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Kinder Morgan: Two Companies, Three Securities

Kinder Morgan Energy Partners
Market Equity (a) $7.1
Debt 3.8
Enterprise Value $10.9
2003E EBITDA $1,102 mm
2003E Dist. CF $809 mm

Kinder Morgan, Inc
Market Equity (b) $6.5
Debt 3.2
Enterprise Value $9.7
2003E EBITDA $939 mm
2003E Dist. CF $469 mm

(a) KMEP market cap based on 139 million common units at a price of $38.96, and 47 million KMR i-units at a price of $36.03 as of June 6, 2003. Debt balance as of March 31, 2003, excluding the fair value of interest rate swaps, net of cash.

(b) KMI market cap based on 123 million shares at $53.06 as of June 6, 2003. Debt balance as of March 31, 2003, excluding the fair value of interest rate swaps, net of cash.

(c) Includes 5 million Class B units owned by KMI. Class B units are unlisted KMP common units.
Consistent Track Record

**Total Distributions (GP + LP) ($mm)**

- Chart showing total distributions from 1996 to 2003E with a CAGR of 74%.

**KMP Distribution / Unit (a)**

- Chart showing KMP distribution per unit from 1996 to 2003E with a CAGR of 23%.

**KMI Earnings Per Share (b)**

- Chart showing KMI earnings per share from 1999 to 2003E with a CAGR of 45%.

**Debt to Total Capital**

- Chart showing debt to total capital for KMP and KMI from 1997 to 2002 with various percentages.

---

(a) Declared 4Q distribution annualized (i.e. multiplied by four).
(b) Excluding special items.
# Attractive Value Proposition

<table>
<thead>
<tr>
<th></th>
<th>KMP/KMR (a)</th>
<th>KMI (a)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stable Cash Flow</td>
<td>6.5% / 7.0% yield</td>
<td>1.3% yield</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Excess cash used for</td>
</tr>
<tr>
<td></td>
<td></td>
<td>share buyback, dividends</td>
</tr>
<tr>
<td></td>
<td></td>
<td>and debt repayment</td>
</tr>
<tr>
<td>Add: Internal Growth</td>
<td>8-10%</td>
<td>15%+</td>
</tr>
<tr>
<td>Internal Growth -</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Return Potential</td>
<td>15-17%</td>
<td>16%+</td>
</tr>
<tr>
<td>Acquisition Upside</td>
<td>&gt;15-17%</td>
<td>&gt;16+%</td>
</tr>
<tr>
<td>- Total Return</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Potential</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(a) Returns calculated from 2002 to 2007.
Structure offers Two Risk Reward Profiles

<table>
<thead>
<tr>
<th></th>
<th>Limited Partner KMP/KMR</th>
<th>General Partner KMI</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Yield</strong></td>
<td>6.5% - 7.0%</td>
<td>Approx. 1.3%</td>
</tr>
<tr>
<td><strong>Distributions</strong></td>
<td>Share in all distributions from Available Cash</td>
<td>Only entitled to incentive distribution on Cash from Operations</td>
</tr>
<tr>
<td><strong>Current Split of Cash</strong></td>
<td>59%</td>
<td>41%</td>
</tr>
<tr>
<td><strong>Upside/Downside at Current Split</strong></td>
<td>50% upside / 50% downside</td>
<td>50% upside / 50% downside</td>
</tr>
<tr>
<td><strong>Split from Interim Capital Transactions</strong></td>
<td>98%</td>
<td>2%</td>
</tr>
<tr>
<td><strong>Results (a)</strong></td>
<td>40% annual return</td>
<td>43% annual return</td>
</tr>
</tbody>
</table>

(a) Annual returns calculated on weekly period for: (i) KMI: July 1999 through June 6, 2003 and (ii) KMP: January 1997 through June 6, 2003 assuming dividends reinvested.
The Kinder Morgan Strategy

- Focus on stable, fee-based assets which are core to the energy infrastructure of growing markets
- Increase utilization of assets while controlling costs
  - Classic fixed cost businesses with little variable costs
  - Improve productivity to drop all top-line growth to bottom line
- Leverage economies of scale from incremental acquisitions and expansions
  - Reduce needless overhead
  - Apply best practices to core operations
- Maximize benefit of a unique financial structure which fits with strategy
  - MLP avoids double taxation, increasing distributions from high cash flow businesses
  - Strong balance sheet allows flexibility when raising capital for acquisitions / expansions

Same Strategy Since Inception
Management Philosophy

- **Low Cost Asset Operator**
  - Senior management limited to $200,000 per year in base salary
  - No planes, sports tickets, etc.

