

PANHANDLE EASTERN CORPORATION

P.O. Box 1642, 77251-1642, 3000 Bissonnet, Houston, Texas 77005-4098

Cyril J. Smith
Vice President
and Secretary

October 9, 1986

To the Stockholders:

On October 1, 1986, Panhandle Eastern Corporation (PEC) distributed one share of the common stock of Anadarko Petroleum Corporation (Anadarko) to PEC stockholders for each share of PEC common stock held on the Record Date of September 12, 1986.

For Federal income tax purposes, no gain or loss was recognized by PEC stockholders as a result of the receipt of the Anadarko shares. The holding period of the Anadarko common stock for purposes of determining capital gains status will include the holding period of a stockholder for the PEC common stock.

The Tax Basis The aggregate tax basis of the Anadarko and PEC shares held by each PEC stockholder immediately following the distribution is the same as the basis of the PEC shares immediately before the distribution. However, the tax basis of the PEC common stock before the distribution must be allocated between the Anadarko shares and the PEC shares in proportion to their respective fair market values on the date of the distribution, October 1, 1986.

If the average of the high and low trading prices on the date of distribution is used to determine fair market value, the value on the date of distribution was \$25.1875 per share for the PEC common stock and \$21.5625 per share for the Anadarko common stock. Using this method, there is set out below an illustration of the tax basis allocation for a PEC stockholder with an assumed tax basis of \$40.00 per share before the distribution:

	<u>Allocation Factor</u>		<u>"Old" PEC Tax Basis Per Share</u>		<u>"New" Tax Basis Per Share</u>
PEC	53.88%	×	\$40.00	=	\$21.55
Anadarko	46.12%	×	\$40.00	=	\$18.45
	100.00%				\$40.00

Note—You should use your own "Old" PEC tax basis per share when allocating tax basis between Anadarko shares and PEC shares.

The Internal Revenue Service Regulations require that certain information regarding the distribution be included in the return of a taxpayer for the taxable year in which the distribution is received. Enclosed is a sample form which PEC believes satisfies this requirement. You may wish to consult with your tax advisor regarding this matter.

We suggest that you include this letter with the records of your investments in the common stock of PEC and Anadarko.

Sincerely,



Cyril J. Smith
Vice President and Secretary