



October 2007

# Successful Efforts Conversion



**John Colglazier**  
Director  
832-636-2306

**Chris Campbell, CFA**  
Manager  
832-636-8434



This presentation contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Anadarko believes that its expectations are based on reasonable assumptions. No assurance, however, can be given that such expectations will prove to have been correct. A number of factors could cause actual results to differ materially from the projections, anticipated results or other expectations expressed in this presentation. Anadarko cannot guarantee that it will successfully execute on its drilling and development plans, meet its production guidance, meet its debt reduction goals, or successfully create and market an initial public offering of a midstream Master Limited Partnership. See “Risk Factors” in the company’s 2006 Annual Report on Form 10-K and other public filings and press releases. Anadarko undertakes no obligation to publicly update or revise any forward-looking statements.

Cautionary Note to U.S. Investors — The United States Securities and Exchange Commission permits oil and gas companies, in their filings with the SEC, to disclose only proved reserves that a company has demonstrated by actual production or conclusive formation tests to be economically and legally producible under existing economic and operating conditions. We use certain terms in this presentation, such as “net risked captured resources” that the SEC’s guidelines strictly prohibit us from including in filings with the SEC. U.S. Investors are urged to consider closely the disclosure in our Form 10-K for the year ended December 31, 2006, File No. 001-08968, available from us at [www.anadarko.com](http://www.anadarko.com) or by writing us at: Anadarko Petroleum Corporation, 1201 Lake Robbins Drive, The Woodlands, Texas 77380 Attn: Investor Relations. You can also obtain this form from the SEC by calling 1-800-SEC-0330.

# Rationale for Conversion

## *Improves Line of Sight:*

### **Provides greater transparency**

- Improves capital allocation process
- Enhances operating decision-making

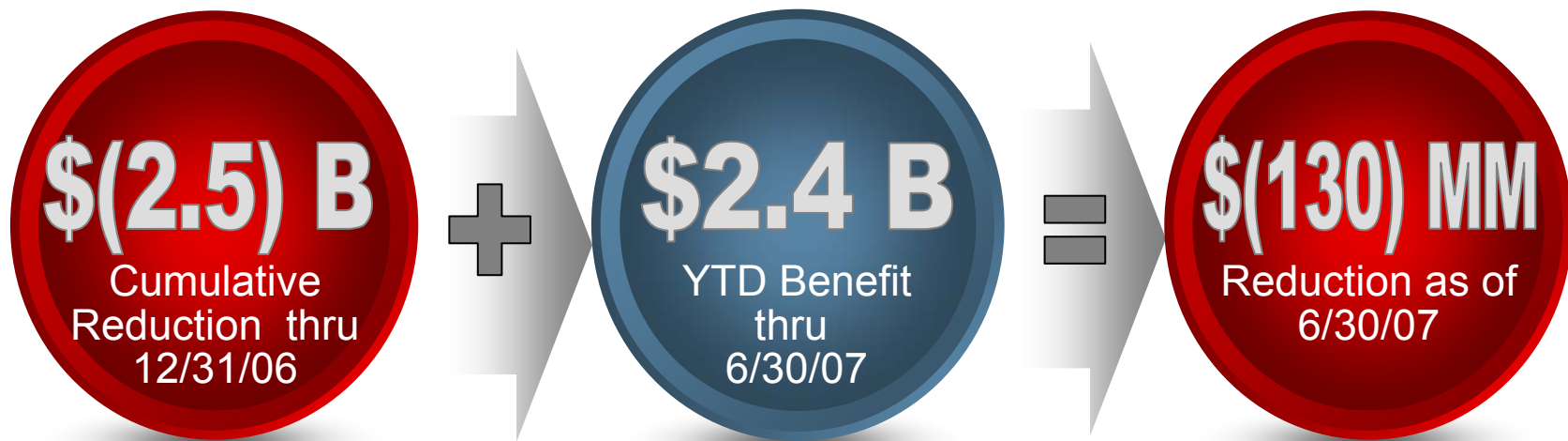


**Eliminates financial impairments from temporary price fluctuations**

**Preferred method by SEC and favored by investment community**

# Recast Financial Highlights

## *Impact to Retained Earnings:*



*All Numbers are After Tax Estimates*

# Retained Earnings Impact From Conversion

## *Gains on Sales Minimize Effect:*

*millions*

### Exploration Expense

|  |            |
|--|------------|
| Non-Producing Leasehold Impairment       | \$ (1,130) |
| G&G, Exploration Expense & Delay Rentals | (1,570)    |
| Dry Hole Expense                         | (1,140)    |

|  |                |
|--|----------------|
| <b>Total Effect of Exploration Expense</b> | <b>(3,840)</b> |
|--|----------------|

|   |              |
|---|--------------|
| <b>Effect of Change in Capitalized Interest</b> | <b>(480)</b> |
|---|--------------|

|  |                |
|--|----------------|
| <b>Reversal of Capitalized G&amp;A</b> | <b>(1,020)</b> |
|--|----------------|

|  |              |
|--|--------------|
| <b>DD&amp;A and Impairment Adjustments</b> | <b>2,110</b> |
|--|--------------|

|   |                |
|---|----------------|
| <b>Change in Retained Earnings Prior to Asset Sales</b> | <b>(3,230)</b> |
|---|----------------|

|                                    |              |
|------------------------------------|--------------|
| <b>Gain on E&amp;P Asset Sales</b> | <b>3,100</b> |
|------------------------------------|--------------|

|  |                 |
|--|-----------------|
| <b>Total Decrease in Retained Earnings as of June 30, 2007</b> | <b>\$ (130)</b> |
|--|-----------------|

