

ANADARKO PETROLEUM CORP

Form 10-Q

July 31, 2018

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2018

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 No. 1-8968

ANADARKO PETROLEUM CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

76-0146568

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

1201 Lake Robbins Drive, The Woodlands, Texas 77380-1046

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (832) 636-1000

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 every Interactive Data File required to be submitted 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 such files). Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company  Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares outstanding of the Company's common stock at July 19, 2018, is shown below:

| Title of Class                           | Number of Shares Outstanding |
|--|------------------------------|
| Common Stock, par value \$0.10 per share | 512,075,063                  |

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## COMMONLY USED TERMS AND DEFINITIONS

Unless the context otherwise requires, the terms “Anadarko” and “Company” refer to Anadarko Petroleum Corporation and its consolidated subsidiaries. In addition, the following company or industry-specific terms and abbreviations are used throughout this report:

364-Day Facility - Anadarko’s \$2.0 billion 364-day senior unsecured RCF

APC RCF - Anadarko’s \$3.0 billion senior unsecured RCF

ASR Agreement - An accelerated share-repurchase agreement with an investment bank to repurchase the Company’s common stock

ASU - Accounting Standards Update

Bcf - Billion cubic feet

BOE - Barrels of oil equivalent

CBM - Coalbed methane

DBJV - Delaware Basin JV Gathering LLC

DBJV System - A gathering system and related facilities located in the Delaware basin in Loving, Ward, Winkler, and Reeves Counties in West Texas

DBM Complex - The processing plants, gas gathering system, and related facilities and equipment in West Texas that serve production from Reeves, Loving, and Culberson Counties, Texas and Eddy and Lea Counties, New Mexico

DD&A - Depreciation, depletion, and amortization

DJ Basin Complex - The Platte Valley system, Wattenberg system, and Lancaster plant, which were combined into a single complex in Colorado in the first quarter of 2014 to serve production in the DJ basin

FID - Final investment decision

Fitch - Fitch Ratings

FPSO - Floating production, storage, and offloading unit

G&A - General and administrative expenses

IPO - Initial public offering

LIBOR - London Interbank Offered Rate

LNG - Liquefied natural gas

MBbls/d - Thousand barrels per day

MBOE/d - Thousand barrels of oil equivalent per day

Mcf - Thousand cubic feet

MMBbls - Million barrels

MMBOE - Million barrels of oil equivalent

MMBtu - Million British thermal units

MMBtu/d - Million British thermal units per day

MMcf/d - Million cubic feet per day

Moody’s - Moody’s Investors Service

NGLs - Natural gas liquids

NM - Not meaningful

NTSB - National Transportation Safety Board

NYMEX - New York Mercantile Exchange

Oil - Includes crude oil and condensate

OPEC - Organization of the Petroleum Exporting Countries

RCF - Revolving credit facility

ROTF - Regional oil treating facility

S&P - Standard and Poor’s

Share-Repurchase Program - A program authorizing the repurchase of Anadarko's common stock

Tax Reform Legislation - The U.S. Tax Cuts and Jobs Act signed into law on December 22, 2017

TEN - Tweneboa/Enyenra/Ntomme

TEUs - Tangible equity units

VIE or VIEs - Variable interest entity

WES - Western Gas Partners, LP, a publicly traded limited partnership, which is a consolidated subsidiary of Anadarko

WES RCF - WES's \$1.5 billion senior unsecured RCF

WGP - Western Gas Equity Partners, LP, a publicly traded limited partnership, which is a consolidated subsidiary of Anadarko

WGP RCF - WGP's \$35 million senior secured RCF

WTI - West Texas Intermediate

Zero Coupons - Anadarko's Zero-Coupon Senior Notes due 2036

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

ANADARKO PETROLEUM CORPORATION  
CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

