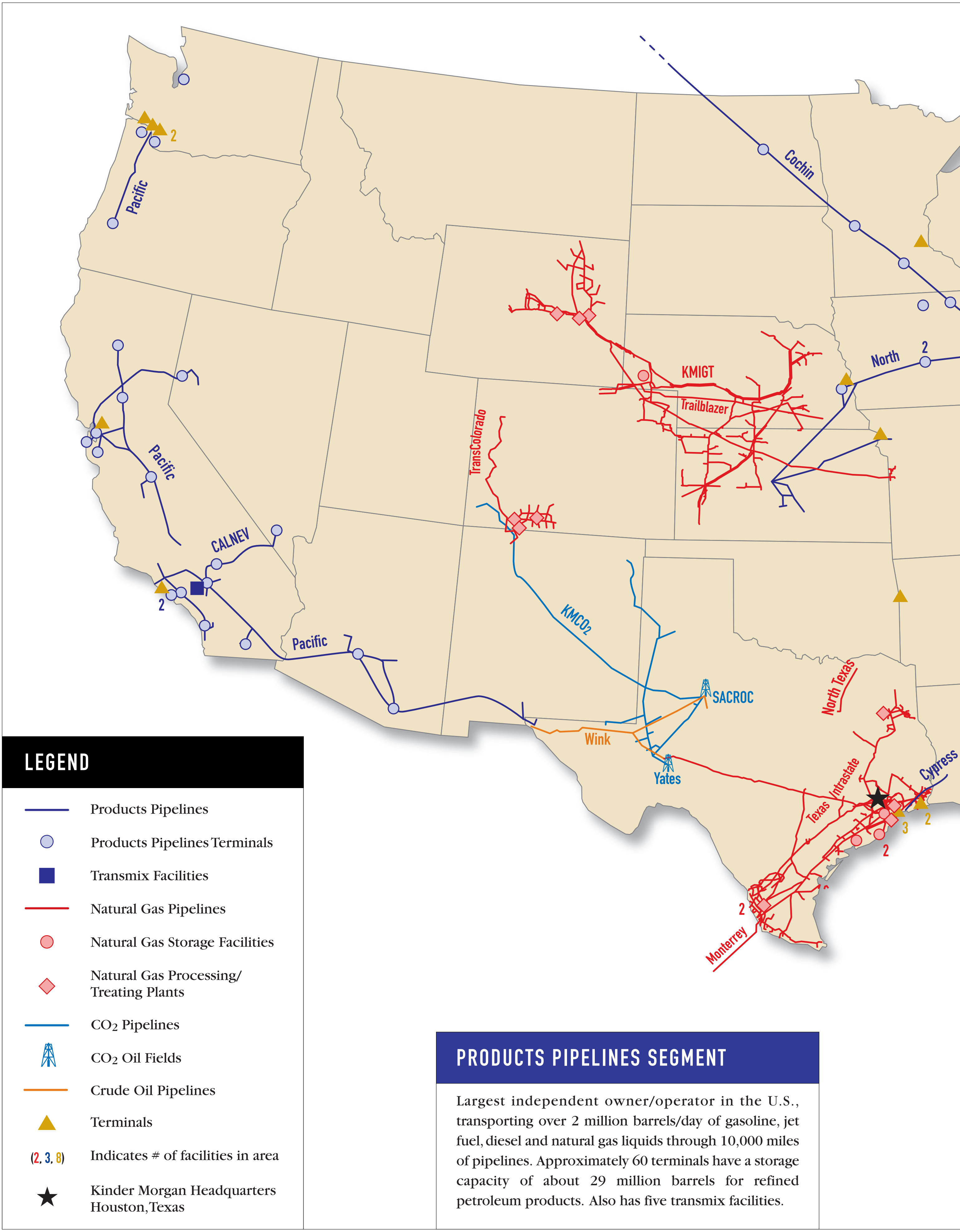
KINDER MORGAN
ENERGY PARTNERS, L.P.

