

KINDER MORGAN, INC.
Form 10-Q
May 03, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2013

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 001-35081

KINDER MORGAN, INC.
(Exact name of registrant as specified in its charter)

Delaware	80-0682103
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1001 Louisiana Street, Suite 1000, Houston, Texas 77002
(Address of principal executive offices)(zip code)
Registrant's telephone number, including area code: 713-369-9000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of April 29, 2013, the registrant had 1,035,748,443 Class P shares outstanding

KINDER MORGAN, INC. AND SUBSIDIARIES
TABLE OF CONTENTS

	Page Number
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements (Unaudited)</u>	
<u>Consolidated Statements of Income - Three Months Ended March 31, 2013 and 2012</u>	<u>3</u>
<u>Consolidated Statements of Comprehensive Income - Three Months Ended March 31, 2013 and 2012</u>	<u>5</u>
<u>Consolidated Balance Sheets - March 31, 2013 and December 31, 2012</u>	<u>6</u>
<u>Consolidated Statements of Cash Flows - Three Months Ended March 31, 2013 and 2012</u>	<u>8</u>
<u>Notes to Consolidated Financial Statements</u>	<u>10</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	
<u>General and Basis of Presentation</u>	<u>51</u>
<u>Critical Accounting Policies and Estimates</u>	<u>54</u>
<u>Results of Operations</u>	<u>55</u>
<u>Financial Condition</u>	<u>66</u>
<u>Recent Accounting Pronouncements</u>	<u>72</u>
<u>Information Regarding Forward-Looking Statements</u>	<u>73</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>73</u>
<u>Item 4. Controls and Procedures</u>	<u>73</u>
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>74</u>
<u>Item 1A. Risk Factors</u>	<u>74</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>74</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>74</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>74</u>
<u>Item 5. Other Information</u>	<u>74</u>
<u>Item 6. Exhibits</u>	<u>75</u>
<u>Signature</u>	<u>76</u>

Kinder Morgan, Inc. Form 10-Q

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

KINDER MORGAN, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In Millions, Except Per Share Amounts)
(Unaudited)

	Three Months Ended March 31,		
	2013	2012	
Revenues			
Natural gas sales	\$737	\$584	
Services	1,561	761	
Product sales and other	762	512	
Total Revenues	3,060	1,857	
Operating Costs, Expenses and Other			
Costs of sales	970	580	
Operations and maintenance	419	306	
Depreciation, depletion and amortization	412	274	
General and administrative	140	129	
Taxes, other than income taxes	98	50	
Other expense	1	2	
Total Operating Costs, Expenses and Other	2,040	1,341	
Operating Income	1,020	516	
Other Income (Expense)			
Earnings from equity investments	101	65	
Amortization of excess cost of equity investments	(9) (2)
Interest expense, net	(402) (179)
Gain on sale of investments in Express pipeline system	225	—	
Other, net	2	1	
Total Other Expense	(83) (115)
Income from Continuing Operations Before Income Taxes	937	401	
Income Tax Expense	(279) (96)
Income from Continuing Operations	658	305	
Discontinued Operations (Notes 1 and 2)			
Income from operations of KMP's FTC Natural Gas Pipelines disposal group, net of tax	—	50	
Loss on sale and the remeasurement of KMP's FTC Natural Gas Pipelines disposal group to fair value, net of tax	(2) (428)
Loss from Discontinued Operations, Net of Tax	(2) (378)

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Net Income (Loss)	656	(73)
Net (Income) Loss Attributable to Noncontrolling Interests	(364)	94
Net Income Attributable to Kinder Morgan, Inc.	\$292		\$21

3

KINDER MORGAN, INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF INCOME (Continued)
 (In Millions, Except Per Share Amounts)
 (Unaudited)

	Three Months Ended March 31,	
	2013	2012
Class P Shares		
Basic and Diluted Earnings Per Common Share From Continuing Operations	\$0.28	\$0.23
Basic and Diluted Loss Per Common Share From Discontinued Operations	—	(0.20)
Total Basic and Diluted Earnings Per Common Share	\$0.28	\$0.03
Class A Shares		
Basic and Diluted Earnings Per Common Share From Continuing Operations		\$0.21
Basic and Diluted Loss Per Common Share From Discontinued Operations		(0.20)
Total Basic and Diluted Earnings Per Common Share		\$0.01
Basic Weighted-Average Number of Shares Outstanding		
Class P Shares	1,036	171
Class A Shares		536
Diluted Weighted-Average Number of Shares Outstanding		
Class P Shares	1,038	708
Class A Shares		536
Dividends Per Common Share Declared	\$0.38	\$0.32

The accompanying notes are an integral part of these consolidated financial statements.

Kinder Morgan, Inc. Form 10-Q

KINDER MORGAN, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Millions)

(Unaudited)