|   | Three Months<br>Ended<br>June 30, |           | Six Months<br>Ended<br>June 30, |           |
|---|-----------------------------------|-----------|---------------------------------|-----------|
|   | 2018                              | 2017      | 2018                            | 2017      |
| millions except per-share amounts                             |                                   |           |                                 |           |
| Revenues and Other  |                                   |           |                                 |           |
| Oil sales   | \$2,265                           | \$1,422   | \$4,392                         | \$3,085   |
| Natural-gas sales   | 203                               | 319       | 450                             | 821       |
| Natural-gas liquids sales                                     | 318                               | 214       | 610                             | 503       |
| Gathering, processing, and marketing sales                    | 382                               | 464       | 742                             | 908       |
| Gains (losses) on divestitures and other, net                 | 123                               | 297       | 142                             | 1,166     |
| Total   | 3,291                             | 2,716     | 6,336                           | 6,483     |
| Costs and Expenses  |                                   |           |                                 |           |
| Oil and gas operating   | 275                               | 229       | 551                             | 485       |
| Oil and gas transportation                                    | 209                               | 229       | 405                             | 478       |
| Exploration   | 94                                | 532       | 262                             | 1,616     |
| Gathering, processing, and marketing                          | 252                               | 355       | 489                             | 705       |
| General and administrative                                    | 288                               | 244       | 566                             | 507       |
| Depreciation, depletion, and amortization                     | 1,003                             | 1,037     | 1,993                           | 2,152     |
| Production, property, and other taxes                         | 201                               | 135       | 391                             | 290       |
| Impairments   | 128                               | 10        | 147                             | 383       |
| Other operating expense                                       | 22                                | 12        | 162                             | 34        |
| Total   | 2,472                             | 2,783     | 4,966                           | 6,650     |
| Operating Income (Loss)                                       | 819                               | (67 )     | 1,370                           | (167 )    |
| Other (Income) Expense  |                                   |           |                                 |           |
| Interest expense  | 237                               | 229       | 465                             | 452       |
| (Gains) losses on derivatives, net                            | 436                               | 32        | 471                             | (115 )    |
| Other (income) expense, net                                   | 4                                 | 44        | (8 )                            | 46        |
| Total   | 677                               | 305       | 928                             | 383       |
| Income (Loss) Before Income Taxes                             | 142                               | (372 )    | 442                             | (550 )    |
| Income tax expense (benefit)                                  | 125                               | (38 )     | 251                             | 59        |
| Net Income (Loss)   | 17                                | (334 )    | 191                             | (609 )    |
| Net income (loss) attributable to noncontrolling interests    | (12 )                             | 81        | 41                              | 124       |
| Net Income (Loss) Attributable to Common Stockholders         | \$29                              | \$(415 )  | \$150                           | \$(733 )  |
| Per Common Share  |                                   |           |                                 |           |
| Net income (loss) attributable to common stockholders—basic   | \$0.05                            | \$(0.76 ) | \$0.28                          | \$(1.34 ) |
| Net income (loss) attributable to common stockholders—diluted | \$0.05                            | \$(0.76 ) | \$0.28                          | \$(1.34 ) |
| Average Number of Common Shares Outstanding—Basic             | 504                               | 552       | 511                             | 552       |
| Average Number of Common Shares Outstanding—Diluted           | 505                               | 552       | 512                             | 552       |
| Dividends (per common share)                                  | \$0.25                            | \$0.05    | \$0.50                          | \$0.10    |

See accompanying Notes to Consolidated Financial Statements.



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ANADARKO PETROLEUM CORPORATION  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(Unaudited)

|   | Three<br>Months<br>Ended |         | Six Months<br>Ended |         |
|---|--------------------------|---------|---------------------|---------|
| millions  | June 30,<br>2018         | 2017    | June 30,<br>2018    | 2017    |
| Net Income (Loss)   | \$17                     | \$(334) | \$191               | \$(609) |
| Other Comprehensive Income (Loss)   |                          |         |                     |         |
| Adjustments for derivative instruments  |                          |         |                     |         |
| Reclassification of previously deferred derivative losses to (gains) losses on derivatives, net | —                        | 1       | 1                   | 2       |
| Income taxes on reclassification of previously deferred derivative losses                       | —                        | (1 )    | —                   | (1 )    |
| Total adjustments for derivative instruments, net of taxes                                      | —                        | —       | 1                   | 1       |
| Adjustments for pension and other postretirement plans  |                          |         |                     |         |
| Net gain (loss) incurred during period  | —                        | 19      | —                   | 15      |
| Income taxes on net gain (loss) incurred during period  | —                        | (6 )    | —                   | (5 )    |
| Amortization of net actuarial (gain) loss to other (income) expense, net                        | 6                        | 62      | 13                  | 71      |
| Income taxes on amortization of net actuarial (gain) loss                                       | (1 )                     | (23 )   | (3 )                | (26 )   |
| Amortization of net prior service (credit) cost to other (income) expense, net                  | (6 )                     | (6 )    | (12 )               | (12 )   |
| Income taxes on amortization of net prior service (credit) cost                                 | 1                        | 2       | 2                   | 4       |
| Total adjustments for pension and other postretirement plans, net of taxes                      | —                        | 48      | —                   | 47      |
| Total   | —                        | 48      | 1                   | 48      |
| Comprehensive Income (Loss)   | 17                       | (286 )  | 192                 | (561 )  |
| Comprehensive income (loss) attributable to noncontrolling interests                            | (12 )                    | 81      | 41                  | 124     |
| Comprehensive Income (Loss) Attributable to Common Stockholders                                 | \$29                     | \$(367) | \$151               | \$(685) |

