Targa Resources Corp.
Form 10-Q
August 03, 2017

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 quarterly period ended June 30, 2017

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number: 001-34991

TARGA RESOURCES CORP.

(Exact name of registrant as specified in its charter)

Delaware	20-3701075
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1000 Louisiana St, Suite 4300, Houston, Texas	77002
(Address of principal executive offices)	(Zip Code)

(713) 584-1000

(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company
		Emerging growth company

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

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

As of July 31, 2017, there were 215,605,062 shares of the registrant’s common stock, $0.001 par value, outstanding.

TABLE OF CONTENTS

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.	4
Consolidated Balance Sheets as of June 30, 2017 and December 31, 2016	4
Consolidated Statements of Operations for the three and six months ended June 30, 2017 and 2016	5
Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended June 30, 2017 and 2016	6
Consolidated Statements of Changes in Owners' Equity and Series A Preferred Stock for the six months ended June 30, 2017 and 2016	8
Consolidated Statements of Cash Flows for the six months ended June 30, 2017 and 2016	10
Notes to Consolidated Financial Statements	11
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.	40
Item 3. Quantitative and Qualitative Disclosures About Market Risk	62
Item 4. Controls and Procedures	67

PART II—OTHER INFORMATION

Item 1. Legal Proceedings	69
Item 1A. Risk Factors	69
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	69
Item 3. Defaults Upon Senior Securities	69
Item 4. Mine Safety Disclosures	69
Item 5. Other Information	69
Item 6. Exhibits	70

SIGNATURES

Signatures	71

1

CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS

Targa Resources Corp.'s (together with its subsidiaries, including Targa Resources Partners LP ("the Partnership" or "TRP"), "we," "us," "our," "Targa," "TRC," or the "Company") reports, filings and other public announcements may from tim time contain statements that do not directly or exclusively relate to historical facts. Such statements are "forward-looking statements." You can typically identify forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, by the use of forward-looking statements, such as "may," "could," "project," "believe," "anticipate," "expect," "estin "potential," "plan," "forecast" and other similar words.

All statements that are not statements of historical facts, including statements regarding our future financial position, business strategy, budgets, projected costs and plans and objectives of management for future operations, are forward-looking statements.

These forward-looking statements reflect our intentions, plans, expectations, assumptions and beliefs about future events and are subject to risks, uncertainties and other factors, many of which are outside our control. Important factors that could cause actual results to differ materially from the expectations expressed or implied in the forward-looking statements include known and unknown risks. Known risks and uncertainties include, but are not limited to, the following risks and uncertainties:

- the timing and extent of changes in natural gas, natural gas liquids, crude oil and other commodity prices, interest rates and demand for our services;
- the level and success of crude oil and natural gas drilling around our assets, our success in connecting natural gas supplies to our gathering and processing systems, oil supplies to our gathering systems and natural gas liquid supplies to our logistics and marketing facilities and our success in connecting our facilities to transportation services and markets;
- our ability to access the capital markets, which will depend on general market conditions and the credit ratings for the Partnership's and our debt obligations;
- the amount of collateral required to be posted from time to time in our transactions;
- our success in risk management activities, including the use of derivative instruments to hedge commodity price risks;
- the level of creditworthiness of counterparties to various transactions with us;
- changes in laws and regulations, particularly with regard to taxes, safety and protection of the environment;
- weather and other natural phenomena;
- industry changes, including the impact of consolidations and changes in competition;
- our ability to obtain necessary licenses, permits and other approvals;
- our ability to grow through acquisitions or internal growth projects and the successful integration and future performance of such assets;
- general economic, market and business conditions; and
- the risks described in our Annual Report on Form 10-K for the year ended December 31, 2016 ("Annual Report") and our reports and registration statements filed from time to time with the United States Securities and Exchange Commission ("SEC").

Although we believe that the assumptions underlying our forward-looking statements are reasonable, any of the assumptions could be inaccurate, and, therefore, we cannot assure you that the forward-looking statements included in this Quarterly Report on Form 10-Q for the quarter ended June 30, 2017 ("Quarterly Report") will prove to be accurate. Some of these and other risks and uncertainties that could cause actual results to differ materially from such forward-looking statements are more fully described in our Annual Report. Except as may be required by applicable law, we undertake no obligation to publicly update or advise of any change in any forward-looking statement, whether as a result of new information, future events or otherwise.