	Three Months Ended March 31,	
	2013	2012
Kinder Morgan, Inc.		
Net income	\$292	\$21
Other comprehensive income (loss), net of tax		
Change in fair value of derivatives utilized for hedging purposes (net of tax benefit of \$6 and \$22, respectively)	(16)	(34)
Reclassification of change in fair value of derivatives to net income (net of tax benefit (expense) of \$1 and \$(6), respectively)	(4)	9
Foreign currency translation adjustments (net of tax benefit (expense) of \$7 and \$(7), respectively)	(17)	12
Adjustments to pension and other postretirement benefit plan liabilities (net of tax benefit of \$- and \$-, respectively)	(1)	—
Total other comprehensive loss	(38)	(13)
Total comprehensive income	254	8
Noncontrolling Interests		
Net income (loss)	364	(94)
Other comprehensive income (loss), net of tax		
Change in fair value of derivatives utilized for hedging purposes (net of tax benefit of \$3 and \$5, respectively)	(15)	(52)
Reclassification of change in fair value of derivatives to net income (net of tax benefit (expense) of \$- and \$(1), respectively)	(2)	14
Foreign currency translation adjustments (net of tax benefit (expense) of \$2 and \$(2), respectively)	(16)	17
Adjustments to pension and other postretirement benefit plan liabilities (net of tax benefit of \$- and \$-, respectively)	—	—
Total other comprehensive loss	(33)	(21)
Total comprehensive income (loss)	331	(115)
Total		
Net income (loss)	656	(73)
Other comprehensive income (loss), net of tax		
Change in fair value of derivatives utilized for hedging purposes (net of tax benefit of \$9 and \$27, respectively)	(31)	(86)
Reclassification of change in fair value of derivatives to net income (net of tax benefit (expense) of \$1 and \$(7), respectively)	(6)	23
Foreign currency translation adjustments (net of tax benefit (expense) of \$9 and \$(9), respectively)	(33)	29
Adjustments to pension and other postretirement benefit plan liabilities (net of tax benefit of \$- and \$-, respectively)	(1)	—
Total other comprehensive loss	(71)	(34)

Total comprehensive income (loss)	\$585	\$(107)
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The accompanying notes are an integral part of these consolidated financial statements.

Kinder Morgan, Inc. Form 10-Q

KINDER MORGAN, INC. AND SUBSIDIARIES
 CONSOLIDATED BALANCE SHEETS
 (In Millions, Except Share and Per Share Amounts)

	March 31, 2013 (Unaudited)	December 31, 2012 (a)
ASSETS		
Current assets		
Cash and cash equivalents – KMI (Note 14)	\$164	\$71
Cash and cash equivalents – KMP and EPB (Note 14)	942	643
Accounts receivable, net of allowance	1,290	1,333
Inventories	389	374
Fair value of derivative contracts	39	63
Assets held for sale	32	298
Deferred income taxes	522	539
Other current assets	308	353
Total current assets	3,686	3,674
Property, plant and equipment, net (Note 14)	31,201	30,996
Investments	5,773	5,804
Goodwill (Note 14)	23,569	23,572
Other intangibles, net	1,151	1,171
Fair value of derivative contracts	618	709
Deferred charges and other assets	2,310	2,259
Total Assets	\$68,308	\$68,185
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current portion of debt – KMI (Note 14)	\$1,585	\$1,153
Current portion of debt – KMP and EPB (Note 14)	1,291	1,248
Accounts payable	1,111	1,248
Accrued interest	377	513
Fair value of derivative contracts	104	80
Accrued other current liabilities	1,114	967
Total current liabilities	5,582	5,209
Long-term liabilities and deferred credits		
Long-term debt		
Outstanding – KMI (Note 14)	7,954	9,148
Outstanding – KMP and EPB (Note 14)	21,011	20,161
Preferred interest in general partner of KMP	100	100
Debt fair value adjustments	2,449	2,591
Total long-term debt	31,514	32,000
Deferred income taxes	4,219	4,033
Fair value of derivative contracts	116	133
Other long-term liabilities and deferred credits	2,569	2,711
Total long-term liabilities and deferred credits	38,418	38,877

Total Liabilities	\$44,000	\$44,086
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6

Kinder Morgan, Inc. Form 10-Q

KINDER MORGAN, INC. AND SUBSIDIARIES
 CONSOLIDATED BALANCE SHEETS (Continued)
 (In Millions, Except Share and Per Share Amounts)

	March 31, 2013 (Unaudited)	December 31, 2012 (a)
Commitments and contingencies (Notes 3 and 11)		
Stockholders' Equity		
Class P shares, \$0.01 par value, 2,000,000,000 shares authorized, 1,035,731,820 and 1,035,668,596 shares, respectively, issued and outstanding	\$10	\$10
Preferred stock, \$0.01 par value, 10,000,000 shares authorized, none outstanding	—	—
Additional paid-in capital	14,857	14,917
Retained deficit	(1,035	) (943)
Accumulated other comprehensive loss	(157	) (119)
Total Kinder Morgan, Inc.'s stockholders' equity	13,675	13,865
Noncontrolling interests	10,633	10,234
Total Stockholders' Equity	24,308	24,099
Total Liabilities and Stockholders' Equity	\$68,308	\$68,185

(a) Retrospectively adjusted as discussed in Note 2.

The accompanying notes are an integral part of these consolidated financial statements.

Kinder Morgan, Inc. Form 10-Q

KINDER MORGAN, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Millions)
(Unaudited)

	Three Months Ended March 31,	
	2013	2012
Cash Flows From Operating Activities		
Net income (loss)	\$656	\$(73)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation, depletion and amortization	412	281
Deferred income taxes	172	9
Amortization of excess cost of equity investments	9	2
Gain on sale of investments in Express pipeline system (Note 2)	(225)) —
Loss on sale and the remeasurement of KMP's FTC Natural Gas Pipelines disposal group to fair value, net of tax (Note 2)	2	428
Earnings from equity investments	(101)	) (87)
Distributions from equity investments	101	80
Pension contributions in excess of expense	(59)	) (17)
Changes in components of working capital		
Accounts receivable	7	89
Inventories	(13)	) (77)
Other current assets	33	49
Accounts payable	(152)	) (54)
Accrued interest	(136)	) (203)
Accrued other current liabilities	192	172
Rate reparations, refunds and other litigation reserve adjustments	15	—
Other, net	(146)	) (39)
Net Cash Provided by Operating Activities	767	560
Cash Flows From Investing Activities		
Capital expenditures	(598)	) (354)
Proceeds from sale of investments in Express pipeline system	403	—
Proceeds from sale of investments in BBPP Holdings Ltda	88	—
Acquisitions of assets and investments	(4)	) (30)
Repayments from related party	10	—
Contributions to investments	(40)	) (49)
Distributions from equity investments in excess of cumulative earnings	37	48
Other, net	(12)	) 20
Net Cash Used in Investing Activities	(116)	) (365)
Cash Flows From Financing Activities		
Issuance of debt - KMI	520	252
Payment of debt - KMI	(1,281)) (278)
Issuance of debt - KMP and EPB	2,699	2,420