2004 ANNUAL REPORT



PRODUCTS PIPELINES SEGMENT

Largest independent owner/operator in the U.S., transporting over 2 million barrels/day of gasoline, jet fuel, diesel and natural gas liquids through 10,000 miles of pipelines. Approximately 60 terminals have a storage capacity of about 29 million barrels for refined petroleum products. Also has five transmix facilities.

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TERMINALS SEGMENT

Largest independent owner/operator in the U.S. Approximately 75 terminals in this segment handle more than 67 million tons annually of coal and other dry-bulk materials, and have a liquids storage capacity of over 36 million barrels for petroleum products and chemicals. Also has about 55 transload facilities.

NATURAL GAS PIPELINES SEGMENT

Major transporter of natural gas in Texas, Rocky Mountain and Midwest areas. Approximately 14,000-mile pipeline network has transportation capacity of about 8.4 billion cubic feet/day and working gas storage capacity of about 21 billion cubic feet. Also owns/operates gathering, treating and processing facilities.

CO_2 SEGMENT

Largest transporter and marketer of carbon dioxide for enhanced oil recovery projects in the U.S. Transports over 1 billion cubic feet/day of CO_2 through more than 1,100 miles of pipelines. Second largest oil producer in Texas with significant interests in two oil fields and a crude oil pipeline in the Permian Basin.

LETTER TO UNITHOLDERS

Led by an experienced senior management team and dedicated employees, we continue to help our customers meet the growing demand for energy in the United States. We have become one of the largest operators of midstream energy assets in the country. We transport gasoline, natural gas and other products through more than 25,000 miles of pipelines, store refined petroleum products and handle coal and other materials at approximately 135 terminals, and transport, market and inject carbon dioxide to enhance crude oil recovery from mature oil fields.

Kinder Morgan Energy Partners (KMP) produced record financial results in 2004. We:

- Increased the distribution per common unit each quarter.
- Declared cash distributions of $2.87 per unit, up 9 percent compared to 2003.
- Invested approximately $625 million in capital expansion projects and more than $600 million in acquisitions.
- Generated distributable cash flow that exceeded distributions by approximately $46 million.

Although we increased the distribution each quarter, KMP's overall return to unitholders was -4 percent in 2004, as the unit price declined. While disappointing, we believe superior financial and operating results are eventually rewarded, as demonstrated by our outstanding long-term returns to our unitholders.

KMP has returned 35% annually to unitholders since 1996

We have been executing the same strategy since we began operating KMP in 1997: 1) focus on stable, fee-based assets that are core to the energy infrastructure of growing markets; 2) increase utilization of assets while controlling costs; 3) leverage economies of scale from incremental acquisitions and expansions; and 4) maximize the benefit of a unique financial structure – the master limited partnership.

This strategy has enabled us to meet or exceed our financial targets for eight consecutive years. During that period, we have increased KMP's quarterly distribution 22 times, grown the distributable cash flow by 60 percent annually and delivered an average annual return to unitholders of 35 percent. We have invested more than $9 billion in acquisitions and capital expansions, and generated very nice returns on these investments.

We have also established a corporate culture and management philosophy that help us stand apart from many companies in the energy industry. For example:

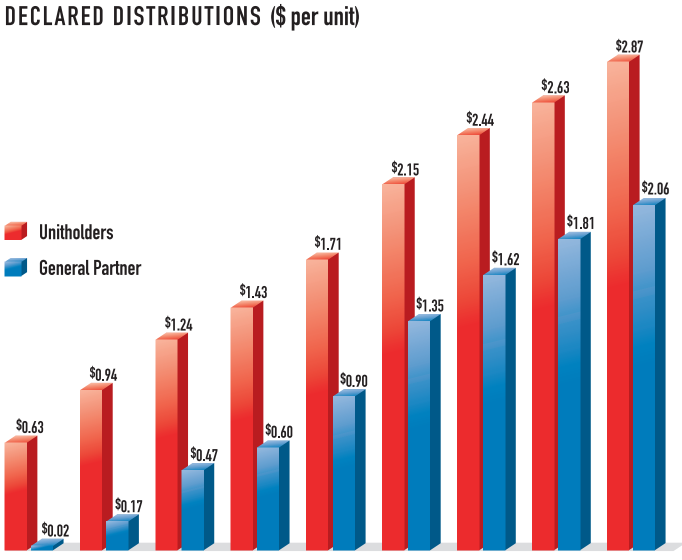
- We eliminate unnecessary overhead expenses and perks such as corporate aircraft, first-class airfare, tickets to sporting events and club memberships.
- We try to avoid businesses with commodity price exposure and use hedges to minimize such risks in areas where they exist.
- We work hard to align the interests of management and unitholders. My salary continues to be $1 a year, and I don't receive a bonus, options or restricted stock. In addition, base salaries for senior management remain capped at $200,000 per year and their bonuses are tied directly to the financial results of the company, as well as their personal performance.

