

EL PASO NATURAL GAS COMPANY
CONSOLIDATED FINANCIAL STATEMENTS
For the Six Months Ended June 30, 2012 and 2011
Unaudited

EL PASO NATURAL GAS COMPANY
TABLE OF CONTENTS

	Page Number
Consolidated Financial Statements (Unaudited)	
Consolidated Statements of Income and Comprehensive Income	1
Consolidated Balance Sheets	3
Consolidated Statements of Cash Flows	4
Consolidated Statements of Stockholder's Equity	5

EL PASO NATURAL GAS COMPANY
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(In Millions)
(Unaudited)

	<u>Successor</u>	<u>Predecessor</u>	
	Period from Acquisition May 25, 2012 to June 30, 2012	Period from April 1, 2012 to May 24, 2012	Three Months Ended June 30, 2011
Revenues.....	\$ 48	\$ 59	\$ 123
Operating Costs, Expenses and Other			
Operation and maintenance.....	41	27	50
Depreciation and amortization	9	10	18
Taxes, other than income taxes.....	4	5	7
Total Operating Costs, Expenses and Other	<u>54</u>	<u>42</u>	<u>75</u>
Operating Income (Loss)	(6)	17	48
Other Income (Expense)			
Interest and debt expense	(9)	(13)	(22)
Affiliated interest income, net	2	4	3
Total Other Income (Expense).....	<u>(7)</u>	<u>(9)</u>	<u>(19)</u>
Income (Loss) Before Income Taxes.....	(13)	8	29
Income Tax Benefit (Expense)	<u>5</u>	<u>(3)</u>	<u>(11)</u>
Net Income (Loss)	(8)	5	18
Other Comprehensive Income			
Adjustments to postretirement benefit plan liabilities (net of income taxes of \$(3), \$0 and \$0, respectively).....	1	—	—
Comprehensive Income (Loss)	<u>\$ (7)</u>	<u>\$ 5</u>	<u>\$ 18</u>

EL PASO NATURAL GAS COMPANY
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(In Millions)
(Unaudited)

	<u>Successor</u>	<u>Predecessor</u>	
	Period from Acquisition May 25, 2012 to June 30, 2012	Period from January 1, 2012 to May 24, 2012	Six Months Ended June 30, 2011
Revenues.....	\$ 48	\$ 190	\$ 247
Operating Costs, Expenses and Other			
Operation and maintenance	41	80	96
Depreciation and amortization	9	33	41
Taxes, other than income taxes.....	4	13	15
Total Operating Costs, Expenses and Other	<u>54</u>	<u>126</u>	<u>152</u>
Operating Income (Loss)	(6)	64	95
Other Income (Expense)			
Other income, net	—	1	1
Interest and debt expense	(9)	(35)	(44)
Affiliated interest income, net	2	9	6
Total Other Income (Expense).....	<u>(7)</u>	<u>(25)</u>	<u>(37)</u>
Income (Loss) Before Income Taxes.....	(13)	39	58
Income Tax Benefit (Expense)	<u>5</u>	<u>(15)</u>	<u>(22)</u>
Net Income (Loss)	(8)	24	36
Other Comprehensive Income			
Adjustments to postretirement benefit plan liabilities (net of income taxes of \$(3), \$0 and \$0, respectively).....	1	—	—
Comprehensive Income (Loss)	<u>\$ (7)</u>	<u>\$ 24</u>	<u>\$ 36</u>

EL PASO NATURAL GAS COMPANY
CONSOLIDATED BALANCE SHEETS
(In Millions, except share amounts)

	<u>Successor</u> <u>June 30,</u> <u>2012</u>	<u>Predecessor</u> <u>December 31,</u> <u>2011</u>
	(Unaudited)	
ASSETS		
Current assets		
Cash and cash equivalents	\$ —	\$ —
Accounts receivable, net	85	30
Materials and supplies	43	48
Deferred income taxes	8	12
Prepays	7	16
Regulatory assets	6	8
Other current assets	<u>3</u>	<u>—</u>
Total current assets	152	114
Property, plant and equipment, net	2,393	2,468
Goodwill	541	—
Note receivable from affiliate	855	873
Regulatory assets and other	<u>345</u>	<u>101</u>
Total Assets	<u>\$ 4,286</u>	<u>\$ 3,556</u>
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities		
Accounts payable	\$ 69	\$ 97
Accrued taxes	17	35
Accrued interest	20	19
Regulatory liabilities	11	16
Contractual deposits	15	21
Accrued other current liabilities	<u>22</u>	<u>35</u>
Total current liabilities	<u>154</u>	<u>223</u>
Long-term liabilities and deferred credits		
Long-term debt	1,359	1,113
Deferred income taxes	481	439
Other long-term liabilities and deferred credits	<u>124</u>	<u>78</u>
Total long-term liabilities and deferred credits	<u>1,964</u>	<u>1,630</u>
Total Liabilities	<u>2,118</u>	<u>1,853</u>
Stockholder's equity		
Common stock, par value \$1 per share; 1,000 shares authorized, issued and outstanding	—	—
Additional paid-in capital	2,175	1,268
Retained earnings	(8)	432
Accumulated other comprehensive income	<u>1</u>	<u>3</u>
Total Stockholder's Equity	<u>2,168</u>	<u>1,703</u>
Total Liabilities and Stockholder's Equity	<u>\$ 4,286</u>	<u>\$ 3,556</u>