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Payment of debt - KMP and EPB	(1,810)	(2,160)
Debt issue costs	(7)	(6)
Cash dividends	(384)	(220)
Repurchase of warrants	(80)	—	
Contributions from noncontrolling interests	465		124	
Distributions to noncontrolling interests	(375	)	(251)
Net Cash Used in Financing Activities	(253	)	(119)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(6	)	7	
Net Increase in Cash and Cash Equivalents	392		83	
Cash and Cash Equivalents, beginning of period	714		411	
Cash and Cash Equivalents, end of period	\$1,106		\$494	

The accompanying notes are an integral part of these consolidated financial statements.

Kinder Morgan, Inc. Form 10-Q

KINDER MORGAN, INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
 (In Millions)
 (Unaudited)

	Three Months Ended March 31,	
	2013	2012
Noncash Investing and Financing Activities		
Liabilities settled by contributions from noncontrolling interests	\$—	\$7
Increase in accrual for construction costs	\$53	\$13
Supplemental Disclosures of Cash Flow Information		
Cash paid during the period for interest (net of capitalized interest)	\$513	\$349
Net cash (refunded) paid during the period for income taxes	\$(7	) \$6

The accompanying notes are an integral part of these consolidated financial statements.

Kinder Morgan, Inc. Form 10-Q

KINDER MORGAN, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. General

Organization

Kinder Morgan, Inc. is the largest midstream and the third largest energy company in North America with a combined enterprise value of approximately \$115 billion and unless the context requires otherwise, references to “we,” “us,” “our,” or “KMI” are intended to mean Kinder Morgan, Inc. and its consolidated subsidiaries. We own an interest in or operate approximately 73,000 miles of pipelines and 180 terminals. Our pipelines transport natural gas, refined petroleum products, crude oil, CO₂ and other products, and our terminals store petroleum products and chemicals and handle such products as ethanol, coal, petroleum coke and steel.

Effective on May 25, 2012, we completed the acquisition of all of the outstanding shares of El Paso Corporation, referred to as “EP.” As a result, we own a 41% limited partner interest and the 2% general partner interest in El Paso Pipeline Partners, L.P., referred to as “EPB,” as well as certain natural gas pipeline assets.

We also own the general partner and approximately 11% of the limited partner interests of Kinder Morgan Energy Partners, L.P., referred to as “KMP,” one of the largest publicly-traded pipeline limited partnerships in America.

Our common stock trades on the New York Stock Exchange under the symbol “KMI.”

Kinder Morgan Management, LLC, referred to as “KMR,” is a publicly-traded Delaware limited liability company. Kinder Morgan G.P., Inc., the general partner of KMP and a wholly-owned subsidiary of ours, owns all of KMR’s voting shares. KMR, pursuant to a delegation of control agreement, has been delegated, to the fullest extent permitted under Delaware law, all of Kinder Morgan G.P., Inc.’s power and authority to manage and control the business and affairs of KMP, subject to Kinder Morgan G.P., Inc.’s right to approve certain transactions.

Basis of Presentation

We have prepared our accompanying unaudited consolidated financial statements under the rules and regulations of the United States Securities and Exchange Commission. These rules and regulations conform to the accounting principles contained in the Financial Accounting Standards Board’s Accounting Standards Codification. Under such rules and regulations, we have condensed or omitted certain information and notes normally included in financial statements prepared in conformity with the Codification. We believe, however, that our disclosures are adequate to make the information presented not misleading.

Our accompanying consolidated financial statements reflect normal adjustments, and also recurring adjustments that are, in the opinion of our management, necessary for a fair statement of our financial results for the interim periods, and certain amounts from prior periods have been reclassified to conform to the current presentation. Interim results are not necessarily indicative of results for a full year; accordingly, you should read these consolidated financial statements in conjunction with our consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2012 (2012 Form 10-K).

Our accounting records are maintained in United States dollars, and all references to dollars are United States dollars, except where stated otherwise. Canadian dollars are designated as C\$. Our consolidated financial statements include our accounts and those of our majority-owned subsidiaries as well as the accounts of KMP, EPB and KMR. Investments in jointly-owned operations in which we hold a 50% or less interest (other than KMP, EPB and KMR, because we have the ability to exercise significant control over their operating and financial policies) are accounted for under the equity method. All significant intercompany transactions and balances have been eliminated.

Notwithstanding the consolidation of KMP and EPB, and their respective subsidiaries, into our financial statements, we are not liable for, and our assets are not available to satisfy, the obligations of KMP and EPB, and/or their respective subsidiaries, and vice versa, except as discussed in the following paragraph. Responsibility for payments of obligations reflected in our, KMP's or EPB's financial statements is a legal determination based on the entity that incurs the liability.