- **Attention to Detail**
  - Weekly operations and financial assessment
  - Monthly earnings and accounts receivable review
  - Quarterly strategic review

- **Risk Management**
  - Avoid businesses with direct commodity price exposure wherever possible
  - Hedge incidental commodity price risk

- **Alignment of Incentives**
  - Bonus targets are tied to published budget – KMP DCF of $2.63 and KMI EPS of $3.18 for 2003
  - All employees have KMI stock options
  - Rich Kinder has the largest equity stake in the energy industry — 20% in KMI
  - He receives $1 per year in salary, no bonus, no options
Solid Asset Base Generates Stable Fee Income

**Terminals**
- Largest independent terminal operator in U.S.
- 65% Liquids, 35% Bulk
- Geographic and product diversity
- 3-4 year average contract life

**CO₂**
- Leading provider of CO₂ in U.S.; long-term contracts
- 37% CO₂ transport and sales
- 63% oil production related
- Oil price hedged out to 3 years

**Natural Gas Pipelines**
- 38% FERC regulated with 7-8 year average contract life
- 51% Texas Railroad Commission regulated
- Little incidental commodity risk

**Products Pipelines**
- Largest independent refined products pipeline system in U.S.
- Refinery hub to population center strategy
- 47% FERC regulated (b)
- 19% CPUC regulated (b)
- No commodity price risk

KMP 2003 DCF (a)

(a) Budgeted 2003 distributable cash flow before allocation of G&A and interest.
(b) Based on 2002 earnings.
# Targeted KMP Internal Segment Growth

<table>
<thead>
<tr>
<th>Business Segments</th>
<th>DCF 2002 Actual</th>
<th>DCF 2003 Budget</th>
<th>Change</th>
<th>Growth Drivers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Products Pipelines</td>
<td>$399.1</td>
<td>$418.7</td>
<td>$19.6</td>
<td>Demographics in West and Southeast U.S.</td>
</tr>
<tr>
<td>Natural Gas Pipelines</td>
<td>307.6</td>
<td>341.1</td>
<td>33.5</td>
<td>Expansions and extensions</td>
</tr>
<tr>
<td>CO₂ Pipelines</td>
<td>128.6</td>
<td>171.9</td>
<td>43.3</td>
<td>SACROC growth</td>
</tr>
<tr>
<td>Terminals</td>
<td>187.9</td>
<td>211.7</td>
<td>23.8</td>
<td>Expansions, new contracts</td>
</tr>
</tbody>
</table>

Total (a) $1,023.2 $1,143.4 $120.2

**Consistent with 8% Internal Growth to LP Units**

(a) Total segment distributable cash before G&A and interest.
Modest Top Line Growth Leads to Significant Bottom Line Growth

<table>
<thead>
<tr>
<th>Illustrative</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Growth</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Margin</td>
<td>$100</td>
<td>$104</td>
<td>4%</td>
<td>Price and volume</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>50</td>
<td>50</td>
<td></td>
<td>Efficiency savings compensate for small increase in variable cost</td>
</tr>
<tr>
<td>Operating Income</td>
<td>$50</td>
<td>$54</td>
<td>8%</td>
<td></td>
</tr>
<tr>
<td>G&amp;A</td>
<td>6</td>
<td>6</td>
<td></td>
<td>No increase associated with internal growth</td>
</tr>
<tr>
<td>Net Before Debt</td>
<td>$44</td>
<td>$48</td>
<td>9%</td>
<td>No increase associated with internal growth</td>
</tr>
<tr>
<td>Interest Expense (a)</td>
<td>11</td>
<td>11</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net After Debt</td>
<td>$33</td>
<td>$37</td>
<td>12%</td>
<td></td>
</tr>
<tr>
<td>LP Share</td>
<td>20</td>
<td>2</td>
<td>10%</td>
<td>LP receives 59% of total and 50% of upside</td>
</tr>
<tr>
<td>GP Share</td>
<td>13</td>
<td>2</td>
<td>15%</td>
<td>GP receives 41% of total and 50% of upside</td>
</tr>
</tbody>
</table>

(a) Based on enterprise value equal to $450 million, 40% leverage and 6% interest rate.
High Return Internal Expansions Add Growth

### KMP 2003 Expansion Capital Budget

<table>
<thead>
<tr>
<th>Business Segment</th>
<th>2003 Budget</th>
<th>Major Projects</th>
<th>Cost – Major Projects</th>
<th>Completion Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product Pipelines</td>
<td>$66</td>
<td>Sacramento, Ethanol</td>
<td>$88</td>
<td>2003-2005</td>
</tr>
<tr>
<td>Natural Gas Pipelines</td>
<td>$67</td>
<td>Cheyenne, Monterrey</td>
<td>$118</td>
<td>2003-2004</td>
</tr>
<tr>
<td>CO2 Pipelines</td>
<td>$233</td>
<td>SACROC/Centerline</td>
<td>$236</td>
<td>2003</td>
</tr>
<tr>
<td>Terminals</td>
<td>$58</td>
<td>Northeast, Houston</td>
<td>$44</td>
<td>2003</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$424</strong></td>
<td></td>
<td><strong>$486</strong></td>
<td></td>
</tr>
</tbody>
</table>
KMP is conservatively capitalized