See accompanying Notes to Consolidated Financial Statements.

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ANADARKO PETROLEUM CORPORATION  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

|  | June 30,<br>2018 | December<br>31,<br>2017 |
|--|------------------|-------------------------|
| millions except per-share amounts  |                  |                         |
| <b>ASSETS</b>  |                  |                         |
| Current Assets   |                  |                         |
| Cash and cash equivalents (\$55 and \$80 related to VIEs)  | \$2,321          | \$4,553                 |
| Accounts receivable (net of allowance of \$13 and \$14)  |                  |                         |
| Customers (\$143 and \$106 related to VIEs)  | 1,238            | 1,222                   |
| Others (\$16 and \$19 related to VIEs)   | 671              | 607                     |
| Other current assets   | 402              | 380                     |
| Total  | 4,632            | 6,762                   |
| Net Properties and Equipment (net of accumulated depreciation, depletion, and amortization of \$35,229 and \$34,107) (\$6,214 and \$5,731 related to VIEs) | 28,502           | 27,451                  |
| Other Assets (\$768 and \$579 related to VIEs)   | 2,301            | 2,211                   |
| Goodwill and Other Intangible Assets (\$1,177 and \$1,191 related to VIEs)   | 5,646            | 5,662                   |
| Total Assets   | \$41,081         | \$42,086                |
| <b>LIABILITIES AND EQUITY</b>  |                  |                         |
| Current Liabilities  |                  |                         |
| Accounts payable   |                  |                         |
| Trade (\$301 and \$305 related to VIEs)  | \$2,246          | \$1,894                 |
| Other  | 200              | 266                     |
| Short-term debt - Anadarko <sup>(1)</sup>  | 910              | 142                     |
| Short-term debt - WGP/WES  | 28               | —                       |
| Current asset retirement obligations   | 344              | 294                     |
| Other current liabilities  | 1,699            | 1,310                   |
| Total  | 5,427            | 3,906                   |
| Long-term Debt   |                  |                         |
| Long-term debt - Anadarko <sup>(1)</sup>   | 11,178           | 12,054                  |
| Long-term debt - WGP/WES   | 4,177            | 3,493                   |
| Total  | 15,355           | 15,547                  |
| Other Long-term Liabilities  |                  |                         |
| Deferred income taxes  | 2,317            | 2,234                   |
| Asset retirement obligations (\$151 and \$143 related to VIEs)   | 2,456            | 2,500                   |
| Other  | 4,031            | 4,109                   |
| Total  | 8,804            | 8,843                   |
| Equity   |                  |                         |
| Stockholders' equity   |                  |                         |
| Common stock, par value \$0.10 per share (1.0 billion shares authorized, 576.1 million and 574.2 million shares issued)                                    | 57               | 57                      |
| Paid-in capital  | 12,306           | 12,000                  |
| Retained earnings  | 1,054            | 1,109                   |
| Treasury stock (74.5 million and 43.4 million shares)  | (4,105 )         | (2,132 )                |
| Accumulated other comprehensive income (loss)  | (410 )           | (338 )                  |
| Total Stockholders' Equity   | 8,902            | 10,696                  |



|                              |          |          |
|------------------------------|----------|----------|
| Noncontrolling interests     | 2,593    | 3,094    |
| Total Equity                 | 11,495   | 13,790   |
| Total Liabilities and Equity | \$41,081 | \$42,086 |

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Parenthetical references reflect amounts as of June 30, 2018, and December 31, 2017.

