

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D. C. 20549

FORM 10-Q

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

**For the Quarter Ended June 30, 2005
Commission File No. 1-8968**

ANADARKO PETROLEUM CORPORATION

1201 Lake Robbins Drive, The Woodlands, Texas 77380-1046
(832) 636-1000

Incorporated in the
State of Delaware

Employer Identification
No. 76-0146568

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 is an accelerated filer. Yes ☒ No ☐.

The number of shares outstanding of the Company's common stock as of June 30, 2005 is shown below:

Title of Class	Number of Shares Outstanding
Common Stock, par value \$0.10 per share	236,343,912

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ANADARKO PETROLEUM CORPORATION CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
<i>millions except per share amounts</i>	2005	2004	2005	2004
Revenues				
Gas sales	\$ 816	\$ 843	\$ 1,557	\$ 1,615
Oil and condensate sales	629	503	1,300	1,054
Natural gas liquids sales	108	93	214	196
Other sales	37	4	49	38
Total	<u>1,590</u>	<u>1,443</u>	<u>3,120</u>	<u>2,903</u>
Costs and Expenses				
Direct operating	137	163	267	321
Transportation and cost of product	72	59	142	116
General and administrative	110	92	212	171
Depreciation, depletion and amortization	333	357	657	705
Other taxes	95	85	180	166
Impairments related to oil and gas properties	—	—	—	9
Total	<u>747</u>	<u>756</u>	<u>1,458</u>	<u>1,488</u>
Operating Income	843	687	1,662	1,415
Interest Expense and Other (Income) Expense				
Interest expense	50	66	102	129
Other (income) expense	4	(4)	4	56
Total	<u>54</u>	<u>62</u>	<u>106</u>	<u>185</u>
Income Before Income Taxes	789	625	1,556	1,230
Income Tax Expense	<u>282</u>	<u>219</u>	<u>558</u>	<u>431</u>
Net Income	<u>\$ 507</u>	<u>\$ 406</u>	<u>\$ 998</u>	<u>\$ 799</u>
Preferred Stock Dividends	<u>1</u>	<u>1</u>	<u>2</u>	<u>2</u>
Net Income Available to Common Stockholders	<u>\$ 506</u>	<u>\$ 405</u>	<u>\$ 996</u>	<u>\$ 797</u>
Per Common Share				
Net income - basic	\$ 2.14	\$ 1.60	\$ 4.21	\$ 3.16
Net income - diluted	\$ 2.12	\$ 1.59	\$ 4.17	\$ 3.14
Dividends	\$ 0.18	\$ 0.14	\$ 0.36	\$ 0.28
Average Number of Common Shares Outstanding - Basic	<u>236</u>	<u>252</u>	<u>237</u>	<u>252</u>
Average Number of Common Shares Outstanding - Diluted	<u>238</u>	<u>254</u>	<u>239</u>	<u>254</u>

See accompanying notes to consolidated financial statements.

ANADARKO PETROLEUM CORPORATION
CONSOLIDATED BALANCE SHEETS
(Unaudited)

<i>millions</i>	June 30, 2005	December 31, 2004
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 915	\$ 874
Accounts receivable, net of allowance:		
Customers	969	1,040
Others	254	310
Other current assets	<u>297</u>	<u>278</u>
Total	<u>2,435</u>	<u>2,502</u>
 Properties and Equipment		
Original cost (includes unproved properties of \$1,414 and \$1,642 as of June 30, 2005 and December 31, 2004, respectively)	26,440	25,175
Less accumulated depreciation, depletion and amortization	<u>9,839</u>	<u>9,262</u>
Net properties and equipment - based on the full cost method of accounting for oil and gas properties	<u>16,601</u>	<u>15,913</u>
 Other Assets	<u>492</u>	<u>468</u>
 Goodwill	<u>1,299</u>	<u>1,309</u>
 Total Assets	<u>\$ 20,827</u>	<u>\$ 20,192</u>

See accompanying notes to consolidated financial statements.

ANADARKO PETROLEUM CORPORATION
CONSOLIDATED BALANCE SHEETS (Continued)
(Unaudited)

<i>millions</i>	<u>June 30, 2005</u>	<u>December 31, 2004</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 1,318	\$ 1,460
Accrued expenses	544	364
Current debt	<u>72</u>	<u>169</u>
Total	<u>1,934</u>	<u>1,993</u>
Long-term Debt	<u>3,603</u>	<u>3,671</u>
Other Long-term Liabilities		
Deferred income taxes	4,433	4,414
Other	<u>802</u>	<u>829</u>
Total	<u>5,235</u>	<u>5,243</u>
Stockholders' Equity		
Preferred stock, par value \$1.00 per share (2.0 million shares authorized, 0.1 million shares issued as of June 30, 2005 and December 31, 2004)	89	89
Common stock, par value \$0.10 per share (450.0 million shares authorized, 264.4 million and 262.2 million shares issued as of June 30, 2005 and December 31, 2004, respectively)	26	26
Paid-in capital	5,915	5,741
Retained earnings	5,571	4,661
Treasury stock (26.1 million and 23.5 million shares as of June 30, 2005 and December 31, 2004, respectively)	(1,675)	(1,476)
ESOP (0.1 million shares as of December 31, 2004)	—	(7)
Executives and Directors Benefits Trust, at market value (2.0 million shares as of June 30, 2005 and December 31, 2004)	(165)	(130)
Accumulated other comprehensive income (loss):		
Unrealized loss on derivative instruments	(73)	(23)
Foreign currency translation adjustments	445	482
Minimum pension liability	<u>(78)</u>	<u>(78)</u>
Total	<u>294</u>	<u>381</u>
Total	<u>10,055</u>	<u>9,285</u>
Commitments and Contingencies	<u>—</u>	<u>—</u>
Total Liabilities and Stockholders' Equity	<u>\$ 20,827</u>	<u>\$ 20,192</u>

See accompanying notes to consolidated financial statements.

ANADARKO PETROLEUM CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
<i>millions</i>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Net Income Available to Common Stockholders	\$ 506	\$ 405	\$ 996	\$ 797
Add: Preferred Stock Dividends	<u>1</u>	<u>1</u>	<u>2</u>	<u>2</u>
Net Income Available to Common Stockholders Before Preferred Stock Dividends	<u>507</u>	<u>406</u>	<u>998</u>	<u>799</u>
Other Comprehensive Income (Loss), Net of Income Taxes				
Unrealized gains (losses) on derivative instruments:				
Unrealized gains (losses) during the period ¹	3	(34)	(79)	(115)
Reclassification adjustment for losses included in net income ²	<u>25</u>	<u>47</u>	<u>29</u>	<u>91</u>
Total unrealized gains (losses) on derivative instruments	<u>28</u>	<u>13</u>	<u>(50)</u>	<u>(24)</u>
Foreign currency translation adjustments ³	<u>(27)</u>	<u>(42)</u>	<u>(37)</u>	<u>(69)</u>
Total	<u>1</u>	<u>(29)</u>	<u>(87)</u>	<u>(93)</u>
Comprehensive Income	<u>\$ 508</u>	<u>\$ 377</u>	<u>\$ 911</u>	<u>\$ 706</u>
¹ net of income tax benefit (expense) of:	\$ (1)	\$ 18	\$ 46	\$ 65
² net of income tax expense of:	(15)	(27)	(17)	(53)
³ net of income tax benefit of:	3	9	5	13

See accompanying notes to consolidated financial statements.

ANADARKO PETROLEUM CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30	
<i>millions</i>	2005	2004
Cash Flow from Operating Activities		
Net income	\$ 998	\$ 799
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	657	705
Deferred income taxes	146	248
Impairments related to oil and gas properties	—	9
Other noncash items	24	72
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	124	(158)
Increase (decrease) in accounts payable and accrued expenses	(69)	158
Other items – net	(149)	(68)
Net cash provided by operating activities	<u>1,731</u>	<u>1,765</u>
Cash Flow from Investing Activities		
Additions to properties and equipment	(1,545)	(1,473)
Sales of properties and equipment	178	1
Net cash used in investing activities	<u>(1,367)</u>	<u>(1,472)</u>
Cash Flow from Financing Activities		
Additions to debt	4	6
Retirements of debt	(170)	(1)
Increase (decrease) in accounts payable, banks	41	(30)
Sale of future hard minerals royalty revenues	—	158
Dividends paid	(88)	(73)
Purchase of treasury stock	(199)	(151)
Issuance of common stock	98	44
Net cash used in financing activities	<u>(314)</u>	<u>(47)</u>
Effect of Exchange Rate Changes on Cash	<u>(9)</u>	<u>1</u>
Net Increase in Cash and Cash Equivalents	41	247
Cash and Cash Equivalents at Beginning of Period	<u>874</u>	<u>62</u>
Cash and Cash Equivalents at End of Period	<u>\$ 915</u>	<u>\$ 309</u>

See accompanying notes to consolidated financial statements.

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 marketing of natural gas, crude oil, condensate and natural gas liquids (NGLs). The Company also engages in the hard minerals business through non-operated joint ventures and royalty arrangements in several coal, trona (natural soda ash) and industrial mineral mines. The terms “Anadarko” and “Company” refer to Anadarko Petroleum Corporation and its subsidiaries.

The information, as furnished herein, reflects all normal recurring adjustments that are, in the opinion of Management, necessary for a fair statement of financial position as of June 30, 2005 and December 31, 2004, the results of operations for the three and six months ended June 30, 2005 and 2004 and cash flows for the six months ended June 30, 2005 and 2004. Certain amounts for prior periods have been reclassified to conform to the current presentation.

In preparing financial statements, Management makes informed judgments and estimates that affect the reported amounts of assets and liabilities as of the date of the financial statements and affect the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, Management reviews its estimates, including those related to litigation, environmental liabilities, income taxes, fair value and determination of proved reserves. Changes in facts and circumstances may result in revised estimates and actual results may differ from these estimates.

Derivative Instruments The vast majority of the derivative instruments utilized by Anadarko are in conjunction with its marketing and trading activities or to manage the price risk attributable to the Company’s expected oil and gas production. Anadarko also periodically utilizes derivatives to manage its exposure associated with the firm transportation keep-whole agreement, foreign currency exchange rates and interest rates. All derivatives, other than those that meet the normal purchases and sales exception, are carried on the balance sheet at fair value.