KMP's FTC Natural Gas Pipelines Disposal Group - Discontinued operations

Effective November 1, 2012, we sold KMP's (i) Kinder Morgan Interstate Gas Transmission natural gas pipeline system; (ii) Trailblazer natural gas pipeline system; (iii) Casper and Douglas natural gas processing operations; and (iv) 50% equity investment in the

Kinder Morgan, Inc. Form 10-Q

Rockies Express natural gas pipeline system to Tallgrass Development, L.P. (now known as Tallgrass Energy Partners, L.P. (Tallgrass) for approximately \$1.8 billion in cash (before selling costs), or \$3.3 billion including KMP's share of joint venture debt. In this report, we refer to this combined group of assets as KMP's FTC Natural Gas Pipelines disposal group. For more information about the presentation of KMP's FTC Natural Gas Pipelines disposal group as discontinued operations, see Note 2 "Summary of Significant Accounting Policies-Basis of Presentation" to our consolidated financial statements included in our 2012 Form 10-K.

Goodwill

We evaluate goodwill for impairment on May 31 of each year. There were no impairment charges resulting from our May 31, 2012 impairment testing, and no event indicating an impairment has occurred subsequent to that date.

Earnings per Share

On March 31, 2013, basic earnings per common share is computed based on the weighted-average number of common shares outstanding during each period. Diluted earnings per common share is computed based on the weighted-average number of common shares outstanding during each period, increased by the assumed conversion of securities (restricted stock is currently the only such security outstanding) convertible into common stock, for which the effect of conversion using the treasury stock method would be dilutive. For the three months ended March 31, 2013, our warrants and convertible trust preferred securities are antidilutive and, accordingly, are excluded from the determination of diluted earnings per share.

On December 26, 2012, the remaining series of the Class A, Class B and Class C shares were fully converted and as a result, only our Class P common stock was outstanding as of December 31, 2012.

For the three months ended March 31, 2012, earnings per share was calculated using the two-class method. Earnings were allocated to each class of common stock based on the amount of dividends declared in the current period for each class of stock plus an allocation of the undistributed earnings or excess distributions over earnings to the extent that each security shares in earnings or excess distributions over earnings. For the investor retained stock, the allocation of undistributed earnings or excess distributions over earnings was in direct proportion to the maximum number of Class P shares into which it could convert.

For the Class P diluted per share computations, total net income attributable to Kinder Morgan, Inc. was divided by the adjusted weighted-average shares outstanding during the period, including all dilutive potential shares. This included the Class P shares into which the investor retained stock was convertible. The number of Class P shares on a fully-converted basis was the same before and after any conversion of our investor retained stock. Each time one Class P share was issued upon conversion of investor retained stock, the number of Class P shares went up by one, and the number of Class P shares into which the investor retained stock was convertible went down by one. Accordingly, there was no difference between Class P basic and diluted earnings per share because the conversion of Class A, Class B, and Class C shares into Class P shares did not impact the number of Class P shares on a fully-converted basis. Commencing with the acquisition of EP, dilutive potential shares also included the Class P shares issuable in connection with the warrants and the trust preferred securities (see Note 4). As no securities were convertible into Class A shares, the basic and diluted earnings per share computations for Class A shares were the same. For the three months ended March 31, 2012, our warrants and convertible trust preferred securities were antidilutive and, accordingly, were excluded from the determination of diluted earnings per share.

The following table sets forth the computation of total basic and diluted earnings per share from continuing operations for the three months ended March 31, 2012 (in millions, except per share amounts):

Kinder Morgan, Inc. Form 10-Q

Three Months Ended March 31, 2012
Income from Continuing Operations
Available to Shareholders

	Class P	Class A	Participating Securities (a)	Total	
Income from continuing operations				\$ 305	
Less: income from continuing operations attributable to noncontrolling interests				(144)
Income from continuing operations attributable to KMI				161	
Dividends declared during period	\$ 54	\$ 154	\$ 12	(220)
Excess distributions over earnings	(14	) (45	) —	\$ (59)
Income from continuing operations attributable to shareholders	\$ 40	\$ 109	\$ 12	\$ 161	
Basic earnings per share from continuing operations					
Basic weighted-average number of shares outstanding	171	536	N/A		
Basic earnings per common share from continuing operations(b)	\$ 0.23	\$ 0.21	N/A		
Diluted earnings per share from continuing operations					
Income from continuing operations attributable to shareholders and assumed conversions(c)	\$ 161	\$ 109	N/A		
Diluted weighted-average number of shares	708	536	N/A		
Diluted earnings per common share from continuing operations(b)	\$ 0.23	\$ 0.21	N/A		

The following table sets forth the computation of total basic and diluted earnings per share for the three months ended March 31, 2012 (in millions, except per share amounts):

Three Months Ended March 31, 2012
Net Income Available to Shareholders

	Class P	Class A	Participating Securities (a)	Total	
Net income attributable to KMI				\$ 21	
Dividends declared during period	\$ 54	\$ 154	\$ 12	(220)
Excess distributions over earnings	(48	) (151	) —	\$ (199)
Net income attributable to shareholders	\$ 6	\$ 3	\$ 12	\$ 21	
Basic earnings per share					
Basic weighted-average number of shares outstanding	171	536	N/A		
Basic earnings per common share(b)	\$ 0.03	\$ 0.01	N/A		
Diluted earnings per share					
Net income attributable to shareholders and assumed conversions(c)	\$ 21	\$ 3	N/A		
Diluted weighted-average number of shares	708	536	N/A		
Diluted earnings per common share(b)	\$ 0.03	\$ 0.01	N/A		

Participating securities included Class B shares, Class C shares, and unvested restricted stock awards issued to non-senior management employees that contained rights to dividends. Our Class B and Class C shares were (a) entitled to participate in our earnings, only to the extent of cash distributions made to them. As a result, no earnings in excess of dividends received were allocated to the Class B and Class C shares in our determination of basic and diluted earnings per share.