As generally used in the energy industry and in this Quarterly Report, the identified terms have the following meanings:

Bbl	Barrels (equal to 42 U.S. gallons)
BBtu	Billion British thermal units
Bcf	Billion cubic feet
Btu	British thermal units, a measure of heating value
/d	Per day
GAAP	Accounting principles generally accepted in the United States of America
gal	U.S. gallons
GPM	Liquid volume equivalent expressed as gallons per 1000 cu. ft. of natural gas
LACT	Lease Automatic Custody Transfer
LIBOR	London Interbank Offered Rate
LPG	Liquefied petroleum gas
MBbl	Thousand barrels
MMBbl	Million barrels
MMBtu	Million British thermal units
MMcf	Million cubic feet
MMgal	Million U.S. gallons
NGL(s)	Natural gas liquid(s)
NYMEX	New York Mercantile Exchange
NYSE	New York Stock Exchange

Price Index Definitions

C2-OPIS-MB	Ethane, Oil Price Information Service, Mont Belvieu, Texas
C3-OPIS-MB	Propane, Oil Price Information Service, Mont Belvieu, Texas
C5-OPIS-MB	Natural Gasoline, Oil Price Information Service, Mont Belvieu, Texas
EP-PERMIAN	Inside FERC Gas Market Report, El Paso (Permian Basin)
IC4-OPIS-MB	Iso-Butane, Oil Price Information Service, Mont Belvieu, Texas
IF-PB	Inside FERC Gas Market Report, Permian Basin
IF-PEPL	Inside FERC Gas Market Report, Oklahoma Panhandle, Texas-Oklahoma Midpoint
IF-WAHA	Inside FERC Gas Market Report, West Texas WAHA
NC4-OPIS-MB	Normal Butane, Oil Price Information Service, Mont Belvieu, Texas
NG-NYMEX	NYMEX, Natural Gas
WTI-NYMEX	NYMEX, West Texas Intermediate Crude Oil

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

TARGA RESOURCES CORP.

CONSOLIDATED BALANCE SHEETS

	June 30, 2017 (Unaudited)	December 31, 2016
	(In millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	$98.7	$73.5
Trade receivables, net of allowances of $0.2 and $0.9 million at June 30, 2017 and December 31, 2016	550.4	674.6
Inventories	197.7	137.7
Assets from risk management activities	35.7	16.8
Income tax receivable	2.0	67.8
Other current assets	30.4	36.4
Total current assets	914.9	1,006.8
Property, plant and equipment	13,313.6	12,518.7
Accumulated depreciation	(3,086.8)	(2,827.7)
Property, plant and equipment, net	10,226.8	9,691.0
Intangible assets, net	2,264.7	1,654.0
Goodwill, net	256.6	210.0
Long-term assets from risk management activities	17.3	5.1
Investments in unconsolidated affiliates	218.4	240.8
Other long-term assets	19.7	63.5
Total assets	$13,918.4	$12,871.2
LIABILITIES, SERIES A PREFERRED STOCK AND OWNERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$886.0	$843.5
Liabilities from risk management activities	9.5	49.1
Current debt obligations	500.1	275.0
Total current liabilities	1,395.6	1,167.6
Long-term debt	3,937.5	4,606.0
Long-term liabilities from risk management activities	5.5	26.1
Deferred income taxes, net	852.9	941.2
Other long-term liabilities	588.4	215.1
Contingencies (see Note 18)		
Series A Preferred 9.5% Stock, $1,000 per share liquidation preference, (1,200,000 shares authorized, issued and outstanding 965,100 shares), net of discount (see Note 12)	203.3	190.8

Owners' equity:		
Targa Resources Corp. stockholders' equity:		
Common stock ($0.001 par value, 300,000,000 shares authorized)	0.2	0.2
Issued / Outstanding		
June 30, 2017 216,134,254 215,575,687		
December 31, 2016 185,234,405 184,720,525		
Preferred stock ($0.001 par value, after designation of Series A Preferred Stock: 98,800,000 shares authorized, no shares issued and outstanding)	—	—
Additional paid-in capital	6,666.4	5,506.2
Retained earnings (deficit)	(192.9)	(187.3)
Accumulated other comprehensive income (loss)	21.5	(38.3)
Treasury stock, at cost (558,567 shares as of June 30, 2017 and 513,880 as of December 31, 2016)	(34.3)	(32.2)
Total Targa Resources Corp. stockholders' equity	6,460.9	5,248.6
Noncontrolling interests in subsidiaries	474.3	475.8
Total owners' equity	6,935.2	5,724.4
Total liabilities, Series A Preferred Stock and owners' equity	$13,918.4	$12,871.2

See notes to consolidated financial statements.

TARGA RESOURCES CORP.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(Unaudited)			
	(In millions, except per share amounts)			
Revenues				
Sales of commodities	$1,623.8	$1,312.9	$3,481.7	$2,484.0
Fees from midstream services	243.9	270.7	498.6	542.0
Total revenues	1,867.7	1,583.6	3,980.3	3,026.0
Costs and expenses:				
Product purchases	1,420.6	1,145.2	3,074.8	2,156.2
Operating expenses	155.2	138.9	307.2	271.0
Depreciation and amortization expense	203.4	186.1	394.6	379.6
General and administrative expense	51.0	47.0	99.6	92.2
Goodwill impairment	—	—	—	24.0
Other operating (income) expense	0.3	0.1	16.5	1.1
Income from operations	37.2	66.3	87.6	101.9
Other income (expense):				
Interest expense, net	(62.1)	(71.4)	(125.1)	(124.3)
Equity earnings (loss)	(4.2)	(4.4)	(16.8)	(9.2)
Gain (loss) from financing activities	(10.7)	(3.3)	(16.5)	21.4
Other, net	4.4	(0.1)	(4.0)	(0.2)
Income (loss) before income taxes	(35.4)	(12.9)	(74.8)	(10.4)
Income tax (expense) benefit	106.0	(1.7)	34.9	(4.8)
Net income (loss)	70.6	(14.6)	(39.9)	(15.2)
Less: Net income attributable to noncontrolling interests	13.0	8.6	21.8	10.7
Net income (loss) attributable to Targa Resources Corp.	57.6	(23.2)	(61.7)	(25.9)
Dividends on Series A preferred stock	22.9	22.9	45.8	26.7
Deemed dividends on Series A preferred stock	6.3	6.5	12.5	6.5
Net income (loss) attributable to common shareholders	$28.4	$(52.6)	$(120.0)	$(59.1)
Net income (loss) per common share - basic	$0.14	$(0.33)	$(0.61)	$(0.44)
Net income (loss) per common share - diluted	$0.14	$(0.33)	$(0.61)	$(0.44)
Weighted average shares outstanding - basic	203.7	161.6	197.8	134.1
Weighted average shares outstanding - diluted	205.0	161.6	197.8	134.1
Dividends per common share declared for the period	$0.91	$0.91	$1.82	$1.82