Anadarko prefers to apply hedge accounting for derivatives utilized to manage price risk associated with the Company’s oil and gas production, foreign currency exchange rate risk and interest rate risk. However, some of these derivatives do not qualify for hedge accounting. In these instances, unrealized gains and losses are recognized currently in earnings. For those derivatives that qualify for hedge accounting, Anadarko formally documents the relationship of each hedge to the hedged item including the risk management objective and strategy for undertaking the hedge. Each hedge is also assessed for effectiveness quarterly. Under hedge accounting, the derivatives may be designated as a hedge of exposure to changes in fair values, cash flows or foreign currencies. If the hedge relates to the exposure of fair value changes to a recognized asset or liability or an unrecognized firm commitment, the unrealized gains and losses on the derivative and the unrealized losses and gains on the hedged item are both recognized currently in earnings. If the hedge relates to exposure of variability in the cash flow of a forecasted transaction, the effective portion of the unrealized gains and losses on the derivative is reported as a component of accumulated other comprehensive income and reclassified into earnings in the same period the hedged transaction is recorded. The ineffective portion of unrealized gains and losses attributable to cash flow hedges, if any, is recognized currently in other (income) expense. Hedge ineffectiveness is that portion of the hedge’s unrealized gains and losses that exceed the hedged item’s unrealized losses and gains. In those instances where it becomes probable that a hedged forecasted transaction will not occur, the unrealized gain or loss is reclassified from accumulated other comprehensive income to earnings in the current period. Accounting for unrealized gains and losses attributable to foreign currency hedges that qualify for hedge accounting is dependent on whether the hedge is a fair value or a cash flow hedge.

Unrealized gains and losses attributable to derivative instruments used in the Company’s marketing and trading activities (including both physical delivery and financially settled purchase and sale contracts), the firm transportation keep-whole agreement and derivatives used to manage the exposure of the keep-whole agreement are recognized currently in earnings. The marketing and trading unrealized gains and losses that are attributable to the Company’s production are recorded to gas sales and oil and condensate sales. The marketing and trading unrealized gains and losses that are attributable to third-party production are recorded to other sales. The gains and losses attributable to the firm transportation keep-whole agreement and associated derivatives are recorded to other (income) expense.

ANADARKO PETROLEUM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Summary of Significant Accounting Policies (Continued)

The Company's derivative instruments are generally either exchange traded or valued by reference to a commodity that is traded in a liquid market. Valuation is determined by reference to readily available public data. Option valuations are based on the Black-Scholes option pricing model and verified against third-party quotations. The fair value of the short-term portion of the firm transportation keep-whole agreement is calculated based on quoted natural gas basis differentials, while the fair value of the long-term portion is estimated based on an internally developed model that utilizes historical natural gas basis differentials. See Note 6.

Earnings Per Share The Company's basic earnings per share (EPS) amounts have been computed based on the average number of shares of common stock outstanding for the period. Diluted EPS amounts include the effect of the Company's outstanding stock options and performance-based stock awards under the treasury stock method, if including such potential shares of common stock is dilutive. Diluted EPS amounts also include the net effect of the Company's Zero Yield Puttable Contingent Debt Securities assuming the conversion occurred at the beginning of the year, if including such potential common shares is dilutive. See Note 8.

New Accounting Principles and Developments In June 2005, the Emerging Issues Task Force (EITF) tentatively concluded in Issue No. 04-13, "Accounting for Purchases and Sales of Inventory with the Same Counterparty," that purchases and sales of inventory with the same party in the same line of business should be accounted for as nonmonetary exchanges, if entered into in contemplation of one another. Anadarko presents purchase and sale activities related to its marketing and trading activities on a net basis in the income statement. The Company does not expect the tentative conclusion reached on EITF Issue No. 04-13 to have a material impact on the Company's consolidated financial statements.

Financial Accounting Standards Board (FASB) Staff Position (FSP) FAS 109-1, "Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004," provides guidance on the application of Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes," to the tax deduction on qualified production as provided for in the American Jobs Creation Act of 2004 (Jobs Act). FSP FAS 109-1 provides that the deduction should be treated as a special deduction under the provisions of SFAS No. 109. The adoption of FSP FAS 109-1 did not have a material impact on the consolidated financial statements.

FSP FAS 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004," provides guidance on the application of SFAS No. 109 to the special one-time dividends received deduction on the repatriation of certain undistributed foreign earnings to a U.S. taxpayer as provided for in the Jobs Act. In May 2005, Anadarko's Chief Executive Officer and Board of Directors approved a domestic reinvestment plan for a \$500 million repatriation of foreign earnings under the Jobs Act. The \$26 million tax effect of this repatriation was recorded as current tax expense in the second quarter financial statements.

2. Stock-Based Compensation

For share based awards granted or modified after January 2003, the Company uses the fair value method of accounting for stock-based employee compensation expense. For share based awards granted prior to 2003, Anadarko applies the intrinsic value method whereby no compensation expense is recognized for stock options granted with an exercise price equal to the market value of Anadarko common stock on the date of grant.

ANADARKO PETROLEUM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

2. Stock-Based Compensation (Continued)

If compensation expense for all stock option grants had been determined using the fair value method, the Company's pro forma net income and EPS would have been as shown below:

	Three Months Ended June 30		Six Months Ended June 30	
<i>millions except per share amounts</i>	2005	2004	2005	2004
Net income available to common stockholders, as reported	\$ 506	\$ 405	\$ 996	\$ 797
Add: Stock-based employee compensation expense included in income, after income taxes	6	4	10	7
Deduct: Total stock-based employee compensation expense determined under the fair value method, after income taxes	(6)	(5)	(11)	(10)
Pro forma net income available to common stockholders	\$ 506	\$ 404	\$ 995	\$ 794
Basic EPS – as reported	\$ 2.14	\$ 1.60	\$ 4.21	\$ 3.16
Basic EPS – pro forma	\$ 2.14	\$ 1.60	\$ 4.21	\$ 3.15
Diluted EPS – as reported	\$ 2.12	\$ 1.59	\$ 4.17	\$ 3.14
Diluted EPS – pro forma	\$ 2.12	\$ 1.59	\$ 4.16	\$ 3.12

3. Inventories

Inventories are stated at the lower of average cost or market. The major classes of inventories, which are included in other current assets, are as follows:

<i>millions</i>	June 30, 2005	December 31, 2004
Materials and supplies	\$ 80	\$ 79
Crude oil and NGLs	53	29
Natural gas	49	29
Total	\$ 182	\$ 137

4. Properties and Equipment

Oil and gas properties include costs of \$1.4 billion and \$1.6 billion at June 30, 2005 and December 31, 2004, respectively, which were excluded from capitalized costs being amortized. These amounts represent costs associated with unproved properties and major development projects. At June 30, 2005 and December 31, 2004, the Company's investment in countries where proved reserves have not been established was \$132 million and \$116 million, respectively. For the first six months of 2005 and 2004, the Company made provisions for impairments of oil and gas properties of zero and \$9 million, respectively, related to international activities.

Total interest cost incurred during the second quarter of 2005 and 2004 was \$68 million and \$88 million, respectively. Of these amounts, the Company capitalized \$18 million and \$22 million during the second quarter of 2005 and 2004, respectively, as part of the cost of properties. Interest expense during the first six months of 2005 and 2004 was \$137 million and \$176 million, respectively. Of these amounts, the Company capitalized \$35 million and \$47 million during the first six months of 2005 and 2004, respectively. The interest rates for capitalization are based on the Company's weighted average cost of borrowings used to finance the expenditures applied to costs excluded on which exploration, development and construction activities are in progress.

Properties and equipment include internal costs related to exploration, development and construction activities of \$42 million and \$45 million capitalized during the second quarter of 2005 and 2004, respectively. For the first six months of 2005 and 2004, the Company capitalized internal costs related to exploration, development and construction activities of \$87 million and \$86 million, respectively.

ANADARKO PETROLEUM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

5. Debt

<i>millions</i>	June 30, 2005		December 31, 2004	
	<u>Principal</u>	<u>Carrying Value</u>	<u>Principal</u>	<u>Carrying Value</u>
Total debt	\$ 3,796	\$ 3,675	\$ 3,966	\$ 3,840
Less current debt		<u>72</u>		<u>169</u>
Total long-term debt		<u>\$ 3,603</u>		<u>\$ 3,671</u>

During the second quarter of 2005, the Company redeemed for cash \$170 million principal amount of 6.5% Notes due in May 2005. As of June 30, 2005, current debt represents \$42 million principal amount of 7.375% Debentures due May 2006 and \$30 million principal amount of Zero Yield Puttable Contingent Debt Securities due 2021 that may be put to the Company in March 2006 at the option of the holders.

6. Financial Instruments

Derivative Instruments The Company is exposed to price risk from changing commodity prices. Management believes it is prudent to periodically minimize the variability in cash flows on a portion of its oil and gas production. To meet this objective, the Company enters into various types of derivative financial instruments to manage fluctuations in cash flows resulting from changing commodity prices. The Company also uses fixed price physical delivery sales contracts to accomplish this objective. The types of derivative financial instruments utilized by the Company include futures, swaps and options.

Anadarko also enters into derivative financial instruments (futures, swaps and options) and physical delivery contracts for trading purposes with the objective of generating profits from exposure to changes in the market price of natural gas and crude oil. Derivative financial instruments are also used to meet customers' pricing requirements while achieving a price structure consistent with the Company's overall pricing strategy. In addition, the Company may use options and swaps to reduce exposure on its firm transportation keep-whole commitment with Duke Energy Corporation (Duke).

