

Anadarko Petroleum Corporation
Non-GAAP Financial Measures

This list of non-GAAP financial measure definitions and related reconciliations is intended to satisfy the requirements of Regulation G of the Securities Exchange Act of 1934, as amended. This information is historical in nature. Anadarko Petroleum Corporation (the “Company”) undertakes no obligation to publicly update or revise any non-GAAP financial measure definitions and related reconciliations.

Management may present certain forward-looking non-GAAP financial measures, including Adjusted EBITDAX (Margin), EBITDAX, EBITDA, Discretionary Cash Flow from Operations (DCF), Adjusted DCF, Free Cash Flow (FCF), and Adjusted FCF. Due to the forward-looking nature of the aforementioned non-GAAP financial measures, management cannot reliably predict certain of the necessary components of the most directly comparable forward-looking GAAP measures, such as future impairments and future changes in working capital. Accordingly, the company is unable to present a quantitative reconciliation of such forward-looking non-GAAP financial measures to their most directly comparable forward-looking GAAP financial measures. Reconciling items in future periods could be significant.

Management may also present non-GAAP financial measures for specific asset areas and these measures are calculated using the same methodology as the consolidated measure. Corporate general and administrative expenses are included in consolidated Adjusted EBITDAX, but excluded from EBITDAX and EBITDA by asset area as these expenses are not considered an operating expense of the asset area. Corporate expenses and income taxes are included in consolidated FCF, but excluded from FCF by asset area as these items are not allocated to specific asset areas.

This non-GAAP information should be considered by the reader in addition to, but not instead of, the financial statements prepared in accordance with GAAP. The non-GAAP financial information presented may be determined or calculated differently by other companies and may not be comparable to similarly titled measures.

Adjusted Net Income (Loss)

The Company defines adjusted net income (loss) as net income (loss) attributable to common stockholders, less certain items affecting comparability.

Management uses adjusted net income (loss) to evaluate operating and financial performance and believes the measure is useful to investors because it eliminates the impact of certain noncash and/or other items that management does not consider to be indicative of the Company’s performance from period to period. Management also believes this non-GAAP measure is useful to investors to evaluate and compare the Company’s operating and financial performance across periods, as well as facilitating comparisons to others in the Company’s industry.

	Quarter Ended December 31, 2018		
	Before Tax	After Tax	Per Share (diluted)
<i>millions except per-share amounts</i>			
Net income (loss) attributable to common stockholders (GAAP)		\$ 102	\$ 0.21
Adjustments for certain items affecting comparability			
Total gains (losses) on derivatives, net, less net cash from settlement of commodity derivatives*	\$ 480	370	0.75
Gains (losses) on divestitures, net	(11)	(8)	(0.02)
Lower-of-cost-or-market inventory adjustments	(21)	(17)	(0.04)
Impairments - Producing properties (after noncontrolling interest)	(431)	(331)	(0.67)
Contingency adjustments	(15)	(12)	(0.03)
Reorganization-related charges	(40)	(31)	(0.06)
Impact of tax reform legislation		(100)	(0.20)
Change in uncertain tax positions		47	0.10
Certain items affecting comparability	\$ (38)	(82)	(0.17)
Adjusted net income (loss) (Non-GAAP)		\$ 184	\$ 0.38

* Includes \$629 million related to commodity derivatives, \$(148) million related to interest-rate derivatives and \$(1) million related to gathering, processing, and marketing sales.

<i>millions except per-share amounts</i>	Quarter Ended December 31, 2017		
	Before Tax	After Tax	Per Share (diluted)
Net income (loss) attributable to common stockholders (GAAP)		\$ 976	\$ 1.80
Adjustments for certain items affecting comparability			
Total gains (losses) on derivatives, net, less net cash from settlement of commodity derivatives*	\$ (168)	(105)	(0.20)
Gains (losses) on divestitures, net	(141)	(83)	(0.15)
Impairments			
Producing properties	(25)	(16)	(0.03)
Exploration assets	(24)	(15)	(0.03)
Early termination of rig	(39)	(25)	(0.05)
Change in uncertain tax positions		(56)	(0.10)
Impact of tax reform legislation		1,170	2.18
Certain items affecting comparability	\$ (397)	870	1.62
Adjusted net income (loss) (Non-GAAP)		\$ 106	\$ 0.18

* Includes \$(171) million related to commodity derivatives, \$(1) million related to interest-rate derivatives, and \$4 million related to gathering, processing, and marketing sales.