VIE amounts relate to WGP and WES. See Note 16—Variable Interest Entities.

<sup>(1)</sup> Excludes WES and WGP.

See accompanying Notes to Consolidated Financial Statements.

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ANADARKO PETROLEUM CORPORATION  
CONSOLIDATED STATEMENT OF EQUITY  
(Unaudited)

| millions  | Total Stockholders' Equity |                    |                      |                   | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Non-<br>controlling<br>Interests | Total<br>Equity |
|---|----------------------------|--------------------|----------------------|-------------------|---|----------------------------------|-----------------|
|   | Common<br>Stock            | Paid-in<br>Capital | Retained<br>Earnings | Treasury<br>Stock |   |                                  |                 |
| Balance at December 31, 2017  | \$57                       | \$12,000           | \$1,109              | \$(2,132)         | \$ (338 )   | \$ 3,094                         | \$13,790        |
| Net income (loss)   | —                          | —                  | 150                  | —                 | —   | 41                               | 191             |
| Common stock issued   | —                          | 6                  | —                    | —                 | —   | —                                | 6               |
| Share-based compensation expense  | —                          | 84                 | —                    | —                 | —   | —                                | 84              |
| Dividends—common stock  | —                          | —                  | (254 )               | —                 | —   | —                                | (254 )          |
| Repurchases of common stock   | —                          | —                  | —                    | (1,973 )          | —   | —                                | (1,973 )        |
| Subsidiary equity transactions  | —                          | (14 )              | —                    | —                 | —   | 19                               | 5               |
| Settlement of tangible equity units   | —                          | 230                | —                    | —                 | —   | (300 )                           | (70 )           |
| Distributions to noncontrolling interest owners   | —                          | —                  | —                    | —                 | —   | (238 )                           | (238 )          |
| Reclassification of previously deferred<br>derivative losses to (gains) losses on<br>derivatives, net | —                          | —                  | —                    | —                 | 1   | —                                | 1               |
| Cumulative effect of accounting change <sup>(1)</sup>   | —                          | —                  | 49                   | —                 | (73 )   | (23 )                            | (47 )           |
| Balance at June 30, 2018  | \$57                       | \$12,306           | \$1,054              | \$(4,105)         | \$ (410 )   | \$ 2,593                         | \$11,495        |

Beginning January 1, 2018, the Company adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606), and ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. See Note 1—Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements for further information.

See accompanying Notes to Consolidated Financial Statements.

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ANADARKO PETROLEUM CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

| millions  | Six Months<br>Ended<br>June 30, |          |
|---|---------------------------------|----------|
|   | 2018                            | 2017     |
| Cash Flows from Operating Activities  |                                 |          |
| Net income (loss)   | \$ 191                          | \$(609 ) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities           |                                 |          |
| Depreciation, depletion, and amortization   | 1,993                           | 2,152    |
| Deferred income taxes   | 27                              | (172 )   |
| Dry hole expense and impairments of unproved properties   | 149                             | 1,466    |
| Impairments   | 147                             | 383      |
| (Gains) losses on divestitures, net   | (28 )                           | (1,009 ) |
| Total (gains) losses on derivatives, net  | 473                             | (115 )   |
| Operating portion of net cash received (paid) in settlement of derivative instruments                       | (234 )                          | 5        |
| Other   | 139                             | 159      |
| Changes in assets and liabilities   |                                 |          |
| (Increase) decrease in accounts receivable  | (91 )                           | 7        |
| Increase (decrease) in accounts payable and other current liabilities                                       | 91                              | (278 )   |
| Other items, net  | (202 )                          | (9 )     |
| Net cash provided by (used in) operating activities   | 2,655                           | 1,980    |
| Cash Flows from Investing Activities  |                                 |          |
| Additions to properties and equipment   | (3,277 )                        | (2,296 ) |
| Divestitures of properties and equipment and other assets   | 384                             | 3,460    |
| Other, net  | (163 )                          | 55       |
| Net cash provided by (used in) investing activities   | (3,056 )                        | 1,219    |
| Cash Flows from Financing Activities  |                                 |          |
| Borrowings, net of issuance costs   | 1,333                           | 159      |
| Repayments of debt  | (764 )                          | (31 )    |
| Financing portion of net cash received (paid) for derivative instruments                                    | 55                              | (125 )   |
| Increase (decrease) in outstanding checks   | 34                              | (32 )    |
| Dividends paid  | (254 )                          | (56 )    |
| Repurchases of common stock   | (1,973 )                        | (37 )    |
| Issuances of common stock   | 6                               | —        |
| Distributions to noncontrolling interest owners   | (238 )                          | (214 )   |
| Payments of future hard-minerals royalty revenues conveyed  | (25 )                           | (25 )    |
| Other financing activities  | —                               | (11 )    |
| Net cash provided by (used in) financing activities   | (1,826 )                        | (372 )   |
| Effect of exchange rate changes on cash, cash equivalents, restricted cash, and restricted cash equivalents | (15 )                           | (1 )     |
| Net Increase (Decrease) in Cash, Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents         | (2,242 )                        | 2,826    |
| Cash, Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents at Beginning of Period             | 4,674                           | 3,308    |
| Cash, Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents at End of Period                   | \$ 2,432                        | \$ 6,134 |