The Class A shares earnings per share as compared to the Class P shares earnings per share were reduced due to the sharing of economic benefits (including dividends) amongst the Class A, B, and C shares. Class A, B and C shares owned by Richard Kinder, the sponsor investors, the original shareholders, and other management were referred to as “investor retained stock,” and were convertible into a fixed number of Class P shares. In the aggregate, (b) our investor retained stock was entitled to receive a dividend per share on a fully-converted basis equal to the dividend per share on our common stock. The conversion of shares of investor retained stock into Class P shares did not increase our total fully-converted shares outstanding, impact the aggregate dividends we paid or the dividends we paid per share on our Class P common stock.

Kinder Morgan, Inc. Form 10-Q

For the diluted earnings per share calculation, total net income attributable to each class of common stock was (c)divided by the adjusted weighted-average shares outstanding during the period, including all dilutive potential shares.

2. Acquisitions and Divestitures

KMI Acquisition of El Paso Corporation

Effective on May 25, 2012, we acquired all of the outstanding shares of EP for an aggregate consideration of approximately \$23 billion (excluding assumed debt). In total, EP shareholders received \$11.6 billion in cash, 330 million KMI Class P shares with a fair value of \$10.6 billion as of May 24, 2012 and 505 million KMI warrants with a fair value of \$863 million as of May 24, 2012. The warrants have an exercise price of \$40 per share and a 5-year term.

Pro Forma Statements of Income

The following summarized unaudited pro forma consolidated statement of income information for the three months ended 2012 is presented as if the EP acquisition had been completed on January 1, 2012. The summarized unaudited pro forma consolidated statement of income information is not necessarily indicative of what the actual results of operations or financial position of KMI would have been if the transactions had in fact occurred on the date or for the period indicated, nor does it purport to project the results of operations or financial position of KMI for any future periods or as of any date.

The following summarized unaudited pro forma consolidated statement of income information is in millions, except per share amounts.

	Three Months Ended March 31, 2012
Revenues	\$2,625
Income from continuing operations	\$424
Loss from discontinued operations	\$(357)
Net income attributable to Kinder Morgan, Inc.	\$95
Basic and diluted earnings per common share	
Class P shares	\$0.09
Class A shares	\$0.07

The summarized unaudited pro forma consolidated statement of income information includes adjustments to:

- include the results of EP;
- include the results of discontinued operations from (i) EP Energy and (ii) KMP's FTC Natural Gas Pipelines disposal group (see below) including \$428 million of losses (net of income taxes) on the remeasurement of the asset disposal group for the three months ended March 31, 2012;
- include incremental interest expense related to financing the transactions;
- include incremental depreciation and amortization expense on assets and liabilities that were revalued as part of the purchase price allocation;
- reflect income taxes for the above adjustments at our effective income tax rate; and
- reflect the increase in KMI Class P shares outstanding.

Copano Energy, L.L.C. Acquisition

On May 1, 2013, KMP completed the acquisition of Copano Energy, L.L.C., referred to in this report as Copano, for a total purchase price of approximately \$5 billion, including the assumption of debt. The transaction, which was approved by Copano's unitholders and the boards of directors of each of KMR, Kinder Morgan G.P., Inc., as KMP's general partner, and Copano was a 100% unit for unit transaction with an exchange ratio of 0.4563 of KMP's common units for each Copano unit.

Kinder Morgan, Inc. Form 10-Q

Copano is a midstream natural gas company that provides comprehensive services to natural gas producers, including natural gas gathering, processing, treating and natural gas liquids fractionation. Copano owns an interest in or operates approximately 6,900 miles of pipelines with 2.7 billion cubic feet per day of natural gas transportation capacity, and also owns nine natural gas processing plants with more than 1 billion cubic feet per day of natural gas processing capacity and 315 million cubic feet per day of natural gas treating capacity. Its operations are located primarily in Texas, Oklahoma and Wyoming. Most of the acquired assets will be included in the Natural Gas Pipelines business segment.

KMP's FTC Natural Gas Pipelines Disposal Group – Discontinued Operations

As described above in Note 1, we began accounting for KMP's FTC Natural Gas Pipelines disposal group as discontinued operations in the first quarter of 2012 (prior to our sale announcement, we included the disposal group in the Natural Gas Pipelines business segment). During that quarter, the disposal group's net assets were remeasured to reflect the initial assessment of its fair value as a result of the FTC mandated sale requirement, and based on this remeasurement, we recognized a \$428 million loss. We reported this loss amount separately as "Loss on sale and the remeasurement of KMP's FTC Natural Gas Pipelines disposal group to fair value, net of tax" within the discontinued operations section of our accompanying consolidated statement of income for the three months ended March 31, 2012. The final consideration was trued up in the first quarter of 2013 resulting in a \$2 million additional loss recorded as "Loss on sale and the remeasurement of KMP's FTC Natural Gas Pipelines disposal group to fair value, net of tax." As a result of our remeasurement of net assets to fair value and the sale of net assets, we recognized a combined \$937 million loss for the year ended December 31, 2012.

