

EL PASO NATURAL GAS COMPANY, L.L.C.
CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Nine Months Ended September 30, 2012 and 2011
Unaudited

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

	<u>Successor</u>	<u>Predecessor</u>
	<u>Three Months Ended</u>	
	<u>September 30,</u>	
	<u>2012</u>	<u>2011</u>
Revenues.....	\$ 125	\$ 134
Operating Costs, Expenses and Other		
Operation and maintenance	37	51
Depreciation and amortization	22	28
Taxes, other than income taxes.....	7	8
Total Operating Costs, Expenses and Other	<u>66</u>	<u>87</u>
Operating Income	59	47
Other Income (Expense)		
Other income, net	1	—
Interest and debt expense.....	(22)	(22)
Affiliated interest income, net	6	6
Total Other Expense.....	<u>(15)</u>	<u>(16)</u>
Income Before Income Taxes	44	31
Income Tax Expense.....	<u>(5)</u>	<u>(11)</u>
Net Income.....	39	20
Other Comprehensive Income		
Adjustments to postretirement benefit plan liabilities (net of income tax (expense) benefit of \$(1) and \$4, respectively).....	(1)	6
Comprehensive Income	<u>\$ 38</u>	<u>\$ 26</u>

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

	<u>Successor</u>	<u>Predecessor</u>	
	Period from Acquisition May 25, 2012 to September 30, 2012	Period from January 1, 2012 to May 24, 2012	Nine Months Ended September 30, 2011
Revenues.....	\$ 173	\$ 190	\$ 381
Operating Costs, Expenses and Other			
Operation and maintenance	78	80	147
Depreciation and amortization	31	33	69
Taxes, other than income taxes.....	11	13	23
Total Operating Costs, Expenses and Other	<u>120</u>	<u>126</u>	<u>239</u>
Operating Income	53	64	142
Other Income (Expense)			
Other income, net	1	1	1
Interest and debt expense	(31)	(35)	(66)
Affiliated interest income, net	8	9	12
Total Other Expense	<u>(22)</u>	<u>(25)</u>	<u>(53)</u>
Income Before Income Taxes	31	39	89
Income Tax Expense	<u>—</u>	<u>(15)</u>	<u>(33)</u>
Net Income	31	24	56
Other Comprehensive Income			
Adjustments to postretirement benefit plan liabilities (net of income tax benefit of \$2, \$0 and \$4, respectively).....	<u>—</u>	<u>—</u>	<u>6</u>
Comprehensive Income	<u>\$ 31</u>	<u>\$ 24</u>	<u>\$ 62</u>

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

	<u>Successor</u> <u>September 30,</u> <u>2012</u>	<u>Predecessor</u> <u>December 31,</u> <u>2011</u>
	(Unaudited)	
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1	\$ —
Accounts receivable, net	78	30
Materials and supplies	44	48
Deferred income taxes	—	12
Prepays	1	16
Regulatory assets	7	8
Other current assets	<u>2</u>	<u>—</u>
Total current assets	133	114
Property, plant and equipment, net	2,410	2,468
Goodwill	572	—
Note receivable from affiliate	—	873
Regulatory assets and other	<u>343</u>	<u>101</u>
Total Assets	<u>\$ 3,458</u>	<u>\$ 3,556</u>
LIABILITIES AND MEMBER'S EQUITY		
Current liabilities		
Accounts payable	\$ 96	\$ 97
Accrued taxes	24	35
Accrued interest	30	19
Regulatory liabilities	11	16
Contractual deposits	13	21
Accrued other current liabilities	<u>24</u>	<u>35</u>
Total current liabilities	<u>198</u>	<u>223</u>
Long-term liabilities and deferred credits		
Long-term debt	1,356	1,113
Deferred income taxes	—	439
Other long-term liabilities and deferred credits	<u>165</u>	<u>78</u>
Total long-term liabilities and deferred credits	<u>1,521</u>	<u>1,630</u>
Total Liabilities	<u>1,719</u>	<u>1,853</u>
Member's equity		
Common stock, par value \$1 per share; 1,000 shares authorized, issued and outstanding	—	—
Additional paid-in capital	—	1,268
Retained earnings	—	432
Member's equity	1,739	—
Accumulated other comprehensive income	<u>—</u>	<u>3</u>
Total Member's Equity	<u>1,739</u>	<u>1,703</u>
Total Liabilities and Member's Equity	<u>\$ 3,458</u>	<u>\$ 3,556</u>

EL PASO NATURAL GAS COMPANY, L.L.C.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Millions)
(Unaudited)

	<u>Successor</u>	<u>Predecessor</u>	
	<u>Period</u> <u>from Acquisition</u> <u>May 25, 2012 to</u> <u>September 30,</u> <u>2012</u>	<u>Period from</u> <u>January 1, 2012</u> <u>to May 24, 2012</u>	<u>Nine Months</u> <u>Ended</u> <u>September 30,</u> <u>2011</u>
Cash Flows From Operating Activities			
Net income	\$ 31	\$ 24	\$ 56
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	31	33	69
Deferred income tax expense	(6)	11	2
Other non-cash income items	3	(3)	10
Changes in components of working capital:			
Accounts receivable	(57)	10	1
Accounts payable	21	(20)	(23)
Accrued taxes	(12)	4	31
Other, net	14	(4)	45
Other long-term assets and liabilities	(35)	49	19
Net Cash (Used in) Provided by Operating Activities	<u>(10)</u>	<u>104</u>	<u>210</u>
Cash Flows From Investing Activities			
Capital expenditures	(18)	(27)	(56)
Net change in note receivable from affiliate	56	(3)	(72)
Other	(3)	—	7
Net Cash Provided by (Used in) Investing Activities	<u>35</u>	<u>(30)</u>	<u>(121)</u>
Cash Flows From Financing Activities			
Distributions to parent	(38)	(60)	(89)
Net Cash Used in Financing Activities	<u>(38)</u>	<u>(60)</u>	<u>(89)</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(13)	14	—
Cash and Cash Equivalents, beginning of period	14	—	—
Cash and Cash Equivalents, end of period	<u>\$ 1</u>	<u>\$ 14</u>	<u>\$ —</u>

EL PASO NATURAL GAS COMPANY, L.L.C.
CONSOLIDATED STATEMENTS OF MEMBER'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>Member's Equity</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total Member'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>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
<i>Successor</i>									
Balance at May 25, 2012	1,000	\$ —	\$ 2,175	\$ —	\$ —	\$ 2,175	\$ —	\$ —	\$ —
Net income									
May 25 – July 31, 2012				4		4			
August 1 – September 30, 2012 .							27		27
Other comprehensive income (loss)									
May 25 – July 31, 2012					1	1			
August 1 – September 30, 2012 .								(1)	(1)
Conversion to limited liability company (August 13, 2012).....	(1,000)		(2,175)	(4)	(1)	(2,180)	2,179	1	2,180
Dividends paid to parent							(38)		(38)
Non-cash distribution to parent							(429)		(429)
Balance at September 30, 2012	<u>—</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,739</u>	<u>\$ —</u>	<u>\$ 1,739</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.

Explanation of non-cash distribution to parent

Effective August 1, 2012, Kinder Morgan Energy Partners, L.P., a subsidiary of Kinder Morgan, Inc. (KMI), acquired a 50% ownership interest in El Paso Natural Gas Company, L.L.C. (EPNG). In conjunction with this acquisition, EPNG made a non-cash distribution of \$429 million to KMI, representing the settlement of the outstanding note receivable and income tax asset and liability net balances as of July 31, 2012.