See accompanying Notes to Consolidated Financial Statements.



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ANADARKO PETROLEUM CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

1. Summary of Significant Accounting Policies

General Anadarko Petroleum Corporation is engaged in the exploration, development, production, and sale of oil, natural gas, and NGLs and in advancing its Mozambique LNG project toward FID. In addition, the Company engages in gathering, compressing, treating, processing, and transporting of natural gas; gathering, stabilizing, and transporting of oil and NGLs; and gathering and disposing of produced water. The Company also participates in the hard-minerals business through royalty arrangements.

**Basis of Presentation** The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain notes and other information have been condensed or omitted. The accompanying interim financial statements reflect all normal recurring adjustments that are, in the opinion of management, necessary for the fair presentation of the Company's consolidated financial statements. Certain prior-period amounts have been reclassified to conform to the current-period presentation. These interim financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. The consolidated financial statements include the accounts of Anadarko and subsidiaries in which Anadarko holds, directly or indirectly, more than 50% of the voting rights and VIEs for which Anadarko is the primary beneficiary. The Company has determined that WGP and WES are VIEs. Anadarko is considered the primary beneficiary and consolidates WGP and WES. WGP and WES function with capital structures that are separate from Anadarko, consisting of their own debt instruments and publicly traded common units. All intercompany transactions have been eliminated. Undivided interests in oil and natural-gas exploration and production joint ventures are consolidated on a proportionate basis. Investments in noncontrolled entities that Anadarko has the ability to exercise significant influence over operating and financial policies and VIEs for which Anadarko is not the primary beneficiary are accounted for using the equity method. In applying the equity method of accounting, the investments are initially recognized at cost and subsequently adjusted for the Company's proportionate share of earnings, losses, and distributions. Investments are included in other assets.

**Recently Adopted Accounting Standards** ASU 2017-07, Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, requires presentation of service cost in the same line item(s) as other compensation costs arising from services rendered by employees during the period and presentation of the remaining components of net benefit cost in a separate line item outside operating items. Additionally, only the service cost component of net benefit cost will be eligible for capitalization. The Company adopted this ASU on January 1, 2018, with retrospective presentation of the service cost component and the other components of net benefit cost in the income statement and prospective presentation for the capitalization of the service cost component of net benefit cost in assets. Upon adoption, non-service cost components of net periodic benefit costs of \$107 million for 2017, including \$69 million for the six months ended June 30, 2017, were reclassified to other (income) expense, net, from G&A; oil and gas operating; gathering, processing, and marketing; and exploration expense.

ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, requires an entity to explain the changes in the total of cash, cash equivalents, restricted cash, and restricted cash equivalents on the statement of cash flows and to provide a reconciliation of the totals in that statement to the related captions in the balance sheet when the cash, cash equivalents, restricted cash, and restricted cash equivalents are presented in more than one line item on the balance sheet. The Company adopted this ASU using a retrospective approach on January 1, 2018. Adoption did not have a material impact on the Company's consolidated financial statements. See Consolidated Statements of Cash Flows and

Note 17—Supplemental Cash Flow Information for additional information.

