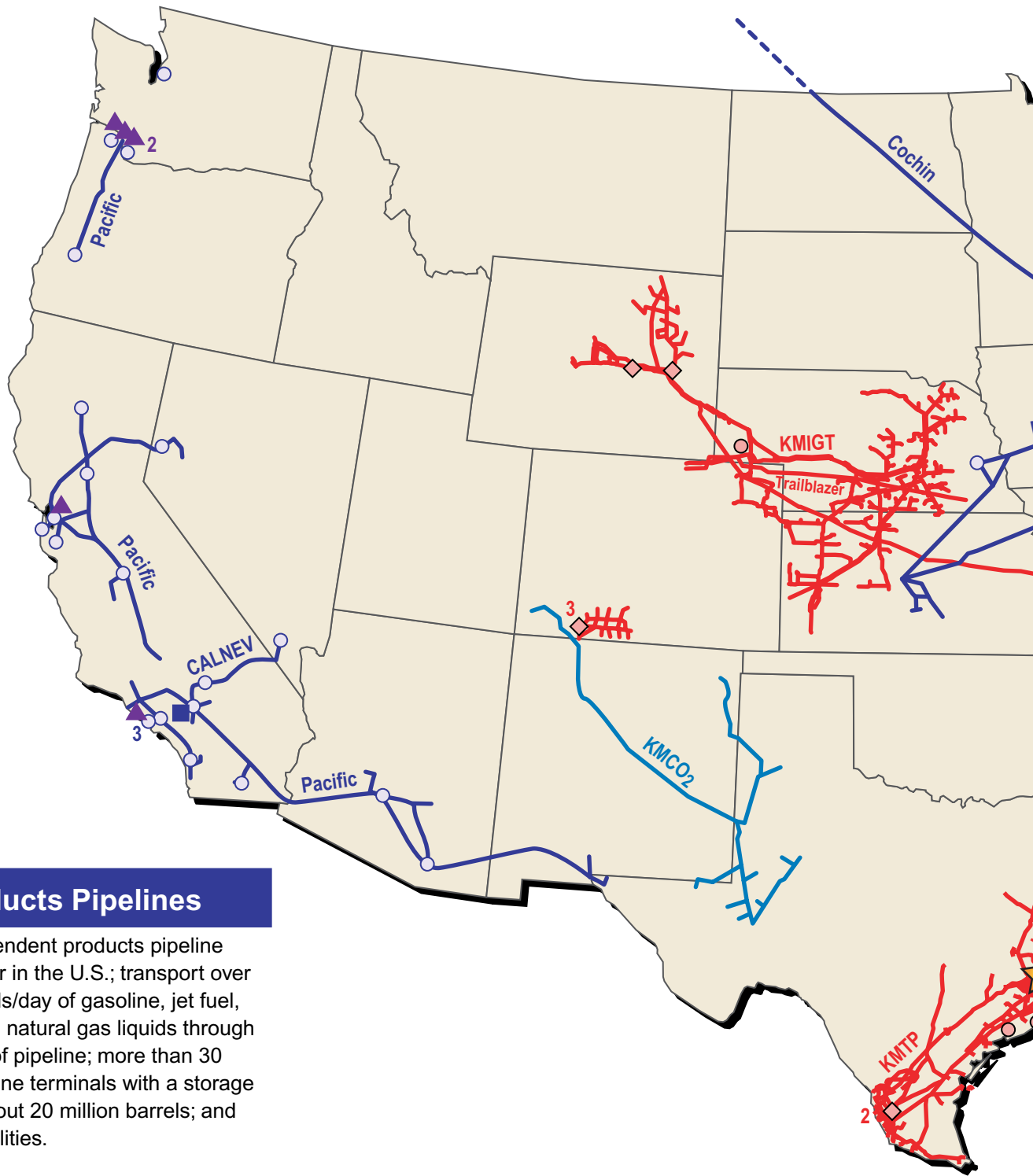




2001 Annual Report



Products Pipelines

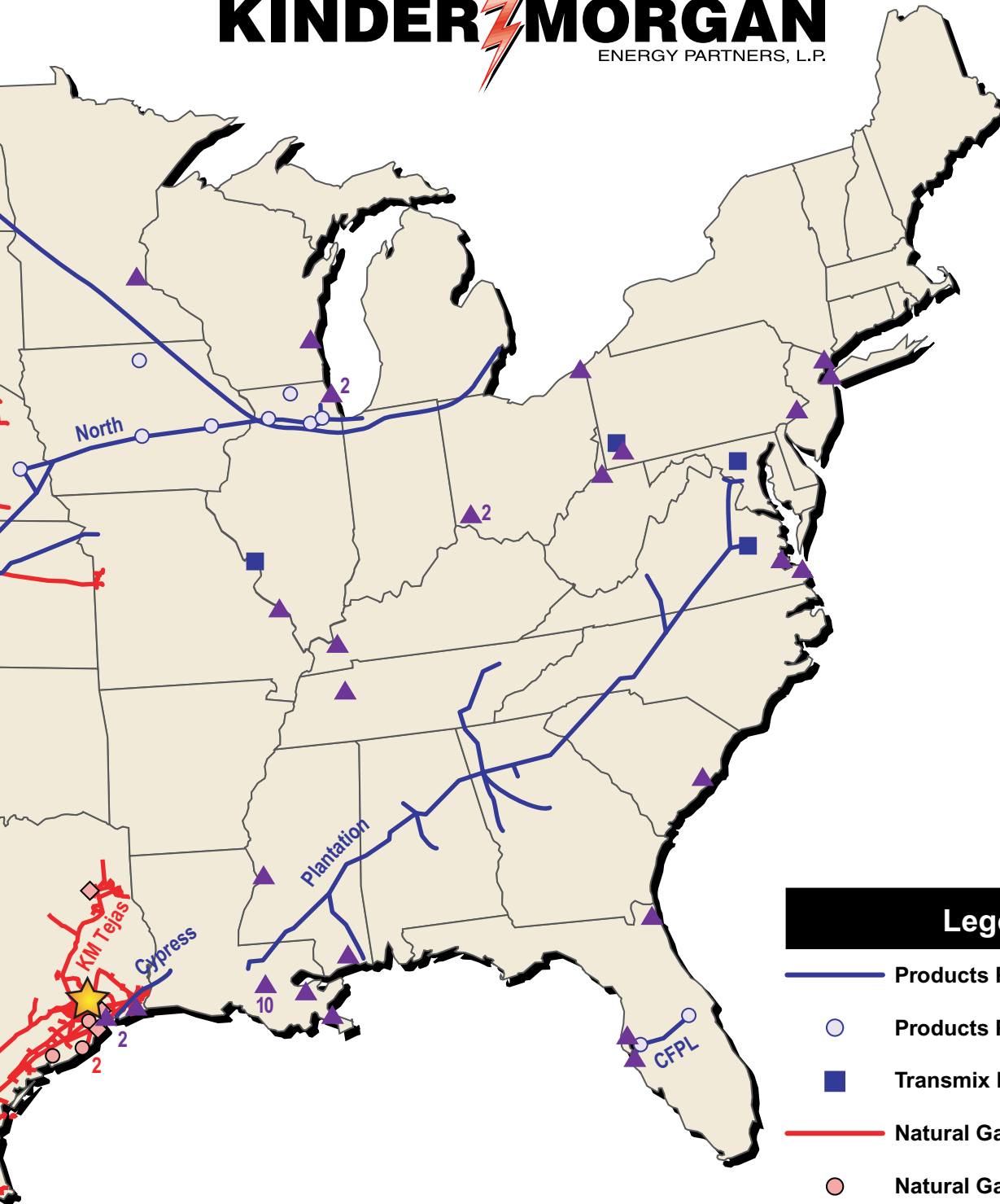
Largest independent products pipeline owner/operator in the U.S.; transport over 2 million barrels/day of gasoline, jet fuel, diesel fuel and natural gas liquids through 10,000 miles of pipeline; more than 30 products pipeline terminals with a storage capacity of about 20 million barrels; and 5 transmix facilities.

