

KEY ENERGY 2003 ANNUAL MEETING - RECONCILIATIONS OF NON-GAAP TO GAAP MEASURES

(in thousands)	For the Three Year Period Ended December 31, 2002
Reconciliation of Free Cash Flow to Net Cash Flow from Operating Activities:	
Net cash provided by operating activities	\$419,991
Amortization of deferred costs	(13,478)
Gain (loss) on sale of fixed assets	189
Argentina foreign currency transaction gain (loss)	(1,443)
(Gain) loss - retired debt	(1,919)
Other non-cash items	514
Increase (decrease) in accounts receivable	17,637
Increase (decrease) in other current assets	(1,683)
(Increase) decrease in current liab w/o ST debt	(21,215)
Other assets and liabilities	(1,888)
Capital expenditures	(241,482)
Free Cash Flow (1)	\$155,223

Reconciliation of Free Cash Flow to Net Income (Loss):	
Net income (loss)	\$92,665
Deferred income taxes	60,548
Depreciation, depletion and amortization	240,619
Cumulative effect on prior years of a change in accounting principle, net of tax	2,873
Capital expenditures	(241,482)
Free Cash Flow (1)	\$155,223

(1) Free Cash Flow, as discussed in the Company's annual meeting, is a non-GAAP measure that represents the Company's earnings before, deferred income taxes, depreciation, depletion, and amortization, and cumulative effect for the period indicated, less capital expenditures. Management considers its Free Cash Flow to be a measure of both performance and liquidity. However, Free Cash Flow should not be considered as an alternative to GAAP measures of performance, such as net income or net cash flow from operating activities. The term "GAAP" refers to generally accepted accounting principles.