Summarized financial information for KMP's FTC Natural Gas Pipelines disposal group is as follows (in millions):

	Three Months Ended March 31, 2012
Operating revenues	\$ 71
Operating expenses	(37)
Depreciation and amortization	(7)
Earnings from equity investments	22
Interest income and Other, net	1
Income from operations of KMP's FTC Natural Gas Pipelines disposal group, net of tax	\$ 50

Express Pipeline System

Effective March 14, 2013, KMP sold both its one-third equity ownership interest in the Express pipeline system and its subordinated debenture investment in Express to Spectra Energy Corp. for \$403 million in cash. We recorded a pre-tax gain of \$225 million with respect to this transaction, and we reported this amount separately as "Gain on sale of investments in Express pipeline system" in our accompanying consolidated statement of income for the three months ended March 31, 2013. We also recorded an income tax expense of \$84 million related to this gain amount, and we included this expense within "Income Tax Expense" in our accompanying consolidated statement of income for the three months ended March 31, 2013. As of the date of sale, KMP's equity investment in Express totaled \$67 million and its note receivable due from Express totaled \$110 million.

Prior to KMP's sale, we (i) accounted for KMP's equity investment under the equity method of accounting; (ii) accounted for KMP's debt investment under the historical amortized cost method of accounting; and (iii) included the financial results of the Express pipeline system within the Kinder Morgan Canada-KMP business segment. As of December 31, 2012, KMP's equity and debt investments in Express totaled \$65 million and \$114 million, respectively,

and we included the combined \$179 million amount within “Assets held for sale” on our accompanying consolidated balance sheet as of that date.

BBPP Holdings Ltda

As of December 31, 2012, we owned a 33 1/3% interest in BBPP Holdings Ltda which we acquired as a part of the May 25, 2012 EP acquisition. The remaining interest is owned 33 1/3% by British Gas International Holdings B.V. and 33 1/3% by Total. BBPP Holdings Ltda owns a 29% interest in Transportadora Brasileira Gasoduto Bolivia-Brasil S.A. which is referred to as the Bolivia to Brazil Pipeline. On January 18, 2013, we completed the sale of our equity interests in the Bolivia to Brazil Pipeline for \$88 million. As of December 31, 2012, our \$88 million equity interests in the Bolivia to Brazil Pipeline was included within “Assets held for sale” on our accompanying consolidated balance sheet.

Kinder Morgan, Inc. Form 10-Q

Drop-Down of EP Assets to KMP

March 2013

Effective March 1, 2013, KMP acquired from us the remaining 50% ownership interest it did not already own in both the El Paso Natural Gas pipeline system and the El Paso midstream assets for an aggregate consideration of approximately \$1.7 billion (including a proportional 50% of assumed debt borrowings as of March 1, 2013). The drop-down transaction was accounted for as a transfer of net assets between entities under common control. Specifically, we have retrospectively adjusted our consolidated financial statements to reflect the recognition by KMP of the acquired assets and assumed liabilities at our carrying value, including our El Paso purchase accounting adjustments as of May 25, 2012. In this report, we refer to this acquisition of assets from KMI as the drop-down transaction; the combined group of assets acquired from KMI as the drop-down asset group; the El Paso Natural Gas pipeline system or El Paso Natural Gas Company, L.L.C. as EPNG; and the El Paso midstream assets or Kinder Morgan Altamont LLC (formerly, El Paso Midstream Investment Company, L.L.C.) as the midstream assets.

The consideration that we received from KMP consisted of (i) \$988 million in cash; (ii) 1,249,452 common units (valued at \$108 million based on the \$86.72 closing market price of KMP's common units on the New York Stock Exchange on the March 1, 2013 issuance date); and (iii) \$557 million in assumed debt (consisting of 50% of the outstanding principal amount of EPNG's debt borrowings as of March 1, 2013, excluding any debt fair value adjustments). We used the proceeds from the March 1, 2013 drop-down transaction to (i) pay down \$947 million of our senior secured term loan facility and (ii) reduce borrowings under our credit facility. Also, see Note 3.

The terms of the drop-down transaction were approved on our behalf by the independent members of our board of directors and on KMP's behalf by Kinder Morgan G.P., Inc., as KMP's general partner, and KMR's audit committees and the boards of directors of both Kinder Morgan G.P., Inc. and KMR, in its capacity as the delegate of Kinder Morgan G.P., Inc., following the receipt by our independent directors and by the audit committees of Kinder Morgan G.P., Inc. and KMR of separate fairness opinions from different independent financial advisors.

August 2012

Effective August 1, 2012, KMP acquired the full ownership interest in the Tennessee Gas natural gas pipeline system and an initial 50% ownership interest in EPNG from us for an aggregate consideration of approximately \$6.2 billion. For additional information about this acquisition, see Note 3 "Acquisitions and Divestitures-Drop-Down of EP Assets to KMP" to our consolidated financial statements included in our 2012 Form 10-K.

Income Tax Impact on the Drop-Down of EP Assets to KMP

As discussed above, we accounted for the acquisition of EP as a business combination and for the subsequent March 2013 and August 2012 drop-down transactions as transfers of net assets between entities under common control. For income tax purposes, the March 2013 transaction was treated as a contribution and the August 2012 drop-down transaction was treated as a partial sale, and a partial contribution.

Our accounting policy is to apply the look-through method of recording deferred taxes on the outside book tax basis differences in our investments without regard to non tax deductible goodwill. As a result of the drop-down transactions, a deferred tax liability arose related to the portion of the outside basis difference associated with the underlying goodwill that was contributed to KMP by us. However, since the drop-downs were transactions between entities under common control, we recognized an offsetting deferred charge of \$448 million for the August 2012 and \$53 million for the March 2013 drop-down transactions. These balances will be amortized to income tax expense over

the remaining useful lives of the transferred assets of approximately 25 years. Similar to the impact described above, KMP's acquisition of a 50% ownership interest in the EP Midstream joint venture, also generated the recognition of a deferred charge and corresponding deferred tax liability and is included in the amount above.