Natural Gas Pipelines

Major transporter of natural gas in the Rocky Mountain, Midwest and Texas Gulf Coast areas; 15,000-mile pipeline system has transportation capacity of 7.8 billion cubic feet/day and includes gathering, treating, processing and storage facilities.

CO₂ Pipelines

Largest producer and transporter of carbon dioxide for enhanced oil recovery projects in the U.S.; transport more than 1 billion cubic feet/day of CO₂; more than 900 miles of pipeline and significant ownership interests in essential CO₂ infrastructure assets.



Legend

- Products Pipelines
- Products Pipeline Terminals
- Transmix Facilities
- Natural Gas Pipelines
- Natural Gas Storage
- ◇ Natural Gas Processing/Treating Plants
- CO2 Pipelines
- ▲ Terminals
- (2, 3, 10) Indicates # of facilities in area
- ★ Kinder Morgan Headquarters Houston, Texas

Terminals

Largest independent operator of terminals in the U.S.; transload more than 55 million tons annually of coal, petroleum coke and other materials; storage capacity of 35 million barrels for petroleum products and chemicals; and more than 40 facilities nationwide.

Letter to Unitholders

In 2001, Kinder Morgan Energy Partners (KMP) generated strong cash flow, experienced significant growth and delivered superior value to our unitholders. We are extremely proud of our record performance in 2001, a difficult year in America that will be remembered for the tragic events on September 11, as well as an economic downturn.

We substantially exceeded all of our financial targets for 2001. KMP reported net income of \$442.3 million, up 59 percent over 2000. This equated to net income per unit of \$1.56. We increased the per unit distribution to an annualized rate of \$2.20 at year-end, 16 percent higher than year-end 2000 (remember, there was a two-for-one unit split in 2001). In addition, KMP declared cash distributions of \$2.15 per common unit for 2001, a 26 percent increase over 2000. The combination of this distribution and growth in the price of KMP units resulted in a total return to our unitholders of approximately 42 percent during 2001.

We have built a portfolio of fee-based, midstream assets that is integral to the energy infrastructure in this country. These stable assets, primarily pipelines and terminals, have continually produced reliable cash flow even during difficult market conditions. KMP generated approximately \$540 million in distributable cash flow in 2001, compared to just \$17 million in 1996, the year before we assumed operations. We expect cash flow to increase another 30 percent in 2002, to over \$700 million.

Our terrific financial performance has been achieved by employing a consistent strategy since our inception: focusing on fee-based assets that are core to the energy infrastructure



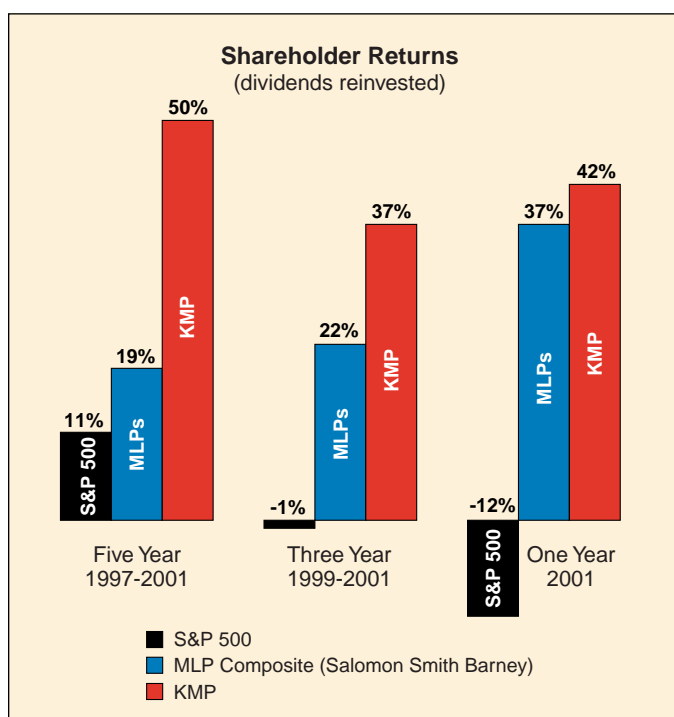
Products Pipelines spearhead KMP's cash flow

of growing markets; increasing utilization of assets while controlling costs; leveraging economies of scale from incremental acquisitions; and maximizing the benefit of the master limited partnership (MLP) financial structure. We intend to continue to execute this successful game plan, which is designed to ensure that our businesses have minimal exposure to commodity prices.