Futures contracts are generally used to fix the price of expected future gas sales and oil sales at major industry trading locations; e.g., Henry Hub, Louisiana for gas and Cushing, Oklahoma for oil. Swap agreements are generally used to fix or float the price of oil and gas at major trading locations. Basis swaps are used to fix or float the price differential between the price of gas at Henry Hub and various other market locations. Physical delivery purchase and sale agreements require the receipt or delivery of physical product at a specified location and price. The pricing can be fixed or market-based. Options are generally used to fix a floor and a ceiling price (collar) for expected future gas sales and oil sales. Settlements of futures contracts are guaranteed by the New York Mercantile Exchange (NYMEX) or the International Petroleum Exchange and have nominal credit risk. Swap, over-the-counter traded option and physical delivery agreements expose the Company to credit risk to the extent the counterparty is unable to meet its settlement commitment. The Company monitors the creditworthiness of each counterparty and assesses the impact, if any, on fair valuation and hedge accounting criteria. In addition, the Company routinely exercises its contractual right to net realized gains against realized losses in settling with its swap and option counterparties.

Oil and Gas Activities At June 30, 2005 and December 31, 2004, the Company had option contracts, swap contracts and fixed price physical delivery contracts in place to hedge the sales price of a portion of its expected future sales of equity oil and gas production. The fixed price physical delivery contracts are excluded from derivative accounting treatment under the normal sale provision. The derivative financial instruments receive hedge accounting treatment if they qualify and are so designated. For those derivatives that do not qualify for hedge accounting, unrealized gains and losses are recognized currently in earnings.

ANADARKO PETROLEUM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

6. Financial Instruments (Continued)

The fair value and the accumulated other comprehensive income balance applicable to the derivative financial instruments (excluding the physical delivery sales contracts) are as follows:

<i>millions</i>	June 30, 2005	December 31, 2004
Fair Value – Asset (Liability)		
Current	\$ (142)	\$ (58)
Long-term	(18)	(12)
Total	<u>\$ (160)</u>	<u>\$ (70)</u>
Accumulated other comprehensive loss before income taxes	\$ (114)	\$ (35)
Accumulated other comprehensive loss after income taxes	\$ (73)	\$ (22)

The difference between the fair value and the unrealized loss before income taxes recognized in accumulated other comprehensive income is due to premiums, recognition of unrealized gains and losses on certain derivatives that did not qualify for hedge accounting and hedge ineffectiveness.

Below is a summary of the Company's financial derivative instruments and fixed price, physical delivery sales contracts through 2006 related to its oil and gas activities as of June 30, 2005, including the hedged volumes per day and the related weighted-average prices. Cash flow hedge accounting is being used for all of the natural gas two-way and three-way collars except for two-way collars for 6 thousand million British thermal units per day (thousand MMBtu/d) and three-way collars for 9 thousand MMBtu/d for the remainder of 2005. None of the natural gas basis swaps positions are accounted for using cash flow hedge accounting. Cash flow hedge accounting is being used for all crude oil positions except for three-way collars for 5 thousand barrels per day (MBbls/d) for the third quarter of 2005 and 2 MBbls/d for the fourth quarter of 2005. Cash flow hedges beyond 2006 are not significant.

	Third Quarter 2005	Fourth Quarter 2005	Annual 2006
Natural Gas			
Two-Way Collars (thousand MMBtu/d)	26	26	10
NYMEX price per MMBtu			
Ceiling sold price	\$ 5.65	\$ 5.65	\$ 5.88
Floor purchased price	\$ 3.76	\$ 3.76	\$ 4.00
Three-Way Collars (thousand MMBtu/d)	269	269	—
NYMEX price per MMBtu			
Ceiling sold price	\$ 9.37	\$ 9.37	\$ —
Floor purchased price	\$ 5.00	\$ 5.00	\$ —
Floor sold price	\$ 4.01	\$ 4.01	\$ —
Fixed Price (thousand MMBtu/d)	22	18	11
NYMEX price per MMBtu	\$ 2.98	\$ 2.95	\$ 2.87
Total (thousand MMBtu/d)	317	313	21
Basis Swaps (thousand MMBtu/d)	123	119	12
Price per MMBtu	\$ (0.19)	\$ (0.18)	\$ (0.30)

MMBtu/d – million British thermal units per day

ANADARKO PETROLEUM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

6. Financial Instruments (Continued)

	Third Quarter 2005	Fourth Quarter 2005	Annual 2006
Crude Oil			
Two-Way Collars (MBbls/d)	2	2	1
NYMEX price per barrel			
Ceiling sold price	\$ 26.32	\$ 26.32	\$ 26.32
Floor purchased price	\$ 22.00	\$ 22.00	\$ 22.00
Three-Way Collars (MBbls/d)	43	43	—
NYMEX price per barrel			
Ceiling sold price	\$ 46.89	\$ 46.89	\$ —
Floor purchased price	\$ 32.28	\$ 32.28	\$ —
Floor sold price	\$ 27.28	\$ 27.28	\$ —
Total (MBbls/d)	45	45	1

A two-way collar is a combination of options, a sold call and a purchased put. The sold call establishes a maximum price (ceiling) and the purchased put establishes a minimum price (floor) the Company will receive for the volumes under contract. A three-way collar is a combination of options, a sold call, a purchased put and a sold put. The sold call establishes a maximum price the Company will receive for the volumes under contract. The purchased put establishes a minimum price unless the market price falls below the sold put, at which point the minimum price would be NYMEX plus the difference between the purchased put and the sold put strike price. The fixed price hedges consist of swaps and physical delivery contracts and establish a fixed price the Company will receive for the volumes under contract.

Marketing and Trading Activities Unrealized gains and losses attributed to the Company's marketing and trading derivative instruments (both physically and financially settled) are recognized currently in earnings. The fair values of these derivatives as of June 30, 2005 and December 31, 2004 are as follows:

<i>millions</i>	June 30, 2005	December 31, 2004
Fair Value – Asset (Liability)		
Current	\$ 3	\$ 11
Long-term	5	5
Total	\$ 8	\$ 16

Firm Transportation Keep-Whole Agreement A company Anadarko acquired in 2000 was a party to several long-term firm gas transportation agreements that supported its gas marketing program within its gathering, processing and marketing (GPM) business segment, which was sold in 1999 to Duke. Most of these agreements were transferred to Duke in the GPM disposition. One agreement was retained, but is managed and operated by Duke. Anadarko is not responsible for the operations of any of the contracts and does not utilize the associated transportation assets to transport the Company's natural gas. As part of the GPM disposition, Anadarko pays Duke if transportation market values fall below the fixed contract transportation rates, while Duke pays Anadarko if the transportation market values exceed the contract transportation rates (keep-whole agreement). This keep-whole agreement will be in effect until February 2009.

ANADARKO PETROLEUM CORPORATION
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6. Financial Instruments (Continued)

The Company may periodically use derivative instruments to reduce its exposure to potential decreases in future transportation market values. While derivatives are intended to reduce the Company's exposure to declines in the market value of firm transportation, they also limit the potential to benefit from increases in the market value of firm transportation. Due to decreased liquidity, the use of derivative instruments to manage this risk is generally limited to the forward 12 months. Unrealized gains and losses attributed to the keep-whole agreement and any associated derivative instruments are recognized currently in earnings.

The fair value of the short-term portion of the firm transportation keep-whole agreement is calculated based on quoted natural gas basis differentials. Basis differentials are the difference in value between gas at various delivery points and the NYMEX gas futures contract price. Management believes that natural gas basis differential quotes beyond the next 12 months are not reliable indicators of fair value due to decreasing liquidity. Accordingly, the fair value of the long-term portion is estimated based on historical regional natural gas basis differentials. The Company recognized other expense of \$9 million and other income of \$5 million for the quarter ended June 30, 2005 and 2004, respectively, and other expense of \$12 million and other income of \$3 million for the six months ended June 30, 2005 and 2004, respectively, related to the keep-whole agreement and associated derivative instruments. Net payments to Duke for the quarter ended June 30, 2005 and 2004 were \$2 million and \$6 million, respectively, and net payments to Duke for the six months ended June 30, 2005 and 2004 were \$3 million and \$12 million, respectively. As of June 30, 2005, accounts payable included \$20 million and other long-term liabilities included \$36 million related to the keep-whole agreement and associated derivative instruments. As of December 31, 2004, accounts payable included \$15 million and other long-term liabilities included \$39 million related to the keep-whole agreement and associated derivative instruments.

Anticipated undiscounted and discounted liabilities for the firm transportation keep-whole agreement at June 30, 2005 are as follows:

<i>millions</i>	<u>Undiscounted</u>	<u>Discounted</u>
2005	\$ 13	\$ 13
2006	20	18
2007	20	17
2008	9	7
2009	<u>1</u>	<u>1</u>
Total	<u>\$ 63</u>	<u>\$ 56</u>

As of June 30, 2005 and December 31, 2004, the Company's derivative financial instrument hedges in place related to the firm transportation keep-whole agreement were not significant.

7. Preferred Stock

For the first and second quarters of 2005 and 2004, dividends of \$13.65 per share (equivalent to \$1.365 per Depositary Share) were paid to holders of preferred stock.

ANADARKO PETROLEUM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

8. Common Stock

The reconciliation between basic and diluted EPS is as follows:

	Three Months Ended June 30, 2005			Three Months Ended June 30, 2004		
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
<i>millions except per share amounts</i>						
Basic EPS						
Net income available to common stockholders	\$ 506	236	\$ <u>2.14</u>	\$ 405	252	\$ <u>1.60</u>
Effect of dilutive stock options and performance-based stock awards	<u>—</u>	<u>2</u>		<u>—</u>	<u>2</u>	
Diluted EPS						
Net income available to common stockholders plus assumed conversion	\$ <u>506</u>	<u>238</u>	\$ <u>2.12</u>	\$ <u>405</u>	<u>254</u>	\$ <u>1.59</u>
	Six Months Ended June 30, 2005			Six Months Ended June 30, 2004		
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
<i>millions except per share amounts</i>						
Basic EPS						
Net income available to common stockholders	\$ 996	237	\$ <u>4.21</u>	\$ 797	252	\$ <u>3.16</u>
Effect of dilutive stock options and performance-based stock awards	<u>—</u>	<u>2</u>		<u>—</u>	<u>2</u>	
Diluted EPS						
Net income available to common stockholders plus assumed conversion	\$ <u>996</u>	<u>239</u>	\$ <u>4.17</u>	\$ <u>797</u>	<u>254</u>	\$ <u>3.14</u>

During the three and six months ended June 30, 2004, options for 1.1 million and 1.2 million average shares, respectively, of common stock were excluded from the diluted EPS calculation because the options' exercise price was greater than the average market price of common stock for the periods.