While we pride ourselves on being a low-cost asset operator, we don't cut corners when it comes to our field operations. Protecting the public, our employees and the environment is our top priority, and we will spend approximately $230 million in 2005 to implement our integrity management programs and maintain our assets to ensure they operate as safely as possible.

Like all businesses, we face challenges. Regulatory and operational issues, the threat of terrorism and interest rate changes are some of the risks that could negatively impact the company. For instance, the long-awaited decision on the SFPP rate case relative to our products pipelines on the West Coast may be issued in 2005 (please see Litigation section in the attached 10-K for details). While it is impossible to eliminate all of the risks associated with our businesses, I promise you that we are doing everything we can to be prepared for the unexpected and that we will do our best to effectively manage any issues that arise.

We are committed to transparency and invite you to join us each quarter on our webcast conference calls to review our financial performance and compare it with our annual budget that we post each January on our web site (www.kindermorgan.com).

DECLARED DISTRIBUTIONS ($ per unit)



BUSINESS SEGMENTS

Our assets generated more than $1 billion in distributable cash flow in 2004, and all four of our business segments reported increased earnings before depreciation, depletion and amortization (DD&A) compared to 2003.

The **Products Pipelines** segment delivered an 8 percent increase in 2004 earnings before DD&A to $475.5 million, compared to $441.6 million for 2003. Growth in this segment was driven by contributions from acquired refined petroleum products storage terminals in the Southeast and robust earnings from the Cochin pipeline system and our West Coast terminals. Revenues increased 10 percent (positively impacted by fees from ethanol blending at our West Coast terminals), and total refined products volumes were up 2 percent (negatively impacted by the mandated shift in California from MTBE to ethanol, as ethanol cannot be transported through our products pipelines) compared to 2003.

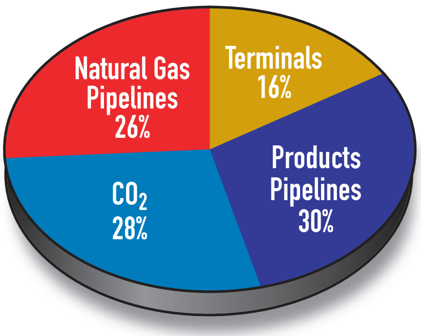
We have significantly broadened our footprint in the Southeast and complemented our existing pipeline assets in that region by acquiring 23 terminals in three separate transactions since December 2003. We have nearly 8 million barrels of terminal storage capacity in the Southeast, and these facilities are generating solid fee-based income. Additional highlights in 2004 included placing a new 70-mile, 20-inch diameter replacement pipeline into service between Concord and Sacramento, Calif. The $95 million expansion project will help meet long-term demand for gasoline, jet fuel and diesel. We also boosted our ownership stake to approximately 50 percent in Cochin, which is operated by BP and transports various fuels to the mid-western United States and eastern Canada.

In 2005, we plan to invest approximately $185 million to continue expansion of our East Line and increase transportation capacity for gasoline, jet fuel and diesel from El Paso, Texas, to Tucson and Phoenix, Ariz. In addition, a $40 million expansion at our Carson petroleum products storage and transfer terminal in Southern California will add 10 new tanks and 800,000 barrels of additional storage capacity in 2005-2006.