EL PASO NATURAL GAS COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Millions)
(Unaudited)

	<u>Successor</u>	<u>Predecessor</u>	
	Period from Acquisition May 25, 2012 to June 30, 2012	Period from January 1, 2012 to May 24, 2012	Six Months Ended June 30, 2011
Cash Flows From Operating Activities			
Net income (loss)	\$ (8)	\$ 24	\$ 36
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	9	33	41
Deferred income tax expense	(4)	11	2
Other non-cash income items	2	(3)	12
Changes in components of working capital:			
Accounts receivable	(65)	10	2
Accounts payable	(3)	(20)	(6)
Accrued taxes	(22)	4	20
Other, net	—	(4)	29
Other long-term assets and liabilities	59	49	(2)
Net Cash Provided by (Used in) Operating Activities	<u>(32)</u>	<u>104</u>	<u>134</u>
Cash Flows From Investing Activities			
Capital expenditures	(3)	(27)	(41)
Net change in note receivable from affiliate	21	(3)	(72)
Net Cash Provided by (Used in) Investing Activities	<u>18</u>	<u>(30)</u>	<u>(113)</u>
Cash Flows From Financing Activities			
Distributions to parent	—	(60)	(21)
Net Cash Used in Financing Activities	<u>—</u>	<u>(60)</u>	<u>(21)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(14)	14	—
Cash and Cash Equivalents, beginning of period	14	—	—
Cash and Cash Equivalents, end of period	<u>\$ —</u>	<u>\$ 14</u>	<u>\$ —</u>

EL PASO NATURAL GAS COMPANY
CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY
(In Millions, except share amounts)
(Unaudited)

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total Stockholder's Equity</u>
	<u>Shares</u>	<u>Amount</u>				
<i>Predecessor</i>						
Balance at December 31, 2011	1,000	\$ —	\$ 1,268	\$ 432	\$ 3	\$ 1,703
Net income				24		24
Dividend paid to parent				(60)		(60)
Other comprehensive income						—
Balance at May 24, 2012	<u>1,000</u>	<u>\$ —</u>	<u>\$ 1,268</u>	<u>\$ 396</u>	<u>\$ 3</u>	<u>\$ 1,667</u>
<hr/>						
<i>Successor</i>						
Balance at May 25, 2012	1,000	\$ —	\$ 2,175	\$ —	\$ —	\$ 2,175
Net loss				(8)		(8)
Other comprehensive income					1	1
Balance at June 30, 2012	<u>1,000</u>	<u>\$ —</u>	<u>\$ 2,175</u>	<u>\$ (8)</u>	<u>\$ 1</u>	<u>\$ 2,168</u>

Explanation of Change of Accounting Basis

The merger of Kinder Morgan, Inc. (KMI) and El Paso Corporation became effective May 25, 2012. The merger was accounted for by KMI using business combination accounting. Under this method, the purchase price paid by the acquirer is allocated to the assets acquired and liabilities assumed as of the acquisition date based on their fair value. By the application of “push-down” accounting, our assets, liabilities and equity were accordingly adjusted to fair value on May 25, 2012. Determining the fair value of certain assets and liabilities assumed is judgmental in nature and often involves the use of significant estimates and assumptions.

Due to the application of “push-down” accounting, our financial statements are presented in two distinct periods to indicate the application of two different bases of accounting. Periods prior to May 25, 2012 are identified herein as “Predecessor,” while periods subsequent to the KMI merger are identified as “Successor.” As a result of the change in the basis of accounting from historical cost to reflect KMI’s purchase cost, the financial statements for Predecessor periods are not comparable to those of Successor periods.