The Company has announced a \$2 billion stock buyback program. Shares may be repurchased either in the open market or through privately negotiated transactions. The repurchase program does not obligate Anadarko to acquire any specific number of shares and may be discontinued at any time. During the six months ended June 30, 2005, Anadarko purchased 2.6 million shares of common stock for \$198 million under the program. During July 2005, the Company purchased an additional 1.8 million shares of common stock for \$160 million under the program.

The Company's credit agreement allows for a maximum capitalization ratio of 60% debt, exclusive of the effect of any noncash writedowns. Under the maximum debt capitalization ratio, retained earnings were not restricted as to the payment of dividends at June 30, 2005 and December 31, 2004.

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9. Statements of Cash Flows Supplemental Information

The amounts of cash paid for interest (net of amounts capitalized) and income taxes are as follows:

	Six Months Ended June 30	
<i>millions</i>	2005	2004
Interest	\$ 98	\$ 124
Income taxes	\$ 144	\$ 13

10. Segment Information

The following table illustrates information related to Anadarko's business segments. The segment shown as All Other and Intercompany Eliminations includes other smaller operating units, corporate activities, financing activities and intercompany eliminations.

<i>millions</i>	Oil and Gas Exploration and Production	Marketing and Trading	Minerals	All Other and Intercompany Eliminations	Total
Three Months Ended June 30:					
2005					
Total revenues	\$ 1,527	\$ 47	\$ 11	\$ 5	\$ 1,590
Operating income (loss)	\$ 926	\$ (5)	\$ 9	\$ (87)	\$ 843
2004					
Total revenues	\$ 1,426	\$ 34	\$ 7	\$ (24)	\$ 1,443
Operating income (loss)	\$ 803	\$ (9)	\$ 6	\$ (113)	\$ 687
Six Months Ended June 30:					
2005					
Total revenues	\$ 3,017	\$ 96	\$ 25	\$ (18)	\$ 3,120
Operating income (loss)	\$ 1,839	\$ (3)	\$ 22	\$ (196)	\$ 1,662
Net properties and equipment	\$ 14,717	\$ 368	\$ 1,190	\$ 326	\$ 16,601
Goodwill	\$ 1,299	\$ —	\$ —	\$ —	\$ 1,299
2004					
Total revenues	\$ 2,823	\$ 86	\$ 21	\$ (27)	\$ 2,903
Impairments related to oil and gas properties	9	—	—	—	9
Operating income (loss)	\$ 1,576	\$ 4	\$ 18	\$ (183)	\$ 1,415
Net properties and equipment	\$ 16,236	\$ 268	\$ 1,197	\$ 365	\$ 18,066
Goodwill	\$ 1,378	\$ —	\$ —	\$ —	\$ 1,378

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11. Other (Income) Expense

Other (income) expense consists of the following:

<i>millions</i>	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	2005	2004
Operating lease settlement	\$ —	\$ —	\$ —	\$ 63
Firm transportation keep-whole contract valuation	9	(5)	12	(3)
Interest income	(5)	—	(9)	(2)
Ineffectiveness of derivative financial instruments	(3)	3	1	(3)
Foreign currency transaction (gains) losses	2	1	1	(2)
Other	1	(3)	(1)	3
Total	\$ 4	\$ (4)	\$ 4	\$ 56

Foreign currency transaction (gains) losses for the three and six months ended June 30, 2005 exclude \$2 million and (\$1) million, respectively, related to the remeasurement of the Venezuelan deferred tax liability, which amounts are included in income tax expense. For the three and six months ended June 30, 2004, foreign currency transaction (gains) losses exclude zero and (\$6) million, respectively, in transaction gains related to the remeasurement of the Venezuelan deferred tax liability, which amounts are included in income tax expense. The operating lease settlement in 2004 relates to the Corpus Christi West Plant Refinery.

12. Commitments

In June 2005, the Company entered into precedent agreements with a third party in order to secure delivery of natural gas from a liquefied natural gas facility Anadarko is constructing in Nova Scotia, Canada, called Bear Head, to prospective markets in eastern Canada and the northeastern United States. The third party has agreed to expand the capacity of its pipeline so it can accommodate the projected natural gas volumes from Bear Head. The precedent agreements signed by the parties establish the conditions on which the third party will proceed with design, regulatory approvals and construction of the expansion facilities, and be obligated to transport a specified volume of gas. As a condition to entering into the precedent agreements, Anadarko executed firm service agreements for transportation on the Canadian and United States portions of the pipeline. Upon satisfaction of the obligations under the precedent agreements, the initial term of the transportation agreements is 20 years.

Based on current assumptions, Anadarko projects that annual demand charges due under the firm transportation service agreements may be in the range of \$123 million to \$182 million per year for the first five years from commencement of full service, potentially escalating by up to 5% in year six and 10% in year seven, exclusive of fuel and surcharges. No later than the eighth year from commencement of full service, rates under the agreements are to be redetermined based on then current conditions. The parties currently expect partial service under the agreements to commence between November 2007 and November 2008, and full service to commence between June 2008 and November 2009.

The precedent agreements contain certain termination rights. The Company's potential reimbursement obligation under the precedent agreements increases over time as the third party incurs pre-service costs. This reimbursement obligation is expected to increase from about \$8 million at December 2005 to \$100 million at December 2006, up to a maximum of \$215 million in May 2007.

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13. Pension Plans and Other Postretirement Benefits

The Company has defined benefit pension plans and supplemental pension plans that are noncontributory pension plans. The Company also has a foreign pension plan which is a contributory defined benefit pension plan. The Company also provides certain health care and life insurance benefits for retired employees. Health care benefits are funded by contributions from the Company and the retiree, with the retiree contributions adjusted according to the provisions of the Company's health care plans. The Company's retiree life insurance plan is noncontributory. The Company uses a December 31 measurement date for the majority of its plans.

During the six months ended June 30, 2005, the Company made contributions of \$55 million to its funded pension plans, \$2 million to its unfunded pension plans and \$3 million to its unfunded other postretirement benefit plans. Contributions to the funded plans increase the plan assets while contributions to unfunded plans are used for current benefit payments. During the remainder of 2005, the Company expects to contribute about \$2 million to its funded pension plans, \$3 million to its unfunded pension plans and \$4 million to its unfunded other postretirement benefit plans.

The following table sets forth the Company's pension and other postretirement benefit cost.

	Pension Benefits		Other Benefits	
	Three Months Ended		Three Months Ended	
	June 30		June 30	
<i>millions</i>	2005	2004	2005	2004
Components of net periodic benefit cost				
Service cost	\$ 9	\$ 6	\$ 3	\$ 3
Interest cost	10	8	3	2
Expected return on plan assets	(9)	(8)	—	—
Amortization of actuarial losses and prior service cost	4	3	—	1
Net periodic benefit cost	<u>\$ 14</u>	<u>\$ 9</u>	<u>\$ 6</u>	<u>\$ 6</u>

	Pension Benefits		Other Benefits	
	Six Months Ended		Six Months Ended	
	June 30		June 30	
<i>millions</i>	2005	2004	2005	2004
Components of net periodic benefit cost				
Service cost	\$ 18	\$ 12	\$ 7	\$ 6
Interest cost	19	16	5	4
Expected return on plan assets	(18)	(16)	—	—
Amortization of actuarial losses and prior service cost	9	6	1	2
Net periodic benefit cost	<u>\$ 28</u>	<u>\$ 18</u>	<u>\$ 13</u>	<u>\$ 12</u>

14. Contingencies

General Litigation charges of zero and \$27 million were expensed for the three and six months ended June 30, 2005, respectively. Litigation charges of \$20 million and \$27 million were expensed for the three and six months ended June 30, 2004, respectively.

The Company is a defendant in a number of lawsuits and is involved in governmental proceedings arising in the ordinary course of business, including, but not limited to, royalty claims, contract claims and environmental claims. The Company has also been named as a defendant in various personal injury claims, including claims by employees of third-party contractors alleging exposure to asbestos, silica and benzene while working at refineries located in Texas, California and Oklahoma. Two companies Anadarko acquired in 2000 and 2002 sold the refineries prior to being acquired by Anadarko. While the ultimate outcome and impact on the Company cannot be predicted with certainty, Management believes that the resolution of these proceedings will not have a material adverse effect on the consolidated financial position, results of operations or cash flow of the Company.

ANADARKO PETROLEUM CORPORATION
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14. Contingencies (Continued)

Litigation The Company is subject to various claims from its royalty owners in the regular course of its business as an oil and gas producer, including disputes regarding measurement, costs and expenses beyond the wellhead and basis valuations. Among such claims, the Company was named as a defendant in a case styled *U.S. of America ex rel. Harold E. Wright v. AGIP Company, et al.* (the “Gas Qui Tam case”) filed in September 2000 in the U.S. District Court for the Eastern District of Texas, Lufkin Division. This lawsuit generally alleges that the Company and 118 other defendants undervalued natural gas in connection with a payment of royalties on production from federal and Indian lands. Based on the Company’s present understanding of the various governmental and False Claims Act proceedings described above, the Company believes that it has substantial defenses to these claims and intends to vigorously assert such defenses. However, if the Company is found to have violated the Civil False Claims Act, the Company could be subject to a variety of sanctions, including treble damages and substantial monetary fines. All defendants jointly filed a motion to dismiss the action on jurisdictional grounds based on Mr. Wright’s failure to qualify as the original source of the information underlying his fraud claims, and the Company filed additional motions to dismiss on separate grounds. The trial court denied the defendants’ motions in January 2005 and the Company is reviewing the orders to determine whether an appeal is appropriate. Meanwhile, the court set a preliminary trial date in 2007. Management is unable to determine a reasonable range of loss, if any, related to this matter.

Environmental Matters In December 2003, Anadarko Gathering Company voluntarily disclosed the findings of an internal environmental audit for its facilities in Kansas to the Kansas Department of Health and Environment (KDHE). In April 2005, KDHE submitted to Anadarko a Consent Decree and Final Order (Order) alleging certain violations of the Clean Air Act. The Order included an assessment of a proposed penalty amount of \$169,000. Anadarko is in discussions with the KDHE to negotiate the final penalty amount.