Net Debt to Adjusted Capitalization Ratio

The Company defines net debt as total debt, less cash and cash equivalents. Net debt for Anadarko excluding WGP is Anadarko's Consolidated net debt, less WGP's net debt.

The Company defines net debt to adjusted capitalization ratio as net debt / (net debt + total equity). Net debt to adjusted capitalization ratio for Anadarko excluding WGP excludes WGP's net debt and noncontrolling interest attributable to WGP.

Management uses net debt to determine the Company's outstanding debt obligations that would not be readily satisfied by its cash and cash equivalents on hand. Management believes that using net debt in the capitalization ratio is useful to investors in determining the Company's leverage since the Company could choose to use its cash and cash equivalents to retire debt. In addition, management believes that presenting Anadarko's net debt excluding WGP is useful because WGP is a separate public company with its own capital structure.

<i>millions</i>	December 31, 2018		
	Anadarko Consolidated	WGP * Consolidated	Anadarko excluding WGP
Total debt (GAAP)	\$ 16,417	\$ 4,815	\$ 11,602
Less cash and cash equivalents	1,295	92	1,203
Net debt (Non-GAAP)	\$ 15,122	\$ 4,723	\$ 10,399
<i>millions</i>		Anadarko Consolidated	Anadarko excluding WGP
Net debt		\$ 15,122	\$ 10,399
Total equity		10,943	8,496
Adjusted capitalization		\$ 26,065	\$ 18,895
Net debt to adjusted capitalization ratio		58%	55%

* Western Gas Equity Partners, LP (WGP) is a publicly traded consolidated subsidiary of Anadarko, and Western Gas Partners, LP (WES) is a consolidated subsidiary of WGP.

Discretionary Cash Flow from Operations (DCF), Free Cash Flow (FCF), Adjusted DCF, and Adjusted FCF

The Company defines DCF as net cash provided by (used in) operating activities before changes in accounts receivable; changes in accounts payable and other current liabilities; other items, net; and certain nonoperating and other excluded items.

The Company defines FCF as DCF, less capital expenditures.

The Company defines Adjusted DCF as net cash provided by (used in) operating activities before changes in accounts receivable; changes in accounts payable and other current liabilities; other items, net; certain nonoperating and other excluded items; and WES/WGP distributions to third parties.

The Company defines Adjusted FCF as Adjusted DCF, less APC capital expenditures, which excludes WES.

Management believes that these measures are useful to management and investors as a measure of a company's ability to internally fund its capital expenditures and to service or incur additional debt. These measures eliminate the impact of certain items that management does not consider to be indicative of the Company's performance from period to period. To assist in measuring the Company's performance, management will also evaluate Anadarko on a deconsolidated basis, which excludes WES.

Discretionary Cash Flow from Operations and Free Cash Flow

<i>millions</i>	Years Ended	
	December 31,	
	2018	2017
Net cash provided by (used in) operating activities (GAAP)	\$ 5,929	\$ 4,009
Add back		
Increase (decrease) in accounts receivable	211	147
(Increase) decrease in accounts payable and other current liabilities	(348)	32
Other items, net	264	127
Certain nonoperating and other excluded items	—	21
Discretionary cash flow from operations (Non-GAAP) *	\$ 6,056	\$ 4,336
Less		
APC capital expenditures	5,007	4,344
WES capital expenditures	1,178	956
Free cash flow (Non-GAAP)	\$ (129)	\$ (964)

* Includes \$147 million current tax expense for the year ended December 31, 2017, related to asset monetizations.