The **Natural Gas Pipelines** segment produced 2004 earnings before DD&A of $410.7 million, up 10 percent from $373.4 million in 2003. Growth in this segment was spearheaded by the Texas Intrastate Pipeline Group. By successfully combining the Kinder Morgan Texas and former Tejas intrastate pipelines into one system, we have established a very strong asset position in the largest and most competitive natural gas market in the country (Texas ranks first in both production and consumption of natural gas). This segment also benefited from two months of earnings from the acquisition of TransColorado Gas Transmission Company, which extends from northwestern Colorado to northwestern New Mexico. We have entered into long-term, fixed-price contracts for most of TransColorado's transportation capacity through 2007.

Additional highlights included gaining entry into the rapidly growing Austin, Texas, market by investing $30 million to purchase a crude oil pipeline and convert it to natural gas. In 2005, we plan to spend about $130 million in natural gas expansion projects to increase transportation and storage capacity in the Texas markets, and to increase transportation capacity on TransColorado. Additionally, we believe our intrastate pipelines are ideally positioned to capitalize on the increasing imports of liquified natural gas (LNG), and we are actively pursuing these opportunities.

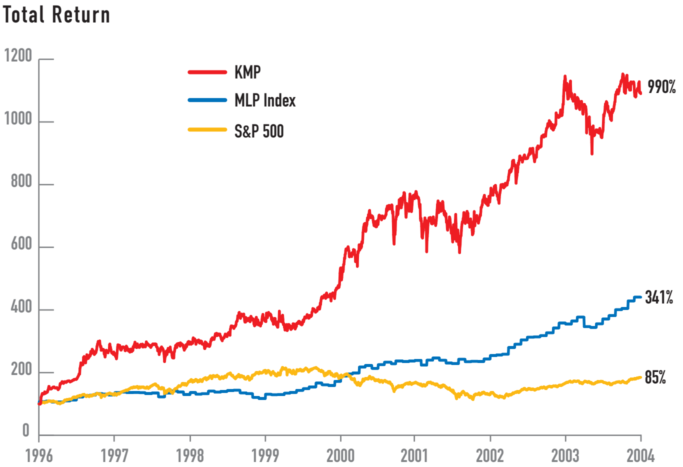
2005 BUDGETED DISTRIBUTABLE CASH FLOW



The **CO_2** segment is KMP's fastest-growing business and delivered 2004 earnings before DD&A of $353.5 million, up 74 percent from $203.6 million in 2003. This superb growth was attributable to increased oil production, strong CO_2 delivery volumes, increased ownership in the Yates Field to 50 percent and contributions from the purchase of a crude oil pipeline.

We operate and own significant interests in two world-class reservoirs in the Permian Basin – the SACROC Unit and the Yates Field – and we have become the second largest oil producer in Texas. We invested approximately $300 million in 2004 to expand our operations at SACROC, where average oil production increased almost 41 percent

KMP: 35% ANNUAL RETURN



Returns calculated on a daily basis assuming dividends/distributions reinvested in index/stock/unit, except MLP Index calculated on a monthly basis. Start date12/31/1996.

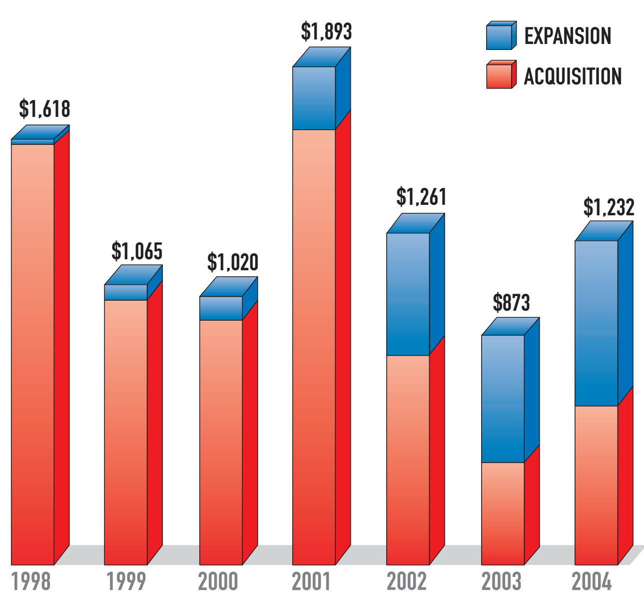
for the year. In December 2004, average oil production was more than 33,000 barrels of oil per day (BOPD) at SACROC and about 22,500 BOPD at Yates. In 2005, we plan to spend about an additional $240 million to further ramp up oil production at SACROC and to expand our CO_2 injection operations at Yates.