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ANADARKO PETROLEUM CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

1. Summary of Significant Accounting Policies (Continued)

ASU 2014-09, Revenue from Contracts with Customers (Topic 606), supersedes the revenue recognition requirements and industry-specific guidance under Revenue Recognition (Topic 605). Topic 606 requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. The Company adopted Topic 606 on January 1, 2018, using the modified retrospective method applied to contracts that were not completed as of January 1, 2018. Under the modified retrospective method, prior-period financial positions and results will not be adjusted. The cumulative effect adjustment recognized in the opening balances included a reduction to total equity of \$47 million. While the Company does not expect 2018 net earnings to be materially impacted by revenue recognition timing changes, Topic 606 requires certain changes to the presentation of revenues and related expenses beginning January 1, 2018. See Note 2—Revenue from Contracts with Customers for additional information. The Company's revenue recognition accounting policy effective January 1, 2018, is detailed below.

Exploration and Production—The Company's oil is sold primarily to marketers, gatherers, and refiners. Natural gas is sold primarily to interstate and intrastate natural-gas pipelines, direct end-users, industrial users, local distribution companies, and natural-gas marketers. NGLs are sold primarily to direct end-users, refiners, and marketers. Payment is generally received from the customer in the month following delivery.

Contracts with customers have varying terms, including spot sales or month-to-month contracts, contracts with a finite term, and life-of-field contracts where all production from a well or group of wells is sold to one or more customers. The Company recognizes sales revenues for oil, natural gas, and NGLs based on the amount of each product sold to a customer when control transfers to the customer. Generally, control transfers at the time of delivery to the customer at a pipeline interconnect, the tailgate of a processing facility, or as a tanker lifting is completed. Revenue is measured based on the contract price, which may be index-based or fixed, and may include adjustments for market differentials and downstream costs incurred by the customer, including gathering, transportation, and fuel costs. For natural gas and NGLs sold on our behalf by a processor, revenue is typically measured based on the price the processor receives for the sale, less certain costs withheld by the processor.

Revenues are recognized for the sale of Anadarko's net share of production volumes. Sales on behalf of other working interest owners and royalty interest owners are not recognized as revenues.

The Company enters into buy/sell arrangements related to the transportation of a portion of its oil production. Under these arrangements, barrels are sold to a third party at a location-based contract price and subsequently repurchased by the Company at a downstream location. The difference in value between the sale and purchase price represents the transportation fee to move oil from the lease or certain gathering locations to more liquid markets. These arrangements are often required by private transporters. These buy/sell transactions are recorded net in oil and gas transportation expense in the Company's Consolidated Statements of Income.

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1. Summary of Significant Accounting Policies (Continued)

WES Midstream and Other Midstream—Anadarko provides gathering, compressing, treating, processing, stabilizing, transporting, and disposal services pursuant to a variety of contracts. Under these arrangements, the Company receives fees and/or retains a percentage of products or a percentage of the proceeds from the sale of the customer's products. These revenues are included in gathering, processing, and marketing sales in the Company's Consolidated Statements of Income. Payment is generally received from the customer in the month of service or the month following the service. Contracts with customers generally have initial terms ranging from 5 to 10 years.

Revenue is recognized for fee-based gathering and processing services in the month of service based on the volumes delivered by the customer. Revenues are valued based on the rate in effect for the month of service when the fee is either the same rate per unit over the contract term or when the fee escalates and the escalation factor approximates inflation. The Company may charge additional service fees to customers for a portion of the contract term (i.e., for the first year of a contract or until reaching a volume threshold) due to the significant upfront capital investment. These fees are recognized as revenue over the expected period of customer benefit, generally the life of the related properties. Deficiency fees, which are charged to the customer if they do not meet minimum delivery requirements, are recognized over the performance period based on an estimate of the deficiency fees that will be billed upon completion of the performance period.

The Company's midstream business also purchases natural-gas volumes from producers at the wellhead or production facility, typically at an index price, and charges the producer fees associated with the downstream gathering and processing services. These fees are treated as a reduction of the purchase cost when the fees relate to services performed after control of the product has transferred to Anadarko. Revenue is recognized, along with cost of product expense related to the sale, when the purchased product is sold to a third party.

Revenue from percentage of proceeds gathering and processing contracts is recognized net of the cost of product for purchases from service customers when the Company is acting as their agent in the product sale, and any fees charged on these percentage of proceeds contracts are recognized in service revenues.

ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, provides entities the option to reclassify stranded tax effects resulting from the Tax Reform Legislation from accumulated other comprehensive income (AOCI) to retained earnings. In accordance with its accounting policy, the Company releases stranded income tax effects from AOCI in the period the underlying portfolio is liquidated. This ASU allows for the reclassification of stranded tax effects as a result of the change in tax rates from Tax Reform Legislation to be recorded upon adoption of the ASU, rather than at the actual portfolio liquidation date. The Company adopted this ASU on January 1, 2018, electing to reclassify \$73 million from AOCI to retained earnings, including a \$2 million federal benefit of state tax impact related to the Tax Reform Legislation.

New Accounting Standards Issued But Not Yet Adopted ASU 2016-02, Leases (Topic 842), requires lessees to recognize a lease liability and a right-of-use (ROU) asset for all leases, including operating leases, with a term greater than 12 months on the balance sheet. This ASU modifies the definition of a lease and outlines the recognition, measurement, presentation, and disclosure of leasing arrangements by both lessees and lessors. The Company plans to make certain elections allowing the Company not to reassess contracts that commenced prior to adoption, to continue applying its current accounting policy for land easements, and not to recognize ROU assets or lease liabilities for short-term leases. Anadarko continues to review contracts in its portfolio of leased assets to assess the impact of adopting this ASU. The Company expects the adoption of this ASU to primarily impact other assets and other liabilities and does not expect a material impact on its consolidated results of operations. To facilitate compliance with this ASU, Anadarko is implementing new accounting software and continuing to evaluate its systems, processes, and internal controls during 2018. Anadarko will adopt this ASU on January 1, 2019. As permitted by ASU 2018-11,



Leases (Topic 842): Targeted Improvements, the Company does not expect to adjust comparative-period financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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## 2. Revenue from Contracts with Customers

**Change in Accounting Policy** The Company adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606), on January 1, 2018, using the modified retrospective method applied to contracts that were not completed as of January 1, 2018. See Note 1—Summary of Significant Accounting Policies for additional information.

**Impacts on Financial Statements**

**Exploration and Production** There were no significant changes to the timing or valuation of revenue recognized for sales of production by the Exploration and Production segment.

**WES Midstream and Other Midstream** Gathering and processing revenues decreased for contracts where the Company is acting as an agent for its processing customer in the sale of processed volumes and increased for contracts with noncash consideration, with an offset to gathering and processing expense upon product sale. The magnitude of these presentation changes in subsequent periods is dependent on future customer volumes subject to the impacted contracts and commodity prices for those volumes. These presentation changes do not impact net earnings.

The following tables summarize the impacts of adopting Topic 606 on the Company's consolidated financial statements:

**CONSOLIDATED BALANCE SHEET Impact of Change in Accounting Policy**

| millions                     | As<br>Reported of | Without<br>Adoption<br>Topic 606 | Effect of Change<br>Increase/(Decrease) |
|------------------------------|-------------------|----------------------------------|---|
| June 30, 2018                |                   |                                  |   |
| Assets                       |                   |                                  |   |
| Net properties and equipment | \$28,502          | \$ 28,454                        | \$ 48                                   |
| Other assets                 | 2,301             | 2,289                            | 12                                      |
| Liabilities                  |                   |                                  |   |
| Other current liabilities    | 1,699             | 1,692                            | 7                                       |
| Deferred income taxes        | 2,317             | 2,325                            | (8)                                     |
| Other                        | 4,031             | 3,918                            | 113                                     |
| Equity                       |                   |                                  |   |
| Total equity                 | 11,495            | 11,547                           | (52)                                    |