The amortization of the deferred charge will result in incremental income tax expense of approximately \$20 million per year. For the three months ended March 31, 2013, total income tax expense related to the amortization of the deferred charges was approximately \$5 million.

3. Debt

We classify our debt based on the contractual maturity dates of the underlying debt instruments. We defer costs associated with debt issuance over the applicable term and then amortize these costs as interest expense in our consolidated statements of

15

Kinder Morgan, Inc. Form 10-Q

income. The following table summarizes the carrying value of our outstanding debt, excluding debt fair value adjustments (in millions):

	March 31, 2013	December 31, 2012
Current portion of debt(a)	\$2,876	\$2,401
Long-term portion of debt	29,065	29,409
Carrying value of debt(b)	\$31,941	\$31,810

As of March 31, 2013 and December 31, 2012, balances include (i) KMI's credit facility borrowings of \$1,274 (a) million and \$1,035 million, respectively; (ii) KMP's commercial paper borrowings of \$595 million and \$621 million, respectively; and (iii) \$160 million and \$288 million of letter of credit facilities, respectively.

Excludes debt fair value adjustments. As of March 31, 2013 and December 31, 2012, our "Debt fair value adjustments" increased our debt balances by \$2,449 million and \$2,591 million, respectively. In addition to all (b) unamortized debt discount/premium amounts and purchase accounting on our debt balances, our debt fair value adjustments also include amounts associated with the offsetting entry for hedged debt and any unamortized portion of proceeds received from the early termination of interest rate swap agreements. For further information about our debt fair value adjustments, see Note 5 "Risk Management-Fair Value of Derivative Contracts."

Changes in Debt

Changes in our and our subsidiaries outstanding debt, excluding debt fair value adjustments, during the three months ended March 31, 2013 are summarized as follows (in millions):

Debt Borrowings	Interest rate	Increase / (decrease)	Cash received / (paid)
Issuances and assumptions			
KMI			
KMI credit facility	variable	\$ 520	\$ 520
KMP and subsidiaries			
Senior notes due September 1, 2023(a)	3.50%	600	598
Senior notes due March 1, 2043(a)	5.00%	400	398
Commercial paper	variable	1,689	1,689
Kinder Morgan Altamont LLC credit facility due August 2, 2014(b)	variable	14	14
Total increases in debt		\$ 3,223	\$ 3,219
Repayments and other			
KMI			
Senior secured term loan credit facility, due May 24, 2015	variable	\$(947)	\$(947)
KMI credit facility	variable	(281)	(281)
EPC Building LLC promissory note 3.967%, due 2035	3.967%	(1)	(1)
El Paso LLC credit facility	variable	(50)	(50)
EP preferred securities, due March 31, 2028	4.75%	(3)	(2)
KMP and subsidiaries			
Commercial paper	variable	(1,715)	(1,715)
Kinder Morgan Altamont LLC credit facility due August 2, 2014(b)	variable	(92)	(92)
Kinder Morgan Texas Pipeline, L.P. - senior notes due January 2, 2014	5.23%	(2)	(2)
EPB and subsidiaries			
Other	various	(1)	(1)

Total decreases in debt \$ (3,092) \$ (3,091)

On February 28, 2013, KMP completed a public offering of two separate series of senior notes. KMP received (a) proceeds, after deducting the underwriting discount, of \$991 million, and used the proceeds to pay a portion of the purchase price for its drop-down transaction and to reduce the borrowings under its commercial paper program.

16

Kinder Morgan, Inc. Form 10-Q

KMP's subsidiary, Kinder Morgan Altamont LLC maintains an unsecured revolving bank credit facility that matures on August 2, 2014. Effective March 31, 2013, Kinder Morgan Altamont LLC reduced the amount available for borrowing under this credit facility from \$95 million to approximately \$1 million. In addition, in (b) February 2013, prior to KMP's March 1, 2013 acquisition date, KMP and KMI each contributed \$45 million to repay the outstanding \$90 million borrowings under this credit facility, and following this repayment, Kinder Morgan Altamont LLC had no outstanding debt.

Credit Facilities

KMI

As of March 31, 2013, the amount available for borrowing under KMI's \$1.75 billion senior secured credit facility was reduced by a combined amount of \$1,351 million consisting of (i) \$1,274 million in borrowings outstanding under its credit facility and (ii) \$77 million in fifteen letters of credit primarily consisting of letters of credit that are required under provisions of our property and casualty, workers' compensation and general liability insurance policies.

KMP

As of March 31, 2013, KMP had approximately \$1,395 million of borrowing capacity available under its \$2.2 billion credit facility. The amount available for borrowing under KMP's credit facility was reduced by a combined amount of \$805 million, consisting of \$595 million of commercial paper borrowings and \$210 million of letters of credit, consisting of (i) a \$100 million letter of credit that supports certain proceedings with the California Public Utilities Commission involving refined products tariff charges on the intrastate common carrier operations of KMP's Pacific operations' pipelines in the state of California; (ii) a combined \$85 million in three letters of credit that support tax-exempt bonds; and (iii) a combined \$25 million in other letters of credit supporting other obligations of KMP and its subsidiaries.