As the largest pipeline MLP in America, we have established a competitive advantage by becoming the independent industry leader in the U.S. for most of our businesses – products pipelines, terminals, CO₂ and transmix. We also are a leading player in the natural gas industry. While we enjoy the benefits that come with accumulating critical mass and being a market-share leader, we are just as excited about the tremendous opportunities that still exist to further grow each of these businesses.

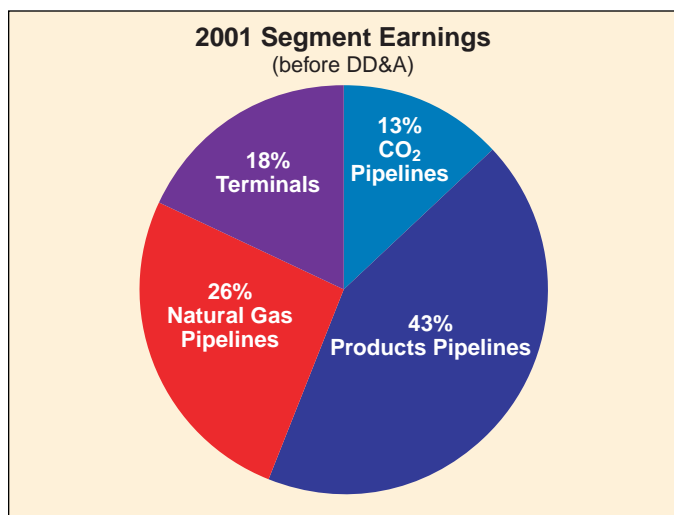
In light of the collapse of Enron, corporate America has come under increased scrutiny and investors have become more concerned about companies' financial stability. At KMP, we have always had stringent procedures in place to regularly review the company's finances and to comply with all reporting requirements of the SEC. We actually go beyond those requirements by detailing our financial expectations, and the underlying assumptions, in public teleconference calls and by making this information available on our web site. We also work diligently to maintain a strong balance sheet, in part by funding acquisitions with significant equity, typically 60 percent. This conservative approach has established KMP as a strong credit, A- (S&P) and Baa1 (Moody's).

Because of the nature of our business, safety has always been a top priority at KMP. However, following September 11, all energy companies across America began operating under a state of heightened awareness. For KMP, this meant hiring additional security guards at certain locations, adding fencing and locked gates at other facilities and training employees to be more cautious and alert. As always, safety remains our top priority, and we are committed to operational excellence.



**KMP is more than America's largest pipeline MLP –
It's America's top performing MLP**

Since it was formed in 1997, KMP has returned over 650 percent to unitholders



Record Results in 2001

All of our business segments reported increased earnings in 2001 and contributed significantly to our outstanding financial performance. Our success was spearheaded by internal growth and outstanding performances by acquired assets.

