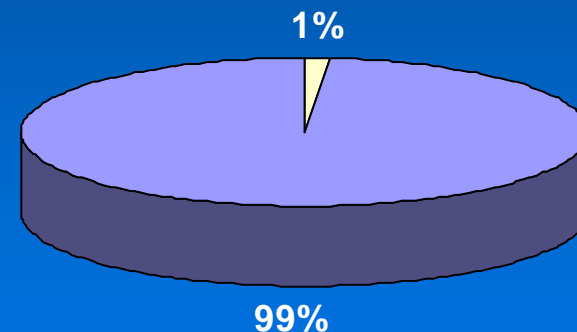
2003 Average Monthly Revenue

■ Non-Investment Grade ■ Investment Grade



Net Exposure (a)

■ Non-Investment Grade ■ Investment Grade

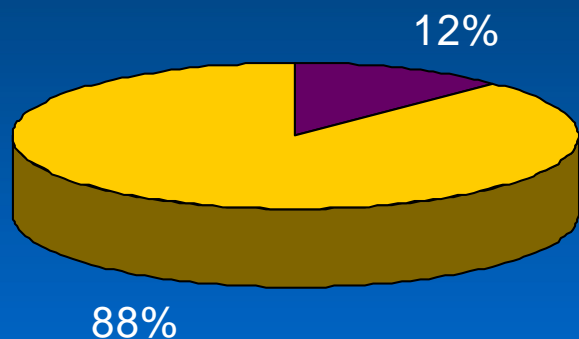


(a) 2003 average monthly sales adjusted for prepaids, letters of credit, nettings, and set-offs as of 12/31/03.

KMI Exposure to Non-Investment Grade Customers has Declined

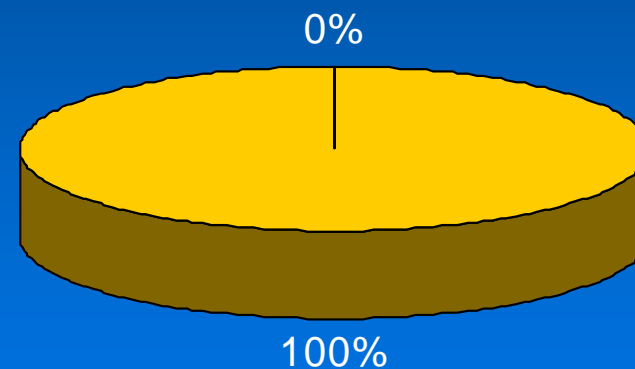
2002 Average Monthly Revenue

■ Non-Investment Grade ■ Investment Grade



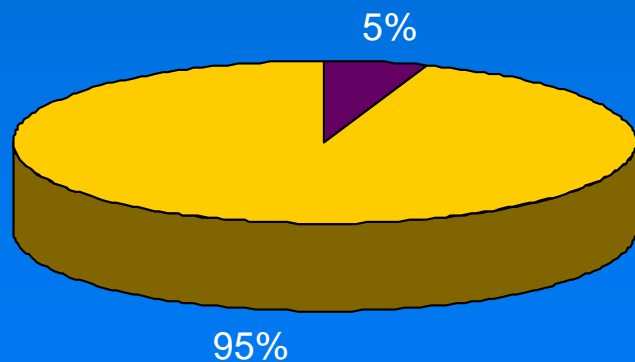
Net Exposure

■ Non-Investment Grade ■ Investment Grade



2003 Average Monthly Revenue

■ Non-Investment Grade ■ Investment Grade



(a) 2003 average monthly sales adjusted for prepaids, letters of credit, nettings, and set-offs as of 12/31/03.

Financial Summary

KMP

- 11% growth in DCF/unit to \$2.98/unit before acquisitions
- 8% growth in budgeted declared distribution to \$2.84/unit before acquisitions
- \$28 million in excess coverage
- Finance new acquisitions 40% debt and 60% equity
- Will distribute \$940 mm

KMI

- 11% growth in EPS to \$3.71
- 41% debt to total capital
- Long term growth 10-12% annually
- Use free cash to return to equity (dividends and share repurchase) and pay down debt as necessary to maintain strong BBB rating

KINDER  MORGAN