Rating | Baa1/BBB+
--- | ---
Current Net Debt / Total Capital | 52%

2003 Budget Estimates:
- Debt / EBITDA | 3.6x
- EBITDA / Interest | 6.0x

CP Capacity:
- Total Revolver | $1,050
- Outstanding CP (3/31/03) | 362
- Excess Capacity | $688

Market Capitalization and Credit Ratings (a):

<table>
<thead>
<tr>
<th>Market Equity</th>
<th>Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>$7.1</td>
<td>$3.8</td>
</tr>
<tr>
<td>$4.8</td>
<td>$2.0</td>
</tr>
<tr>
<td>$1.3</td>
<td>$1.1</td>
</tr>
<tr>
<td>$2.7</td>
<td>$1.8</td>
</tr>
<tr>
<td>$2.1</td>
<td>$1.9</td>
</tr>
<tr>
<td>$1.4</td>
<td>$1.6</td>
</tr>
</tbody>
</table>

(a) Prices as of June 6, 2003. Shares outstanding from Bloomberg. Debt balances and credit ratings based on Wall Street research.
KMR Reduces KMP’s Need to Access Market

- 2003 EBITDA: $1,100
- Interest, Sustaining Cap Ex, Taxes: $300
- LP Distribution: $480
- KMR Distribution: $120
- GP Distribution: $320
- Reinvested in Business: $120

Paid in shares, cash reinvested
KMR is a Tax Efficient Way to Own KMP

- Higher Current Yield When KMR Trades at a Discount
  - KMP Cash Distribution / KMR Price (10 days prior to ex-dividend)

- Same or Better Terminal Value
  - guarantee upon mandatory purchase events of higher of KMP or KMR value

- Same Voting Rights as KMP

- Taxes
  - Share distributions are not taxed and reduce per share basis
  - One year after purchase, all gains (including most recent share distribution) are long term capital gains

- KMI BOD has authorized KMI to act opportunistically to repurchase KMR shares
KMP, KMR Price Differential Presents Opportunity

The chart shows the price movements of KMP and KMR from May-01 to May-03. The price differential between KMP and KMR presents an opportunity.
Solid Asset Base Generates Stable Fee Income

KMP (a)
- General partner interest provides incentive distributions
- Own 18% of total limited partner units

Retail
- Natural gas distribution service
- Serve Colorado, Wyoming and Nebraska
- 240,000 customers

KMI
- 2003 Segment Income (b)

NGPL
- FERC regulated with 3 year average contract life
- Primary customers are Chicago local distribution companies
- Little incidental commodity risk

Power
- Equity interest in five plants

TransColorado
- Transports natural gas from Rockies to northern New Mexico

(a) Includes: (i) general partner interest, (ii) earnings from 18 million KMP units and (iii) earnings from 14 million KMR units. On a comparable basis 2002 numbers were KMP 42%, NGPL 43%, Retail 8%, Power 5% and TransColorado 2%.

(b) Budgeted 2003 segment earnings before allocation of G&A and interest.
Targeted KMI Internal Growth

Three Assumptions:

1. KMP
   - 8 - 10% LP distribution growth plus resulting GP incentive

2. NGPL / Other Assets
   - 3 - 5% segment earnings growth

3. Cash Available after sustaining and modest expansion CAPEX
   - 50% Dividends/ Repurchase Shares
   - 50% Reduce Debt

Consistent with 15%+ Internal Growth
KMI - Impact of Recent Dividend Tax Cut

- KMI has substantial cash flow available to return to equity
  - Approx. $200mm in 2003 budget
  - Expected to grow significantly in 2004 as earnings increase and debt reduction targets are reduced
- Historical bias for share repurchases (over $400mm in last 2 years)
  - Double taxation of dividends at high ordinary income rates
  - Capital gains rate roughly half of ordinary income rates
- New tax legislation has significantly changed the environment
  - 15% dividend tax rate significantly reduces double taxation
  - Equalization of dividend and capital gains rates
- Last January, KMI announced it would consider a significant increase in its dividend if tax law were changed
Risks

- **Regulatory**
  - Pacific Products Pipeline FERC/CPUC case
  - Trailblazer rate case
  - Affiliate rule change
  - Unexpected FERC policy changes

- **Environmental**

- **Terrorism**

- **Interest Rates**
  - 50% of debt is floating rate
  - Budget assumes approximately 100 bps increase in floating rates over the year
  - A full year of a 100 basis point increase in rates equals $18 million increase in expense at KMP and $17 million at KMI
Stable Platform, Attractive Growth

- Stable cash flow from essential infrastructure
- Low cost discipline
- Conservative capital structure
- Management team with significant equity stake
- Outstanding track record
- Attractive internal growth from favorable demographics and expansion opportunities
- Acquisition upside potential