Adjusted Discretionary Cash Flow from Operations and Adjusted Free Cash Flow

<i>millions</i>	Years Ended	
	December 31,	
	2018	2017
Net cash provided by (used in) operating activities (GAAP)	\$ 5,929	\$ 4,009
Adjusted by:		
Increase (decrease) in accounts receivable	211	147
(Increase) decrease in accounts payable and other current liabilities	(348)	32
Other items, net	264	127
Certain nonoperating and other excluded items	—	21
WES/WGP distributions to third parties	(495)	(444)
Adjusted discretionary cash flow from operations (Non-GAAP)	\$ 5,561	\$ 3,892
Less APC capital expenditures (excludes WES)	5,007	4,344
Adjusted free cash flow (Non-GAAP)	\$ 554	\$ (452)

Adjusted EBITDAX (Margin)

The Company defines Adjusted EBITDAX (Margin) as net income (loss) attributable to common stockholders before interest expense; income taxes; depreciation, depletion, and amortization; exploration expense; gains (losses) on divestitures, net; impairments; total (gains) losses on derivatives, net, less net cash from settlement of commodity derivatives; restructuring charges; and (gains) losses on early extinguishment of debt.

The Company's definition of Adjusted EBITDAX (Margin) excludes gains (losses) on divestitures, net and exploration expense as they are not indicators of operating efficiency for a given reporting period. Depreciation, depletion, and amortization and impairments are excluded from Adjusted EBITDAX (Margin) as a measure of operating performance because capital expenditures are evaluated at the time capital costs are incurred. Adjusted EBITDAX (Margin) also excludes interest expense to allow for assessment of operating results without regard to Anadarko's financing methods or capital structure. Finally, income tax expense (benefit) and total (gains) losses on derivatives, net, less net cash from settlement of commodity derivatives are excluded from Adjusted EBITDAX (Margin) because these items are not considered a measure of asset operating performance.

Management believes that the presentation of Adjusted EBITDAX (Margin) provides information useful in assessing the Company's operating and financial performance across periods.

<i>millions</i>	Years Ended	
	December 31,	
	2018	2017
Net income (loss) attributable to common stockholders (GAAP)	\$ 615	\$ (456)
Interest expense	947	932
Income tax expense (benefit)	733	(1,477)
Depreciation, depletion, and amortization	4,254	4,279
Exploration expense ⁽¹⁾	459	2,535
(Gains) losses on divestitures, net	(20)	(674)
Impairments	800	408
Total (gains) losses on derivatives, net, less net cash from settlement of commodity derivatives	(407)	156
Restructuring charges	53	21
(Gains) losses on early extinguishment of debt	(2)	2
Consolidated Adjusted EBITDAX (Margin) (Non-GAAP)	\$ 7,432	\$ 5,726
Total Barrels of Oil Equivalent (MMBOE)	243	245
Consolidated Adjusted EBITDAX (Margin) per BOE (Non-GAAP)	\$ 30.58	\$ 23.37

⁽¹⁾ Includes restructuring charges of \$20 million for the year ended December 31, 2018.

Oil and Natural Gas Exploration and Development Costs

The Company defines oil and natural gas exploration and development costs as costs incurred, less asset retirement obligation liabilities incurred, plus cash expenditures for asset retirement obligations.

Management believes oil and natural gas exploration and development costs is a more accurate reflection of the expenditures incurred during the current year excluding acquisition costs and certain obligations to be paid in future periods.

Finding and Development (F&D) Costs

The Company defines F&D costs as oil and natural gas exploration and development costs divided by non-price related reserve additions before acquisitions and divestitures.

Management believes that the presentation of F&D costs provides useful information in assessing the Company's ability to efficiently manage its capital programs.

<i>millions</i>	Year Ended December 31, 2018	
Costs incurred (GAAP)*	\$	4,569
Asset retirement obligation liabilities incurred		(357)
Cash expenditures for asset retirement obligations		263
Oil and natural gas exploration and development costs (Non-GAAP)	\$	4,475
Non-price related additions before acquisition and divestitures (MMBOE)		284
Finding and development costs (\$/BOE) (Non-GAAP)	\$	15.76

* Includes \$202 million of unproved property acquisitions.