Other Matters The Company is subject to other legal proceedings, claims and liabilities which arise in the ordinary course of its business. In the opinion of Anadarko, the liability with respect to these actions will not have a material effect on the Company.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The Company has made in this report, and may from time to time otherwise make in other public filings, press releases and discussions with Company management, 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 concerning the Company's operations, economic performance and financial condition. These forward looking statements include information concerning future production and reserves, schedules, plans, timing of development, contributions from oil and gas properties, and those statements preceded by, followed by or that otherwise include the words "believes," "expects," "anticipates," "intends," "estimates," "projects," "target," "goal," "plans," "objective," "should" or similar expressions or variations on such expressions. For such statements, the Company claims the protection of the safe harbor for forward looking statements contained in the Private Securities Litigation Reform Act of 1995. Although the Company believes that the expectations reflected in such forward looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Important factors that could cause actual results to differ materially from the Company's expectations include, but are not limited to, the Company's assumptions about energy markets, production levels, reserve levels, operating results, competitive conditions, technology, the availability of capital resources, capital expenditures and other contractual obligations, the supply and demand for oil, natural gas, natural gas liquids (NGLs) and other products or services, the price of oil, natural gas, NGLs and other products or services, implementation of plans concerning the Bear Head liquefied natural gas facility, currency exchange rates, the weather, inflation, the availability of goods and services, drilling risks, future processing volumes and pipeline throughput, general economic conditions, either internationally or nationally or in the jurisdictions in which the Company or its subsidiaries are doing business, legislative or regulatory changes, including changes in environmental regulation, environmental risks and liability under federal, state and foreign environmental laws and regulations, the securities or capital markets and other factors disclosed under "Regulatory Matters and Additional Factors Affecting Business" and "Critical Accounting Policies and Estimates" in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in the Company's 2004 Annual Report on Form 10-K. Anadarko undertakes no obligation to publicly update or revise any forward looking statements.

Overview

General Anadarko Petroleum Corporation's primary line of business is the exploration, development, production and marketing of natural gas, crude oil, condensate and NGLs. The Company's major areas of operations are located in the United States, Canada and Algeria. The Company is also active in Venezuela, Qatar and several other countries. The Company's focus is on adding high-margin oil and natural gas reserves at competitive costs and continuing to develop more efficient and effective ways of exploring for and producing oil and gas. Unless the context otherwise requires, the terms "Anadarko" or "Company" refer to Anadarko Petroleum Corporation and its subsidiaries.

During 2004, Anadarko implemented an asset realignment that resulted in the divestiture of certain non-core properties in the latter half of 2004 through a series of unrelated transactions. The divestitures represented about 20% of the Company's 2004 oil and gas production. The Company used proceeds from these asset sales to reduce debt, repurchase Anadarko common stock and otherwise to have funds available for reinvestment in other strategic options.

Results for the Three and Six Months Ended June 30, 2005

Selected Data

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	2005	2004
<i>millions except per share amounts</i>				
Financial Results				
Revenues	\$ 1,590	\$ 1,443	\$ 3,120	\$ 2,903
Costs and expenses	747	756	1,458	1,488
Interest expense and other (income) expense	54	62	106	185
Income tax expense	282	219	558	431
Net income available to common stockholders	\$ 506	\$ 405	\$ 996	\$ 797
Earnings per share – diluted	\$ 2.12	\$ 1.59	\$ 4.17	\$ 3.14
Average number of common shares outstanding – diluted	238	254	239	254
Operating Results				
Sales volumes (MMBOE)	39	47	80	96
Capital Resources and Liquidity				
Cash flow from operating activities			\$ 1,731	\$ 1,765
Capital expenditures			\$ 1,553	\$ 1,483

MMBOE – million barrels of oil equivalent

Financial Results

Net Income In the second quarter of 2005, Anadarko's net income available to common stockholders was \$506 million or \$2.12 per share (diluted). This compares to net income available to common stockholders of \$405 million or \$1.59 per share (diluted) for the second quarter of 2004. For the six months ended June 30, 2005, Anadarko's net income available to common stockholders was \$996 million, or \$4.17 per share (diluted). This compares to net income available to common stockholders of \$797 million, or \$3.14 per share (diluted) for the same period in 2004. The increases in net income were primarily due to higher net realized commodity prices and lower expenses, partially offset by lower volumes associated with divestitures in late 2004. The increases in earnings per share were also due to lower average shares outstanding in 2005 as a result of stock repurchases in late 2004 and 2005.

Revenues

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	2005	2004
<i>millions</i>				
Gas sales	\$ 816	\$ 843	\$ 1,557	\$ 1,615
Oil and condensate sales	629	503	1,300	1,054
Natural gas liquids sales	108	93	214	196
Other sales	37	4	49	38
Total	\$ 1,590	\$ 1,443	\$ 3,120	\$ 2,903

Anadarko's total revenues for the three and six months ended June 30, 2005 increased 10% and 7%, respectively, compared to the same periods of 2004 due to higher net realized commodity prices and sales volumes from core oil and gas properties, partially offset by lower volumes resulting from the divestiture of non-core properties in late 2004.

In the second quarter of 2005, the impact of hedges and marketing activities resulted in an increase in total revenues of \$98 million compared to the same period of 2004. For the second quarter of 2005, these activities resulted in higher realized natural gas prices of \$0.18 per thousand cubic feet (Mcf) and lower realized oil prices of \$1.73 per barrel compared to market prices, which increased total revenues \$1 million. For the second quarter

of 2004, these activities resulted in lower realized natural gas prices of \$0.28 per Mcf and lower realized oil prices of \$3.19 per barrel compared to market prices, which decreased total revenues \$97 million.

In the first six months of 2005, the impact of hedges and marketing activities resulted in an increase in total revenues of \$125 million compared to the same period of 2004. For the six months ended June 30, 2005, these activities resulted in higher realized natural gas prices of \$0.15 per Mcf and lower realized oil prices of \$1.99 per barrel compared to market prices, which decreased total revenues \$19 million. For the six months ended June 30, 2004, these activities resulted in lower realized natural gas prices of \$0.20 per Mcf and lower realized oil prices of \$2.36 per barrel compared to market prices, which decreased total revenues \$144 million.

Analysis of Sales Volumes

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	2005	2004
Barrels of Oil Equivalent (MMBOE)				
United States	27	33	54	65
Canada	5	7	10	15
Algeria	5	5	12	12
Other International	2	2	4	4
Total	39	47	80	96
Barrels of Oil Equivalent per Day (MBOE/d)				
United States	295	355	298	355
Canada	56	81	55	82
Algeria	57	52	67	65
Other International	20	24	21	23
Total	428	512	441	525

MBOE/d – thousand barrels of oil equivalent per day

For the three and six months ended June 30, 2005, Anadarko's daily sales volumes decreased 16% compared to the same periods of 2004. These decreases were primarily due to lower sales volumes in the United States and Canada as a result of divestitures of non-core properties in late 2004, representing about 25% or 130 MBOE/d of the three and six months ended June 30, 2004 sales volumes. These decreases were partially offset by higher volumes of about 45 MBOE/d primarily associated with successful drilling in Louisiana and the western states as well as higher volumes in the deepwater Gulf of Mexico due to production startup at the Marco Polo platform in mid-2004.

Natural Gas Sales Volumes and Average Prices

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	2005	2004
United States (Bcf)	104	126	210	247
MMcf/d	1,147	1,388	1,165	1,358
Price per Mcf	\$ 6.31	\$ 5.19	\$ 5.98	\$ 5.03
Canada (Bcf)	26	36	51	72
MMcf/d	287	398	279	396
Price per Mcf	\$ 6.03	\$ 5.16	\$ 5.87	\$ 5.14
Total (Bcf)	130	162	261	319
MMcf/d	1,434	1,786	1,444	1,754
Price per Mcf	\$ 6.25	\$ 5.19	\$ 5.96	\$ 5.06

Bcf - billion cubic feet

MMcf/d - million cubic feet per day

The Company's daily natural gas sales volumes for the second quarter of 2005 were down 20% compared to the second quarter of 2004. For the first six months of 2005, the Company's daily natural gas sales volumes were down 18% compared to the same period of 2004. The decreases were primarily due to the impact of divestitures in the United States and Canada in late 2004, partially offset by higher volumes associated with successful drilling in Louisiana and the western states. Production of natural gas is generally not directly affected by seasonal swings in demand.

The Company's average realized natural gas price for the three and six months ended June 30, 2005 increased 20% and 18%, respectively, compared to the same periods in 2004. The increase in prices in 2005 is attributed to continued strong demand in North America. The higher prices include the impact of commodity price hedges on 22% of natural gas sales volumes, during the three and six months ended June 30, 2005, that reduced the Company's exposure to low prices and limited participation in higher prices. As of June 30, 2005, the Company has hedged about 22% of its anticipated natural gas wellhead sales volumes for the remainder of 2005. See Energy Price Risk under Item 3 of this Form 10-Q.

Crude Oil and Condensate Sales Volumes and Average Prices

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	2005	2004
United States (MMBbls)	5	8	12	16
MBbls/d	65	84	67	86
Price per barrel	\$ 43.98	\$ 31.04	\$ 41.22	\$ 30.45
Canada (MMBbls)	1	1	1	3
MBbls/d	7	13	7	14
Price per barrel	\$ 46.36	\$ 36.12	\$ 45.87	\$ 33.99
Algeria (MMBbls)	5	5	12	12
MBbls/d	57	52	67	65
Price per barrel	\$ 51.75	\$ 33.46	\$ 49.81	\$ 32.20
Other International (MMBbls)	2	2	4	4
MBbls/d	20	24	21	23
Price per barrel	\$ 40.03	\$ 27.88	\$ 35.40	\$ 25.87
Total (MMBbls)	13	16	29	35
MBbls/d	149	173	162	188
Price per barrel	\$ 46.55	\$ 31.71	\$ 44.19	\$ 30.76

MMBbls - million barrels

MBbls/d - thousand barrels per day

Anadarko's daily crude oil and condensate sales volumes for the three and six months ended June 30, 2005 were down 14% compared to the same periods of 2004 primarily due to the impact of divestitures in the United States and Canada in late 2004. These decreases were partially offset by higher volumes in the United States associated with production startup at the Marco Polo deepwater platform in mid-2004. Production of oil usually is not affected by seasonal swings in demand.