Subsequent Event

On May 1, 2013, KMP entered into an Amended and Restated Credit Agreement (the "Credit Agreement") among KMP, as Borrower; Kinder Morgan Operating L.P. "B", as the Subsidiary Borrower; a diverse syndicate of banks; and Wells Fargo Bank, National Association, as Administrative Agent. The Credit Agreement provides for a \$2.7 billion unsecured revolving credit facility, which will expire on May 1, 2018, and replaces KMP's \$2.2 billion unsecured revolving credit facility that was scheduled to mature on July 1, 2016. The Credit Agreement includes financial covenants and events of default that are common in such agreements and are substantially unchanged as compared to those under KMP's previous credit facility. The credit facility can be used as a backup for KMP's short-term commercial paper program and for general partnership purposes.

EPB

As of March 31, 2013, EPB had no outstanding balance under its revolving credit facility and \$10 million in outstanding letters of credit. EPB availability under this facility as of March 31, 2013 was approximately \$1.0 billion. Kinder Morgan G.P., Inc. Preferred Shares

On February 19, 2013, Kinder Morgan G.P., Inc. paid a quarterly cash distribution on its Series A Fixed-to-Floating Rate Term Cumulative Preferred Stock of \$10.638 per share to shareholders of record as of January 31, 2013. On April 17, 2013, Kinder Morgan G.P., Inc.'s board of directors declared a quarterly cash distribution on its Series A Fixed-to-Floating Rate Term Cumulative Preferred Stock of \$10.469 per share payable on May 20, 2013 to

shareholders of record as of April 29, 2013.

4. Stockholders' Equity

Common Equity

As of March 31, 2013, our common equity consisted of our Class P common stock. On December 26, 2012, our remaining series of Class A, Class B and Class C shares were fully converted, and as a result only our Class P common stock was outstanding as of December 31, 2012. Our Class P common stock is sometimes referred to herein as our "common stock," and our Class A, Class B and Class C common stock is sometimes collectively referred to herein as our "investor retained stock." For accounting purposes, our Class P shares are and our Class A shares, prior to the full conversion of the investor retained stock, were considered common stock, and prior to the full conversion of the investor retained stock, our Class B and Class C shares, were considered

17

Kinder Morgan, Inc. Form 10-Q

participating securities. For additional information regarding our common stock and our investor retained stock, see Note 10 "Stockholders' Equity" to our consolidated financial statements included in our 2012 Form 10-K.

The following tables sets forth the changes in our outstanding shares during the three months ended March 31, 2013 and 2012.

	Class P	Class A	Class B	Class C
Balance at December 31, 2011	170,921,140	535,972,387	94,132,596	2,318,258
Restricted shares vested	1,465	—	—	—
Balance at March 31, 2012	170,922,605	535,972,387	94,132,596	2,318,258
	Class P			
Balance at December 31, 2012	1,035,668,596			
Shares issued with conversions of EP Trust I Preferred securities	55,319			
Restricted shares vested	7,905			
Balance at March 31, 2013	1,035,731,820			

Dividends

Holders of our common stock share equally in any dividend declared by our board of directors, subject to the rights of the holders of any outstanding preferred stock. The following table provides information about our per share dividends.

	Three Months Ended March 31,	
	2013	2012
Per common share cash dividend declared	\$0.38	\$0.32
Per common share cash dividend paid(a)	\$0.37	\$0.31

(a) Dividends for the fourth quarter of each year are declared and paid during the first quarter of the following year.

Dividends Subsequent to March 31, 2013

On April 17, 2013, our board of directors declared a cash dividend of \$0.38 per share for the quarterly period ended March 31, 2013, which is payable on May 16, 2013 to shareholders of record as of April 29, 2013.

Warrants

The table below sets forth the changes in our outstanding warrants during the three months ended March 31, 2013. No warrants were outstanding during the three months ended March 31, 2012.

	Warrants
Balance at December 31, 2012	439,847,329
Warrants issued with conversions of EP Trust I Preferred securities(a)	84,556
Warrants repurchased(b)	(16,969,361)
Balance at March 31, 2013	422,962,524

(a) See Note 3, "Debt."

(b) Approximately \$80 million was paid to repurchase these warrants as part of our \$250 million repurchase program.

Each of our warrants entitles the holder to purchase one share of our common stock for an exercise price of \$40 per share, payable in cash or by cashless exercise, at any time until May 25, 2017. For additional information regarding our warrants, see Note 10 “Stockholders’ Equity” to our consolidated financial statements included in our 2012 Form 10-K and Part II, Item 2. “Unregistered Sales of Equity Securities and Use of Proceeds” included elsewhere in this report.

Kinder Morgan, Inc. Form 10-Q

Changes in Equity

For each of the three months ended March 31, 2013 and 2012, changes in the carrying amounts of our Stockholders' Equity attributable to both us and our noncontrolling interests, including our comprehensive loss, are summarized as follows (in millions):

	Three Months Ended March 31, 2013						Total
	Common Shares	Additional paid-in capital	Retained deficit	Accumulated other comprehensive loss	Stockholders' equity attributable to KMI	Noncontrolling interests	
Beginning Balance at December 31, 2012	\$ 10	\$ 14,917	\$ (943)	\$ (119)	\$ 13,865	\$ 10,234	\$ 24,099
Warrants repurchased		(80)			(80)		(80)
Conversion of preferred securities		1			1		1
Amortization of restricted shares		5			5		5
Impact from equity transactions of KMP and EPB		14			14	(22)	(8)
Net income (loss)			292		292	364	656
Distributions					—	(375)	(375)
Contributions					—	465	465
Cash dividends			(384)		(384)		(384)
Other							