**NET  
EFFECT  
as of 6/30/07  
\$(130) MM**



*These After Tax Estimates Exclude Discontinued Operations*

# Successful Efforts

## *Accounting Treatment Going Forward:*

### ■ Non-Producing Leasehold

- *~\$13 billion as of September 30, 2007*
  - *~ 70% related to low- and medium- net risked captured resources*
    - transferred to DD&A pools as reserves booked
  - *~ 30% related to exploration*
    - follows results of exploration program

### ■ Dry Hole

- *Exploration: Expensed upon determination that proved reserves were not found in commercial quantities*
- *Development: Capitalized to property*

### ■ G&G

- *Expensed as incurred*
- *Not included in capital spending*

### ■ Exploration Overhead/Other

- *Expensed as incurred*

# Updated Guidance under Successful Efforts

## Key Categories Effectuated:

| P&L Line Items:                                    | YTD Actual<br>as of 6/30/07<br>(Preliminary) | 3Q07 Guidance             |                           |
|--|--|---------------------------|---------------------------|
|  |  | Full Cost*                | Successful Efforts        |
| <b>Exploration Expense</b>                         | <b>\$361 MM</b>                              | <b>n/a</b>                | <b>\$240 – 270 MM</b>     |
| Non-Cash   | \$262 MM                                     | n/a                       | \$180 – 200 MM            |
| Cash   | \$99 MM                                      | n/a                       | \$60 - 70 MM              |
| <b>Gain on Sale of Producing Assets</b>            | <b>\$4,018 MM</b>                            | <b>n/a</b>                | <b>n/a</b>                |
| <b>DD&amp;A (\$/BOE)</b>                           | <b>\$13.05</b>                               | <b>\$13.75 – 14.25</b>    | <b>\$13.75 – 14.25</b>    |
| <b>Production and Other Taxes (% Product Rev.)</b> | <b>12 – 13 %</b>                             | <b>12 – 13 %</b>          | <b>12 – 13 %</b>          |
| <b>Lease Operating Expense (\$/BOE)</b>            | <b>\$5.56</b>                                | <b>\$5.00 – 5.25</b>      | <b>\$5.20 – 5.45</b>      |
| <b>General &amp; Administrative</b>                | <b>\$510 MM</b>                              | <b>\$180 - 195 MM</b>     | <b>\$190 - 205 MM</b>     |
| <b>Interest Expense</b>                            | <b>\$639 MM</b>                              | <b>\$200 - 225 MM</b>     | <b>\$230 – 255 MM</b>     |
| <b>Gain on Sale of Producing Assets</b>            | <b>\$4,018 MM</b>                            |                           |                           |
| <b>Capital:</b>                                    | <b>\$2,250 MM</b>                            | <b>\$1,200 – 1,300 MM</b> | <b>\$1,100 – 1,200 MM</b> |
| Spending   | \$2,167 MM                                   | \$1,120 – 1,200 MM        | \$1,090 – 1,175 MM        |
| Interest   | \$83 MM                                      | \$40 - 50 MM              | \$20 - 25 MM              |
| Overhead   | n/a  | \$40 - 50 MM              | n/a                       |

\* Guidance Provided on July 31, 2007

All Numbers are Pre-tax



# ***APPENDIX***

# Retained Earnings Impact from Conversion

## Impact by Year:

*Preliminary Unaudited*

|  | Cumulative<br>2005 | 2006         | YTD as<br>of 6/30/07 |
|--|--------------------|--------------|----------------------|
| <b>Exploration Expense</b>                                 |                    |              |                      |
| - Non-Producing Leasehold Impairment                       | (900)              | (130)        | (100)                |
| - G &G, Exploration Expense & Delay Rentals                | (1,300)            | (200)        | (70)                 |
| - Dry Hole Expense   | (870)              | (180)        | (90)                 |
| <b>Total Effect of Exploration Expense</b>                 | <b>(3,070)</b>     | <b>(510)</b> | <b>(260)</b>         |
| <b>Effect of Change in Capitalized Interest</b>            | <b>(500)</b>       | <b>10</b>    | <b>10</b>            |
| <b>Reversal of Capitalized G&amp;A</b>                     | <b>(910)</b>       | <b>(50)</b>  | <b>(60)</b>          |
| <b>Total DD&amp;A and Impairment</b>                       | <b>1,800</b>       | <b>220</b>   | <b>90</b>            |
| <b>Change in Retained Earnings Prior To Asset Sales</b>    | <b>(2,680)</b>     | <b>(330)</b> | <b>(220)</b>         |
| <b>Gain on E&amp;P Asset Sales</b>                         | <b>480</b>         | <b>30</b>    | <b>2,590</b>         |
| <b>Total Decrease in Retained Earnings as of 6/30/2007</b> | <b>(2,200)</b>     | <b>(300)</b> | <b>2,370</b>         |