Anadarko's average realized crude oil price for the three and six months ended June 30, 2005 increased 47% and 44%, respectively, compared to the same periods of 2004. These higher crude oil prices in 2005 were attributed to continued political unrest in the Middle East and increased worldwide demand. These higher prices include the impact of commodity price hedges on 30% and 28% of crude oil and condensate sales volumes during the three and six months ended June 30, 2005, respectively, that reduced the Company's exposure to low prices and limited participation in higher prices. As of June 30, 2005, the Company has hedged about 27% of its anticipated oil and condensate sales volumes for the remainder of 2005. See Energy Price Risk under Item 3 of this Form 10-Q.

Natural Gas Liquids Sales Volumes and Average Prices

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2005	2004	2005	2004
Total (MMBbls)	4	4	7	8
MBbls/d	40	41	38	45
Price per barrel	\$ 29.70	\$ 25.18	\$ 30.99	\$ 24.22

The Company's daily NGLs sales volumes for the second quarter of 2005 decreased 2% compared to the same period of 2004. For the six months ended June 30, 2005, the Company's daily NGLs sales volumes decreased 16% compared to the same period of 2004. The decreases were primarily due to the impact of divestitures in the United States in late 2004.

During the second quarter of 2005, the average NGLs price increased 18% compared to the same period of 2004. For the six months ended June 30, 2005, the average NGLs price increased 28% compared to the same period of 2004. NGLs production is dependent on natural gas and NGLs prices as well as the economics of processing the natural gas to extract NGLs.

Costs and Expenses

<i>millions</i>	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2005	2004	2005	2004
Direct operating	\$ 137	\$ 163	\$ 267	\$ 321
Transportation and cost of product	72	59	142	116
General and administrative	110	92	212	171
Depreciation, depletion and amortization	333	357	657	705
Other taxes	95	85	180	166
Impairments related to oil and gas properties	—	—	—	9
Total	\$ 747	\$ 756	\$ 1,458	\$ 1,488

During the second quarter of 2005, Anadarko's costs and expenses decreased slightly compared to the second quarter of 2004 due to the following factors:

- Direct operating expense was down 16% primarily due to the impact of divestitures in late 2004, partially offset by an increase in operating expenses associated with production beginning from the Marco Polo platform in mid-2004.
- Transportation and cost of product expense increased 22% primarily due to higher natural gas transportation and NGLs transportation and fractionation costs. The \$9 million increase in natural gas transportation cost was primarily due to a change in the Company's marketing strategy whereby the Company is transporting a higher percentage of its natural gas volumes to higher priced markets. The \$4 million increase in NGLs transportation and fractionation cost was primarily due to a change in the Company's marketing strategy whereby the Company is fractionating its raw NGLs stream into the individual products in order to obtain higher sales proceeds for NGLs. These cost increases are offset by higher natural gas, NGLs and other sales revenues.
- General and administrative (G&A) expense increased 20% primarily due to an increase of \$11 million in compensation, pension and other postretirement benefits expenses attributed primarily to the rising cost of attracting and retaining a highly qualified workforce and the Company's decision to provide a more performance based compensation program to a broader base of employees. This increase also reflects the continued upward pressure on benefits expenses, including the impact of lower discount rates on estimated pension and other postretirement benefits expenses. G&A expense was also impacted by higher legal and consulting fees.

- Depreciation, depletion and amortization (DD&A) expense decreased 7%. DD&A expense includes a decrease of \$53 million related to lower production volumes, partially offset by an increase of \$34 million primarily due to higher costs associated with finding and developing oil and gas reserves (including the transfer of excluded costs to the DD&A pool).
- Other taxes increased 12% primarily related to higher net realized commodity prices.

For the six months ended June 30, 2005, Anadarko's costs and expenses decreased 2% compared to the same period of 2004 due to the following factors:

- Direct operating expense was down 17% primarily due to the impact of divestitures in late 2004, partially offset by an increase in operating expenses associated with production beginning from the Marco Polo platform in mid-2004.
- Transportation and cost of product expense increased 22% primarily due to a \$17 million increase in natural gas transportation expenses and a \$10 million increase in fractionation costs. These cost increases are offset by higher natural gas, NGLs and other sales revenues.
- G&A expense increased 24% primarily due to an increase of \$27 million in compensation, pension and other postretirement benefits expenses. G&A expense was also impacted by higher legal and consulting fees.
- DD&A expense decreased 7%. DD&A expense includes a decrease of \$101 million related to lower production volumes, partially offset by an increase of \$61 million primarily due to higher costs associated with finding and developing oil and gas reserves (including the transfer of excluded costs to the DD&A pool).
- Other taxes increased 8% primarily related to higher net realized commodity prices.
- Impairments of oil and gas properties in 2004 were related to other international activities.

Interest Expense and Other (Income) Expense

<i>millions</i>	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	2005	2004
Interest Expense				
Gross interest expense	\$ 68	\$ 88	\$ 137	\$ 176
Capitalized interest	(18)	(22)	(35)	(47)
Net interest expense	<u>50</u>	<u>66</u>	<u>102</u>	<u>129</u>
Other (Income) Expense				
Operating lease settlement	—	—	—	63
Firm transportation keep-whole contract valuation	9	(5)	12	(3)
Interest income	(5)	—	(9)	(2)
Ineffectiveness of derivative financial instruments	(3)	3	1	(3)
Foreign currency transaction (gains) losses	2	1	1	(2)
Other	<u>1</u>	<u>(3)</u>	<u>(1)</u>	<u>3</u>
Total other (income) expense	<u>4</u>	<u>(4)</u>	<u>4</u>	<u>56</u>
Total	<u>\$ 54</u>	<u>\$ 62</u>	<u>\$ 106</u>	<u>\$ 185</u>

Interest Expense Anadarko's gross interest expense for the three and six months ended June 30, 2005 decreased 23% and 22%, respectively, compared to the same periods of 2004 primarily due to lower average outstanding debt. Debt has decreased \$1.4 billion since June 30, 2004. For the three and six months ended June 30, 2005, capitalized interest decreased 18% and 26%, respectively, compared to the same periods of 2004. The decrease was primarily due to lower capitalized costs that qualify for interest capitalization.

Other (Income) Expense For the six months ended June 30, 2005, other expense decreased \$52 million compared to the same period of 2004, primarily due to the 2004 operating lease settlement of \$63 million and an increase in interest income of \$7 million, partially offset by a \$15 million unfavorable change related to the effect of lower market values for firm transportation subject to the keep-whole agreement. For additional information see Energy Price Risk and Foreign Currency Risk under Item 3 of this Form 10-Q.

Income Tax Expense

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	2005	2004
<i>millions except percentages</i>				
Income tax expense	\$ 282	\$ 219	\$ 558	\$ 431
Effective tax rate	36%	35%	36%	35%

For the three and six months ended June 30, 2005, income taxes increased 29% compared to the same periods of 2004 primarily due to higher income before income taxes. The effective tax rates for the three and six months ended June 30, 2005 increased slightly from the same periods in 2004 primarily due to income taxes related to foreign operations. Variances from the 35% statutory rate are caused by income taxes related to foreign activities, state income taxes, enhanced oil recovery credits and other items. In May 2005, Anadarko's Chief Executive Officer and Board of Directors approved a domestic reinvestment plan for a \$500 million repatriation of foreign earnings under the Jobs Act. The \$26 million tax effect of this repatriation was recorded as current tax expense in the second quarter financial statements. The tax effect of the repatriation plan represents a non-recurring item, which increases the effective tax rate for the second quarter of 2005.

Operating Results

Exploration and Development Activities During the second quarter of 2005, Anadarko participated in a total of 189 wells, including 151 gas wells, 37 oil wells and 1 dry hole. This compares to a total of 318 wells, including 219 gas wells, 88 oil wells and 11 dry holes during the second quarter of 2004.

For the first six months of 2005, Anadarko participated in a total of 428 wells, including 340 gas wells, 82 oil wells and 6 dry holes. This compares to a total of 606 wells, including 424 gas wells, 156 oil wells and 26 dry holes during the first six months of 2004.

Marketing Strategies

The Company's marketing department actively manages sales of its natural gas, crude oil and NGLs. The Company markets its production to customers at competitive prices, attempting to maximize realized prices while managing credit exposure. The market knowledge gained through the marketing effort is valuable to the corporate decision making process. The Company's sales of natural gas, crude oil, condensate and NGLs are generally made at the market prices of those products at the time of sale.

The Company also purchases natural gas, crude oil and NGLs volumes for resale primarily from partners and producers near Anadarko's production. These purchases allow the Company to aggregate larger volumes and attract larger, creditworthy customers, which allows the Company to seek to maximize prices received for the Company's production. The Company sells natural gas under a variety of contracts and may also receive a service fee related to the level of reliability and service required by the customer. The Company has the marketing capability to move large volumes of gas into and out of the "daily" gas market to take advantage of any price volatility.

The Company may also engage in trading activities for the purpose of generating profits from exposure to changes in market prices of gas, oil, condensate and NGLs. However, the Company does not engage in market-making practices nor does it trade in any non-energy-related commodities. The Company's trading risk position, typically, is a net short position that is offset by the Company's natural long position as a producer. See Energy Price Risk under Item 3 of this Form 10-Q.

Since 2002, all segments of the energy market experienced increased scrutiny of their financial condition, liquidity and credit. This has been reflected in rating agency credit downgrades of many merchant energy trading companies. Anadarko has not experienced any material financial losses associated with credit deterioration of third-party purchasers; however, in certain situations the Company has declined to transact with some counterparties and changed its sales terms to require some counterparties to pay in advance or post letters of credit for purchases.

Capital Resources and Liquidity

Overview Anadarko's primary source of cash during the first six months of 2005 was cash flow from operating activities. The Company used cash flow primarily to fund its capital spending program, repurchase Anadarko common stock, increase cash and pay dividends. In addition, the Company used \$170 million of cash from the 2004 divestitures to retire debt. The Company funded its capital investment programs during the first six months of 2004 primarily through cash flow from operating activities.