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## 2. Revenue from Contracts with Customers (Continued)

| CONSOLIDATED STATEMENT OF INCOME                           | Impact of Change in Accounting Policy |                               |                                      |
|--|---------------------------------------|-------------------------------|--------------------------------------|
|  | As Reported                           | Without Adoption of Topic 606 | Effect of Change Increase/(Decrease) |
| millions   |                                       |                               |                                      |
| Three Months Ended June 30, 2018                           |                                       |                               |                                      |
| Revenues   |                                       |                               |                                      |
| Gathering, processing, and marketing sales                 | \$ 382                                | \$ 650                        | \$ (268 )                            |
| Gains (losses) on divestitures and other, net              | 123                                   | 123                           | —                                    |
| Expenses   |                                       |                               |                                      |
| Gathering, processing, and marketing                       | 252                                   | 518                           | (266 )                               |
| Income tax expense (benefit)                               | 125                                   | 126                           | (1 )                                 |
| Net income (loss) attributable to noncontrolling interests | (12 )                                 | (14 )                         | 2                                    |
| Net Income (Loss) Attributable to Common Stockholders      | \$ 29                                 | \$ 32                         | \$ (3 )                              |
| Six Months Ended June 30, 2018                             |                                       |                               |                                      |
| Revenues   |                                       |                               |                                      |
| Gathering, processing, and marketing sales                 | \$ 742                                | \$ 1,227                      | \$ (485 )                            |
| Gains (losses) on divestitures and other, net              | 142                                   | 144                           | (2 )                                 |
| Expenses   |                                       |                               |                                      |
| Gathering, processing, and marketing                       | 489                                   | 969                           | (480 )                               |
| Income tax expense (benefit)                               | 251                                   | 253                           | (2 )                                 |
| Net income (loss) attributable to noncontrolling interests | 41                                    | 40                            | 1                                    |
| Net Income (Loss) Attributable to Common Stockholders      | \$ 150                                | \$ 156                        | \$ (6 )                              |

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## 2. Revenue from Contracts with Customers (Continued)

Disaggregation of Revenue from Contracts with Customers The following table disaggregates revenue by significant product type and segment:

| millions  | Exploration<br>&<br>Production | WES<br>Midstream | Other<br>Midstream | Other and<br>Intersegment<br>Eliminations | Total      |
|---|--------------------------------|------------------|--------------------|---|------------|
| Three Months Ended June 30, 2018                          |                                |                  |                    |   |            |
| Product Type  |                                |                  |                    |   |            |
| Oil sales   | \$ 2,265                       | \$ —             | \$ —               | \$ —                                      | \$2,265    |
| Natural-gas sales   | 203                            | —                | —                  | —   | 203        |
| Natural-gas liquids sales                                 | 318                            | —                | —                  | —   | 318        |
| Gathering, processing, and marketing sales <sup>(1)</sup> | —                              | 438              | 107                | 58  | 603        |
| Other, net  | 4                              | —                | —                  | 21  | 25         |
| Total Revenue from Customers                              | \$ 2,790                       | \$ 438           | \$ 107             | \$ 79                                     | \$3,414    |
| Gathering, processing, and marketing sales <sup>(2)</sup> | —                              | (2               | ) 1                | (220                                      | ) (221 )   |
| Gains (losses) on divestitures, net                       | 52                             | —                | —                  | —   | 52         |
| Other, net  | (1                             | ) 32             | 8                  | 7   | 46         |
| Total Revenue from Other than Customers                   | \$ 51                          | \$ 30            | \$ 9               | \$ (213                                   | ) \$(123 ) |
| Total Revenue and Other                                   | \$ 2,841                       | \$ 468           | \$ 116             | \$ (134                                   | ) \$3,291  |

## Six Months Ended June 30, 2018

|   |          |        |        |        |          |
|---|----------|--------|--------|--------|----------|
| Product Type  |          |        |        |        |          |
| Oil sales   | \$ 4,392 | \$ —   | \$ —   | \$ —   | \$4,392  |
| Natural-gas sales   | 450      | —      | —      | —      | 450      |
| Natural-gas liquids sales                                 | 610      | —      | —      | —      | 610      |
| Gathering, processing, and marketing sales <sup>(1)</sup> | —        | 876    | 193    | 82     | 1,151    |
| Other, net  | 7        | —      | —      | 40     | 47       |
| Total Revenue from Customers                              | \$ 5,459 | \$ 876 | \$ 193 | \$ 122 | \$6,650  |
| Gathering, processing, and marketing sales <sup>(2)</sup> | —        | (3     | ) 3    | (409   | ) (409 ) |
| Gains (losses) on divestitures, net                       | 19       | —      | 9      | —      | 28       |
| Other, net  | (13      | ) 61   | 18     | 1      | 67       |
| Total Revenue from Other than Customers                   | \$ 6     | \$ 58  |        |        |          |