This segment is one of the only areas where KMP is exposed to commodity price risk, but that risk is mitigated by a long-term hedging strategy intended to generate more stable realized prices. Although I've devoted most of my CO_2 discussion to oil production because of its significant growth, keep in mind that this segment does much more than produce oil. We are the leading transporter and marketer of CO_2 in the country, and our premier source and transportation assets enable us to provide a broad range of services to customers, including technical expertise.

The **Terminals** segment reported a 9 percent increase in 2004 earnings before DD&A to $263.2 million, compared to $240.8 million in 2003. Growth was led by record throughput at the liquids terminals on the Houston Ship Channel, higher coal and synfuel volumes at bulk terminals in the Southeast and the fourth quarter acquisition of 21 terminals and two transload facilities along the Mississippi River. Throughput increased by 19 percent at our bulk terminals compared to the previous year (including acquisitions) and by 8 percent at our liquids terminals. Approximately 24 percent of the nation's gasoline imports move through our liquids terminals, and about 17 percent of the nation's coal exports are handled at our facilities.

In 2005, we plan to invest more than $50 million in expansion projects to construct additional tanks to increase storage capacity for petroleum products on the Houston Ship Channel and in New York Harbor, and to expand our dock and handling capabilities at our Tampaplex facility in Florida.

CAPITAL INVESTED (in millions)



OUTLOOK

While our historical performance has been stellar, I know that you are more interested in where KMP is heading and that is our focus as well. I believe KMP has a very bright future, as energy demand continues to grow in the United States. As an industry leader in all of our businesses (see asset descriptions on map page), we are well positioned to help meet that demand and to continue growing the company. I've already noted various expansion projects that we will undertake in 2005, but there are a couple of primary long-term growth drivers that should create many of our future opportunities. First, gasoline and jet fuel demand tracks demographic growth, which bodes well for us because we serve eight of the 10 fastest-growing markets in the country. Second, natural gas demand is projected to grow at 1.5 percent per year, which means that our existing pipeline and storage network should be well utilized and there will be a need for additional infrastructure.

I head a hands-on management team that pays great attention to detail, and we will continue to meet weekly, monthly and quarterly with each business unit to review operations and expectations. We will continue to allocate capital in a disciplined manner – investing to grow and expand existing assets, build new infrastructure and acquire strategic assets to broaden our footprint in growing markets. While implementing this balanced growth strategy, we will stick with the principles that have proven successful for us in the past. For example, we generally require that expansion projects be secured by customer agreements, and we only purchase reasonably priced assets that will be immediately accretive to distributions to unitholders. In 2005, we plan to spend approximately $600 million on capital expansion projects, and we are optimistic about our chances to make accretive and strategic acquisitions.

Excluding acquisitions, we expect KMP to declare cash distributions of $3.13 per limited partner unit for 2005, which represents 9 percent growth over 2004. We also plan to strengthen our balance sheet by further reducing our debt-to-capital ratio, which was at 52 percent at year-end 2004. KMP's credit ratings remain strong.

This is an exciting time to be in the energy industry, and we will do our best to continue growing the company, producing strong financial results and delivering value to our unitholders. Thanks for your ongoing support, and I'm confident the best is yet to come!

Richard D. Kinder
Chairman, Chief Executive Officer and President

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www.kindermorgan.com
for investor information

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(2) Member, Audit Committee
(3) Lead Director

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