Cash Flow from Operating Activities Anadarko's cash flow from operating activities during the six months ended June 30, 2005 was \$1.73 billion compared to \$1.76 billion for the same period of 2004. The slight decrease in 2005 cash flow was attributed to lower sales volumes resulting from the 2004 divestitures, that was mostly offset by higher net realized commodity prices.

Fluctuations in commodity prices have been the primary reason for the Company's short-term changes in cash flow from operating activities. Anadarko holds derivative instruments to help manage commodity price risk. Sales volume changes can also impact cash flow in the short-term, but have not been as volatile as commodity prices in prior years. Sales volume decreases in 2005 associated with divestitures made in 2004 are expected to result in lower cash flow from operating activities. Anadarko's long-term cash flow from operating activities is dependent on commodity prices, reserve replacement and the level of costs and expenses required for continued operations.

Capital Expenditures The following table shows the Company's capital expenditures by category.

<i>millions</i>	Six Months Ended June 30	
	2005	2004
Development	\$ 998	\$ 1,045
Exploration	300	225
Property acquisition		
Development – proved	28	5
Exploration – unproved	67	40
Capitalized interest and internal costs related to exploration and development activities	117	133
Total oil and gas	1,510	1,448
Gathering and other	43	35
Total*	\$ 1,553	\$ 1,483

* Excludes asset retirement costs and includes actual asset retirement expenditures.

During the six months ended June 30, 2005, Anadarko's capital spending increased 5% compared to the same period of 2004. The variances in the mix of oil and gas spending reflect the Company's available opportunities based on the near-term ranking of projects by net asset value potential.

Common Stock Repurchase Plan The Company has announced a \$2 billion stock buyback program. Shares may be repurchased either in the open market or through privately negotiated transactions. During the six months ended June 30, 2005, Anadarko purchased 2.6 million shares of common stock for \$198 million under the program. During July 2005, the Company purchased an additional 1.8 million shares of common stock for \$160 million under the program. The Company may purchase additional shares as excess cash flow is realized.

Debt As of June 30, 2005 and December 31, 2004, Anadarko's total debt was \$3.67 billion and \$3.84 billion, respectively. The decrease in debt was due to the redemption of \$170 million principal amount of 6.5% Notes due May 2005.

Dividends In the first six months of 2005 and 2004, Anadarko paid \$86 million and \$71 million, respectively, in dividends to its common stockholders (18 cents per share in the first and second quarters of 2005 and 14 cents per share in the first and second quarters of 2004). Anadarko has paid a dividend to its common stockholders continuously since becoming an independent company in 1986. For the six months ended June 30, 2005 and 2004, Anadarko also paid \$2 million in preferred stock dividends.

The Company's credit agreement allows for a maximum capitalization ratio of 60% debt, exclusive of the effect of any noncash writedowns. As of June 30, 2005, Anadarko's capitalization ratio was 27% debt. Under the maximum debt capitalization ratio, retained earnings were not restricted as to the payment of dividends at June 30, 2005.

Outlook The Company currently expects 2005 capital spending to range between \$3.1 billion and \$3.3 billion. The increase of \$300 million from the first quarter of 2005 levels is primarily for new long-term strategic opportunities in U.S. onshore lease acquisition and delineation drilling, a coalbed methane water pipeline in Wyoming and additional deepwater Gulf of Mexico exploration and development. The Company's 2005 capital spending was determined at an investment level that is less than anticipated cash flow using recent New York Mercantile Exchange prices; therefore, net cash flow from operations in 2005 is expected to be higher than capital spending. The Company may use a portion of excess cash to repurchase common stock.

Anadarko's strategy with respect to its capital program is to maintain a steady level of activity despite the volatile nature of commodity prices. This is accomplished by setting capital activity at levels that are self-funding at mid-cycle oil and gas prices. When prices exceed that level, as is currently the case, costs tend to increase as well. The cash generated in excess of the amount needed to fund the steady level of capital activity is: systematically used to build additional balance sheet strength through debt reductions; returned to shareholders through stock repurchases; or otherwise made available for reinvestment in other strategic options. Alternatively, when prices are below the Company's mid-cycle targets, Anadarko can draw upon its strengthened debt capacity to fund a steady level of capital activity.

Obligations and Commitments

In June 2005, the Company entered into precedent agreements with a third party in order to secure delivery of natural gas from a liquefied natural gas facility Anadarko is constructing in Nova Scotia, Canada, called Bear Head, to prospective markets in eastern Canada and the northeastern United States. The third party has agreed to expand the capacity of its pipeline so it can accommodate the projected natural gas volumes from Bear Head. The precedent agreements signed by the parties establish the conditions on which the third party will proceed with design, regulatory approvals and construction of the expansion facilities, and be obligated to transport a specified volume of gas. As a condition to entering into the precedent agreements, Anadarko executed firm service agreements for transportation on the Canadian and United States portions of the pipeline. Upon satisfaction of the obligations under the precedent agreements, the initial term of the transportation agreements is 20 years.

Based on current assumptions, Anadarko projects that annual demand charges due under the firm transportation service agreements may be in the range of \$123 million to \$182 million per year for the first five years from commencement of full service, potentially escalating by up to 5% in year six and 10% in year seven, exclusive of fuel and surcharges. No later than the eighth year from commencement of full service, rates under the agreements are to be redetermined based on then current conditions. The parties currently expect partial service under the agreements to commence between November 2007 and November 2008, and full service to commence between June 2008 and November 2009.

The precedent agreements contain certain termination rights. The Company's potential reimbursement obligation under the precedent agreements increases over time as the third party incurs pre-service costs. This reimbursement obligation is expected to increase from about \$8 million at December 2005 to \$100 million at December 2006, up to a maximum of \$215 million in May 2007.

Marketing and Trading Contracts The following tables provide additional information as of June 30, 2005 regarding the Company's marketing and trading portfolio of physical delivery and financially settled derivative contracts and the firm transportation keep-whole agreement and related financial derivative instruments.

<i>millions</i>	<u>Marketing and Trading</u>	<u>Firm Transportation Keep-Whole</u>	<u>Total</u>
Fair value of contracts outstanding as of December 31, 2004 - assets (liabilities)	\$ 16	\$ (54)	\$ (38)
Contracts realized or otherwise settled during 2005	(9)	9	—
Fair value of new contracts when entered into during 2005	—	—	—
Other changes in fair value	<u>1</u>	<u>(11)</u>	<u>(10)</u>
Fair value of contracts outstanding as of June 30, 2005 - assets (liabilities)	\$ <u>8</u>	\$ <u>(56)</u>	\$ <u>(48)</u>

	<u>Fair Value of Contracts as of June 30, 2005</u>				
Assets (Liabilities) <i>millions</i>	<u>Maturity less than 1 Year</u>	<u>Maturity 1-3 Years</u>	<u>Maturity 4-5 Years</u>	<u>Maturity in excess of 5 Years</u>	<u>Total</u>
Marketing and Trading					
Prices actively quoted	\$ 3	\$ 4	\$ 1	\$ —	\$ 8
Prices based on models and other valuation methods	—	—	—	—	—
Firm Transportation Keep-Whole					
Prices actively quoted	\$ (21)	\$ —	\$ —	\$ —	\$ (21)
Prices based on models and other valuation methods	—	(31)	(4)	—	(35)
Total					
Prices actively quoted	\$ (18)	\$ 4	\$ 1	\$ —	\$ (13)
Prices based on models and other valuation methods	—	(31)	(4)	—	(35)

Recent Accounting Developments In June 2005, the Emerging Issues Task Force (EITF) tentatively concluded in Issue No. 04-13, "Accounting for Purchases and Sales of Inventory with the Same Counterparty," that purchases and sales of inventory with the same party in the same line of business should be accounted for as nonmonetary exchanges, if entered into in contemplation of one another. Anadarko presents purchase and sale activities related to its marketing and trading activities on a net basis in the income statement. The Company does not expect the tentative conclusion reached on EITF Issue No. 04-13 to have a material impact on the Company's consolidated financial statements.

Other Developments Anadarko's operations in Venezuela are governed by an Operating Service Agreement (OSA) that was entered into in November 1993 between the Company and an affiliate of Petroleos de Venezuela, S.A. (PDVSA), the national oil company of Venezuela. Anadarko's partner in the OSA, Petrobras Energia Venezuela (Petrobras), acts as operator. In April 2005, the Venezuelan Ministry of Energy and Petroleum announced that all OSAs concluded by PDVSA between 1992 and 1997 will be subject to renegotiation. In addition, the Venezuelan tax authority recently announced its intention to assess a 50% hydrocarbon income tax rate, plus interest and penalties, to taxpayers operating under OSAs, for all open tax years, rather than the 34% income tax rate applicable to service companies. PDVSA has limited the fees paid to the Company by applying a cap to the revenues with respect to the oil production from the OSA. Petrobras is engaged in discussions with PDVSA and the Ministry of Energy and Petroleum related to these matters as well as the renegotiation of the OSA. However, the Company cannot predict at this time the outcome of these discussions. Although the Company has not agreed to the limits imposed by PDVSA, the Company revised its revenues by \$25 million in

the second quarter of 2005 to reflect the cumulative estimated impact through June 2005. The Company is unable to determine the impact of the current situation in Venezuela on future operating results at this time. For the year ended December 31, 2004, approximately 2% of the Company's net income and total assets were associated with operations located in Venezuela.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company's primary market risks are fluctuations in energy prices, foreign currency exchange rates and interest rates. These fluctuations can affect revenues and the cost of operating, investing and financing activities. The Company's risk management policy provides for the use of derivative instruments to manage these risks. The types of derivative instruments utilized by the Company include futures, swaps, options and fixed price physical delivery contracts. The volume of derivative instruments utilized by the Company is governed by the risk management policy and can vary from year to year. For information regarding the Company's accounting policies related to derivatives and additional information related to the Company's derivative instruments, see Note 1 - Summary of Significant Accounting Policies and Note 6 - Financial Instruments of the *Notes to Consolidated Financial Statements* under Item 1 of this Form 10-Q.