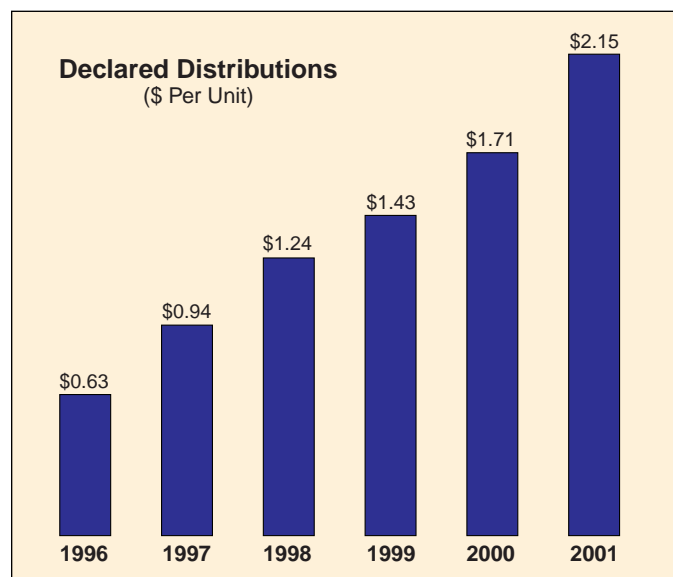
The **Products Pipelines** segment delivered a 42 percent increase in 2001 earnings before depreciation, depletion and amortization (DD&A) to \$380.2 million. Segment earnings were driven by increased pipeline volumes and by strong performances at the acquired West Coast and Northwest liquids terminals. Overall, revenues increased about 7 percent and volumes were up 2 percent in 2001 (excluding acquisitions), despite a dramatic decline in commercial airline travel in the fourth quarter. Our Pacific operations, which transport more than a million barrels of gasoline, jet fuel and diesel fuel per day in California and other Western states, reported increased revenues of nearly 8 percent and volumes were up over 3 percent for the year (excluding acquisitions). During 2001, CALNEV, a 550-mile refined petroleum products pipeline that runs from near Los Angeles to Las Vegas, Nev., and the 195-mile Central Florida pipeline between Tampa and Orlando, Fla., were added to the products pipelines business segment. These pipelines, along with the terminals noted above, were part of the \$1.2 billion acquisition of U.S. pipelines and terminals from GATX Corporation.

The **Natural Gas Pipelines** segment produced 2001 earnings before DD&A of \$226.7 million, a 67 percent increase over 2000. Better than expected performance by natural gas assets that were transferred to KMP from Kinder Morgan, Inc. (NYSE: KMI) – principally Kinder Morgan Texas Pipeline (KMTP) – was the primary driver of this dramatic increase in segment earnings. KMTP, a large intrastate pipeline with a transportation capacity of 2.8 billion cubic feet (Bcf) per day, has a strong customer base and excellent growth opportunities. It serves utility and other industrial

customers in the Houston Ship Channel and Beaumont/Port Arthur areas of Texas. Other key assets in this segment include Kinder Morgan Interstate Gas Transmission, Trailblazer Pipeline Company and Red Cedar Gathering Company. We have several internal expansion projects under way in this segment, and we are also pursuing a number of growth opportunities in the Rocky Mountain area. Our natural gas pipelines benefit from a variety of long-term transportation and storage contracts.

The **CO₂ Pipelines** segment delivered a 39 percent increase in 2001 earnings before DD&A to \$111.4 million. This niche business transports and markets carbon dioxide, which is used to enhance recovery from mature oil fields, primarily in the Permian Basin of west Texas. In addition to CO₂ pipelines and reserves, Kinder Morgan CO₂ Company has a greater than 80 percent ownership stake in the SACROC Unit, one of the largest and oldest oil fields utilizing CO₂ injection technology. In December 2001, SACROC produced over 10,000 barrels of oil per day, its highest level of production since 1995. By increasing our ownership interests in SACROC and other key CO₂ assets, and undertaking a number of expansion projects, this business segment is well positioned for significant future growth.

The **Terminals** segment, which in 2001 included both dry- and liquid-bulk facilities, reported a 232 percent increase in earnings before DD&A to \$157 million. Our terminals business continued to experience exceptional growth, primarily due to acquisitions, but we also increased throughput at many of our existing facilities. As a result of both internal growth and acquisitions, volumes for the year increased about 22 percent at our dry-bulk terminals, which handle coal and other materials. Our liquid-bulk facilities also experienced significant growth. These terminals store and transfer petroleum products and petrochemicals and reported increased