*These After Tax Estimates Exclude Discontinued Operations*



**The following slides provide an overview  
of distinct differences between the  
Successful Efforts and Full Cost methods  
of accounting**

# Capital vs Expense

| Cost Type                       | Full Cost |     | Successful Efforts |     |
|---------------------------------|-----------|-----|--------------------|-----|
|                                 | Cap       | Exp | Cap                | Exp |
| Land/Leasehold - Proved         | X         |     | X                  |     |
| Land/Leasehold - Unproved       | X         |     | X <sup>(a)</sup>   |     |
| <b>Exploration</b>              |           |     |                    |     |
| Delay Rentals                   | X         |     |                    | X   |
| Exploratory G&G                 | X         |     |                    | X   |
| Exploratory Drilling and Equip: |           |     |                    |     |
| Dryhole                         | X         |     |                    | X   |
| Successful Discovery            | X         |     | X                  |     |
| <b>Development</b>              |           |     |                    |     |
| Development Drilling and Equip: |           |     |                    |     |
| Dryhole                         | X         |     | X                  |     |
| Successful                      | X         |     | X                  |     |
| <b>Other</b>                    |           |     |                    |     |
| Production Costs                |           | X   |                    | X   |
| G&A <sup>(b)</sup>              | X         |     |                    | X   |
| Interest <sup>(c)</sup>         | X         |     | X                  |     |

(a) If proved reserves are not discovered, costs previously capitalized are expensed.

(b) FC allowed to capitalize direct overhead costs associated with acquisition, exploration and development activities.

(c) FC interest capitalized on excluded costs; SE interest capitalized on major projects.

# DD&A Comparison

|  | Full Cost   | Successful Efforts                                      |
|--|---|---|
| <b>Depreciation Pool</b>                           | Country   | Field (a)   |
| <b>DD&amp;A Base</b>                               | Capital Costs<br>+ Abandonment Costs<br>- Salvage Value<br>+ Future Development Costs of PUDs | Capital Costs<br>+ Abandonment Costs<br>- Salvage Value |
| <b>Unit of Production Rate Leasehold Costs</b> (b) | Production / PDP and PUD Reserves   | Production / PDP and PUD Reserves                       |
| <b>Unit of Production Rate Equipment and IDC</b>   | Production / PDP and PUD Reserves   | Production / PDP Reserves                               |

(a) SE allows properties to be aggregated on the basis of a common geological structural feature or stratigraphic condition.

(b) Under both methods, Leasehold Costs are capitalized but not amortized until evaluated. Upon evaluation, it is either impaired (for SE only) or moved to the amortization base.

# Impairments – Proved Properties

|                                 | <b>Full Cost</b>  | <b>Successful Efforts</b>  |
|---------------------------------|---|--|
| <b>Level of Assessment</b>      | Country   | Generally by Field   |
| <b>Frequency of Assessment</b>  | Quarterly   | When impairment indicators occur   |
| <b>Book Value</b>               | Net FC pool book value less Deferred Income Tax                                 | Net SE book value of individual fields   |
| <b>Evaluation Value</b>         | After-tax PV of Projected Future Cash Flows from Proved Reserves <sup>(a)</sup> | Undiscounted Pre-tax Net Projected Future Cash Flows from Proved Reserves <sup>(b)</sup>                 |
| <b>Occurrence of Impairment</b> | When Book Value Exceeds Evaluation Value  | When Book Value Exceeds Evaluation Value   |
| <b>Measure of Impairment</b>    | Book Value Less Evaluation Value  | Book Value Less Discounted Pretax Value of Net Projected Future Cash Flows ("Fair Value") <sup>(c)</sup> |

(a) Same as SMOG:  
 - Period-end oil and gas prices  
 - Unescalated costs  
 - 10% discount  
 - After tax

(b) Management's best estimate using:  
 - Expected future prices and costs  
 - No Discount  
 - Pre-tax

(c) It is acceptable to include a portion (net of risk adjustment) of cash flows from probable and possible reserves in the impairment evaluations in certain situations.

# P&L Differences

|                                      | Full Cost      | Successful Efforts  |
|--------------------------------------|----------------|---------------------|
| <b>Revenues</b>                      | Same           | Same                |
| <b>Lifting Costs</b>                 | Same           | Same                |
| <b>Exploration Expense:</b>          |                |                     |
| Delay Rentals                        | No             | Yes                 |
| Dry Holes                            | No             | Yes                 |
| G&G                                  | No             | Yes                 |
| Exploration G&A                      | No             | Yes                 |
| Surrendered Lease                    | No             | Yes                 |
| <b>DD&amp;A Expense</b>              | By country     | By individual pools |
| <b>Producing Property Impairment</b> | It depends     | It depends          |
| <b>General and Administrative</b>    | Less           | More                |
| <b>Income Tax Expense:</b>           |                |                     |
| Current                              | Same           | Same                |
| Deferred                             | Generally more | Generally less      |