Energy Price Risk The Company's most significant market risk is the pricing for natural gas, crude oil, NGLs and the firm transportation keep-whole agreement. Management expects energy prices to remain volatile and unpredictable. If energy prices decline significantly, revenues and cash flow would significantly decline. In addition, a noncash writedown of the Company's oil and gas properties could be required under full cost accounting rules if prices declined significantly, even if it is only for a short period of time. Below is a sensitivity analysis of the Company's commodity price related derivative instruments.

Derivative Instruments Held for Non-Trading Purposes The Company had equity production hedges of 60 Bcf of natural gas and 9 MMBbls of crude oil as of June 30, 2005 (excluding physical delivery fixed price contracts). As of June 30, 2005, the Company had a net unrealized loss of \$160 million on these derivative instruments. Utilizing the actual derivative contractual volumes, a 10% increase in underlying commodity prices would result in an additional loss on these derivative instruments of approximately \$60 million. However, this loss would be substantially offset by a gain in the value of that portion of the Company's equity production that is hedged.

Derivative Instruments Held for Trading Purposes As of June 30, 2005, the Company had a net unrealized gain of \$26 million (gains of \$27 million and losses of \$1 million) on derivative financial instruments entered into for trading purposes and a net unrealized loss of \$18 million (losses of \$29 million and gains of \$11 million) on physical delivery contracts entered into for trading purposes and accounted for as derivatives. Utilizing the actual derivative contractual volumes and assuming a 10% increase in underlying commodity prices, the potential additional loss on these derivative instruments would be less than \$1 million.

Firm Transportation Keep-Whole Agreement A company Anadarko acquired in 2000 was a party to several long-term firm gas transportation agreements that supported its gas marketing program within its gathering, processing and marketing (GPM) business segment, which was sold in 1999 to Duke Energy Corporation (Duke). As part of the GPM disposition, Anadarko pays Duke if transportation market values fall below the fixed contract transportation rates, while Duke pays Anadarko if the transportation market values exceed the contract transportation rates (keep-whole agreement). This keep-whole agreement will be in effect until the earlier of each contract's expiration date or February 2009. The Company may periodically use derivative instruments to reduce its exposure under the keep-whole agreement to potential decreases in future transportation market values. Due to decreased liquidity, the use of derivative instruments to manage this risk is generally limited to the forward 12 months. As of June 30, 2005, accounts payable included \$20 million and other long-term liabilities included \$36 million related to this agreement. As of December 31, 2004, accounts payable included \$15 million and other long-term liabilities included \$39 million related to this agreement. A 10% unfavorable change in the June 30, 2005 prices would result in an additional loss of \$20 million on the keep-whole agreement. The future gain or loss from this agreement cannot be accurately predicted. For additional information related to the keep-whole agreement see Note 6 - Financial Instruments of the *Notes to Consolidated Financial Statements* under Item 1 of this Form 10-Q.

For additional information regarding the Company's marketing and trading portfolio and the firm transportation keep-whole agreement, see Marketing Strategies under Item 2 of this Form 10-Q.

Interest Rate Risk Anadarko is also exposed to risk resulting from changes in interest rates as a result of the Company's floating rate obligations. The Company believes the potential effect that reasonably possible near term changes in interest rates may have on interest expense or the fair value of the Company's fixed rate debt instruments is not material. The Company did not have any derivative instruments related to interest rate risk in place as of June 30, 2005.

Foreign Currency Risk The Company has Canadian subsidiaries which use the Canadian dollar as their functional currency. The Company's other international subsidiaries use the U.S. dollar as their functional currency. To the extent that business transactions in these countries are not denominated in the respective country's functional currency, the Company is exposed to foreign currency exchange rate risk.

A Canadian subsidiary has notes and debentures denominated in U.S. dollars. The potential foreign currency remeasurement impact on earnings from a 10% unfavorable change in the June 30, 2005 Canadian exchange rate against the U.S. dollar would be a loss of about \$5 million based on the outstanding debt at June 30, 2005.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Anadarko's Chief Executive Officer and Chief Financial Officer performed an evaluation of the Company's disclosure controls and procedures. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Securities Exchange Act is accumulated and communicated to the issuer's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective as of June 30, 2005.

Changes in Internal Control over Financial Reporting

There were no changes in Anadarko's internal control over financial reporting during the quarter ended June 30, 2005 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

See *Note 14 – Contingencies* of the *Notes to Consolidated Financial Statements* under Part I - Item 1 of this Form 10-Q.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table sets forth information with respect to repurchases by the Company of its shares of common stock during the second quarter of 2005.

<u>Period</u>	<u>Total number of shares purchased ⁽¹⁾</u>	<u>Average price paid per share</u>	<u>Total number of shares purchased as part of publicly announced plans or programs</u>	<u>Approximate dollar value of shares that may yet be purchased under the plans or programs ⁽²⁾</u>
April	1,144	\$ 75.31	—	
May	1,082	\$ 74.00	—	
June	<u>17,353</u>	\$ 80.62	<u>—</u>	
Second Quarter 2005	<u>19,579</u>	\$ 79.94	<u>—</u>	\$ <u>493,000,000</u>

⁽¹⁾ During the second quarter of 2005, no shares were purchased under the Company's share repurchase programs. During the second quarter of 2005, 19,579 shares purchased were related to stock received by the Company for the payment of withholding taxes due on shares issued under employee stock plans.

⁽²⁾ In June 2004, the Company announced a stock buyback program to purchase up to \$2 billion in shares of common stock. The Company may purchase additional shares under this program in the future; however, the repurchase program does not obligate Anadarko to acquire any specific number of shares and may be discontinued at any time.

Item 4. Submission of Matters to a Vote of Security Holders

On May 12, 2005, the Company held its Annual Meeting of Stockholders. The following table presents the voting results for the items that were presented for stockholder approval:

	<u>For</u>	<u>Against</u>	<u>Withheld or Abstained</u>
(a) Election of directors: *			
John R. Butler, Jr.	208,083,432	—	4,004,028
Preston M. Geren III	207,106,073	—	4,981,387
John R. Gordon	205,154,429	—	6,933,031
(b) Approval of the Amended and Restated 1999 Stock Incentive Plan	169,211,549	11,624,812	1,697,621
(c) Ratification of the appointment of KPMG LLP as the independent auditors for 2005	206,579,004	4,138,991	1,369,465
(d) Stockholder proposal regarding corporate political giving	16,925,779	148,945,379	16,662,823

* Those directors whose term of office continued were as follows: Conrad P. Albert, Robert J. Allison, Jr., John W. Poduska, Sr., Larry Barcus, James L. Bryan, James T. Hackett, and H. Paulett Eberhart.

Item 6. Exhibits

Exhibits not incorporated by reference to a prior filing are designated by an asterisk (*) and are filed herewith; all exhibits not so designated are incorporated herein by reference to a prior filing as indicated.

<u>Exhibit Number</u>	<u>Description</u>	<u>Original Filed Exhibit</u>	<u>File Number</u>
3(a)	Restated Certificate of Incorporation of Anadarko Petroleum Corporation, dated August 28, 1986	4(a) to Form S-3 dated May 9, 2001	333-60496
(b)	By-laws of Anadarko Petroleum Corporation, as amended	3(b) to Form 10-Q for quarter ended September 30, 2004	1-8968
(c)	Certificate of Amendment of Anadarko's Restated Certificate of Incorporation	4.1 to Form 8-K dated July 28, 2000	1-8968
4(a)	Certificate of Designation of 5.46% Cumulative Preferred Stock, Series B	4(a) to Form 8-K dated May 6, 1998	1-8968
(b)	Rights Agreement, dated as of October 29, 1998, between Anadarko Petroleum Corporation and The Chase Manhattan Bank	4.1 to Form 8-A dated October 30, 1998	1-8968
(c)	Amendment No. 1 to Rights Agreement, dated as of April 2, 2000 between Anadarko and The Rights Agent	2.4 to Form 8-K dated April 2, 2000	1-8968

Exhibit Number	Description	Original Filed Exhibit	File Number
10.1	Precedent Agreement between Maritimes & Northeast Pipeline, LLC and Anadarko LNG Marketing LLC	10.1 to Form 8-K dated July 6, 2005	1-8968
10.2	Anadarko Guaranty of Anadarko LNG Marketing LLC's obligations under the Service Agreement	10.2 to Form 8-K dated July 6, 2005	1-8968
10.3	Anadarko Guaranty of Anadarko LNG Marketing LLC's obligations under the Precedent Agreement	10.3 to Form 8-K dated July 6, 2005	1-8968
10.4	Precedent Agreement between Maritimes & Northeast Pipeline Limited Partnership and Anadarko Canada LNG Marketing, Corp.	10.4 to Form 8-K dated July 6, 2005	1-8968
10.5	Anadarko Guarantee of Anadarko Canada LNG Marketing, Corp.'s obligations under the Service Agreement	10.5 to Form 8-K dated July 6, 2005	1-8968
10.6	Anadarko Guarantee of Anadarko Canada LNG Marketing, Corp.'s obligations under the Precedent Agreement	10.6 to Form 8-K dated July 6, 2005	1-8968
10.7	Form of Service Agreement for Rate Schedule MN365	10.7 to Form 8-K dated July 6, 2005	1-8968
10.8	Service Agreement for Toll Schedule MN365	10.8 to Form 8-K dated July 6, 2005	1-8968
10.9	Base Rate Agreement	10.9 to Form 8-K dated July 6, 2005	1-8968
10.10	Summary of Director Compensation	10.1 to Form 8-K dated May 12, 2005	1-8968
*12	Computation of Ratios of Earnings to Fixed Charges and Earnings to Combined Fixed Charges and Preferred Stock Dividends		
*31(a)	Rule 13a-14(a)/15d-14(a) Certification - Chief Executive Officer		
*(b)	Rule 13a-14(a)/15d-14(a) Certification - Chief Financial Officer		
*32	Section 1350 Certifications		

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned duly authorized officer and principal financial officer.

ANADARKO PETROLEUM CORPORATION
(Registrant)

August 4, 2005

By: /s/ JAMES R. LARSON
James R. Larson - Senior Vice President,
Finance and Chief Financial Officer