Distributable Cash Flow	1999	2000	2001
Net Income	\$ 182.3	\$ 278.3	\$ 442.3
Depreciation and Amortization	50.7	90.8	151.1
Sustaining Capital Expenditures	(23.7)	(35.1)	(56.1)
Total Distributable Cash Flow ⁽¹⁾	209.3	334.1	537.3
General Partner Interest	(56.3)	(109.5)	(202.1)
Distributable Cash Flow to Limited Partners	\$ 153.1	\$ 224.7	\$ 335.2
Distributable Cash Flow per LP unit	\$ 1.56	\$ 1.78	\$ 2.18
Declared Distribution per LP unit	\$ 1.43	\$ 1.71	\$ 2.15

(1) Before changes in working capital and reserves.

volumes of 7.5 percent over the previous year. We added a number of strategically located terminals in 2001, including large liquid-bulk facilities in Houston, New York Harbor, Los Angeles and Chicago.

\$1.4 Billion in Strategic Acquisitions

KMP announced \$1.4 billion in accretive acquisitions in 2001, the largest being the \$750 million purchase of the Tejas Gas intrastate pipeline system in Texas. This transaction closed in February of 2002 and began contributing cash flow immediately to KMP. With a transportation capacity of 3.5 Bcf per day, Tejas Gas is a major provider of gas to refining, petrochemical, gas and electric utilities, independent power generation and industrial markets. We expect to realize solid growth on this 3,400-mile system, as it gives us access to new, growing markets in Texas, which is the largest producer and consumer of natural gas in the country.

Other acquisitions included the natural gas assets associated with KMTP for \$360 million (KMP will save millions of dollars by owning these assets and eliminating more than 25 years of lease payments); transactions involving 12 terminals that handle a variety of bulk products, such as iron ore, petroleum products, salt, fertilizers and containers for approximately \$200 million; a definitive agreement to increase our ownership in Trailblazer Pipeline to 100 percent by acquiring the remaining 33.3 percent interest for \$68 million; and interests in CO₂ plants and infrastructure.

2002 Outlook

We are optimistic about 2002 and beyond, and we expect solid growth in our per unit distributions to continue. By combining internal growth and additional acquisitions, we expect cash flow to continue to increase significantly. For example, we have over \$240 million in expansion projects under way, several of which are scheduled to come online in 2002. These include projects on the CALNEV products pipeline, the Trailblazer natural gas pipeline, the SACROC Unit and the Pasadena/Galena Park terminals complex. Additionally, we expect volume growth of over 3 percent on our products pipelines, which are located in some of the fastest growing markets in the country (southern California, Nevada, Arizona and the Southeast). As the population

increases, the demand for gasoline and jet fuel will also increase, and these pipelines have excess capacity available to handle higher volumes.

As for acquisitions, we are confident there will continue to be opportunities to add both pipelines and terminals to our fee-based portfolio of assets. Many energy companies have begun to divest midstream assets in a move to

strengthen their balance sheets, and major oil companies are continuing to divest assets following mergers and internal restructuring initiatives. With our low-cost structure, strong currency and tax advantages, KMP is often an ideal buyer of these assets. In addition, we expect to continue to be a leading player in the consolidation of the terminals business in this country.

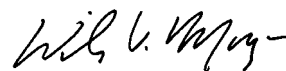
In the past five years, we have completed over \$6 billion in acquisitions. Part of our trademark for success has been our ability to reduce costs of acquired assets, while increasing their utilization. Acquisitions must meet MLP criteria and be immediately accretive to cash available for distribution to unitholders.

We expect about two-thirds of our future growth to come from internal growth and one-third from additional acquisitions. In fact, we project that KMP can grow per unit distributions by about 8 to 10 percent a year over the next four years from internal growth alone. After taking into account KMP's attractive yield, internal growth prospects and opportunities for additional accretive acquisitions, we are confident that KMP will continue to be a very attractive investment.

We appreciate the continued support of our unitholders and believe the best is yet to come!



Richard D. Kinder
Chairman and
Chief Executive Officer



William V. Morgan
Vice Chairman



Michael C. Morgan
President