See notes to consolidated financial statements.

TARGA RESOURCES CORP.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Three Months Ended June 30,					
	2017			2016		
	Pre-Tax	Related Income Tax	After Tax	Pre-Tax	Related Income Tax	After Tax
	(Unaudited) (In millions)					
Net income (loss) attributable to Targa Resources Corp.			$ 57.6			$ (23.2)
Other comprehensive income (loss) attributable to Targa Resources Corp.						
Commodity hedging contracts:						
Change in fair value	$ 29.8	$ (11.3)	18.5	$ (60.2)	$ 22.9	(37.3)
Settlements reclassified to revenues	(5.7)	2.2	(3.5)	(18.3)	6.9	(11.4)
Other comprehensive income (loss) attributable to Targa Resources Corp.	24.1	(9.1)	15.0	(78.5)	29.8	(48.7)
Comprehensive income (loss) attributable to Targa Resources Corp.			$ 72.6			$ (71.9)
Net income (loss) attributable to noncontrolling interests			$ 13.0			$ 8.6
Other comprehensive income (loss) attributable to noncontrolling interests						
Commodity hedging contracts:						
Change in fair value	—	—	—	—	—	—
Settlements reclassified to revenues	—	—	—	—	—	—
Other comprehensive income (loss) attributable to noncontrolling interests	—	—	—	—	—	—
Comprehensive income (loss) attributable to noncontrolling interests			$ 13.0			$ 8.6
Total						
Net income (loss)			$ 70.6			$ (14.6)
Other comprehensive income (loss)						
Commodity hedging contracts:						
Change in fair value	29.8	(11.3)	18.5	(60.2)	22.9	(37.3)
Settlements reclassified to revenues	(5.7)	2.2	(3.5)	(18.3)	6.9	(11.4)
Other comprehensive income (loss)	$ 24.1	$ (9.1)	15.0	$ (78.5)	$ 29.8	(48.7)
Total comprehensive income (loss)			$ 85.6			$ (63.3)

See notes to consolidated financial statements.

6

TARGA RESOURCES CORP.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Six Months Ended June 30,					
	2017			2016		
	Pre-Tax	Related Income Tax	After Tax	Pre-Tax	Related Income Tax	After Tax
	(Unaudited) (In millions)					
Net income (loss) attributable to Targa Resources Corp.			$ (61.7)			$ (25.9)
Other comprehensive income (loss) attributable to Targa Resources Corp.						
Commodity hedging contracts:						
Change in fair value	$ 96.0	$ (36.5)	59.5	$ (77.1)	$ 29.4	(47.7)
Settlements reclassified to revenues	0.4	(0.1)	0.3	(31.3)	11.9	(19.4)
Other comprehensive income (loss) attributable to Targa Resources Corp.	96.4	(36.6)	59.8	(108.4)	41.3	(67.1)
Comprehensive income (loss) attributable to Targa Resources Corp.			$ (1.9)			$ (93.0)
Net income (loss) attributable to noncontrolling interests			$ 21.8			$ 10.7
Other comprehensive income (loss) attributable to noncontrolling interests						
Commodity hedging contracts:						
Change in fair value	—	—	—	23.6	—	23.6
Settlements reclassified to revenues	—	—	—	(11.1)	—	(11.1)
Other comprehensive income (loss) attributable to noncontrolling interests	—	—	—	12.5	—	12.5
Comprehensive income (loss) attributable to noncontrolling interests			$ 21.8			$ 23.2
Total						
Net income (loss)			$ (39.9)			$ (15.2)
Other comprehensive income (loss)						
Commodity hedging contracts:						
Change in fair value	96.0	(36.5)	59.5	(53.5)	29.4	(24.1)
Settlements reclassified to revenues	0.4	(0.1)	0.3	(42.4)	11.9	(30.5)
Other comprehensive income (loss)	$ 96.4	$ (36.6)	59.8	$ (95.9)	$ 41.3	(54.6)
Total comprehensive income (loss)			$ 19.9			$ (69.8)

See notes to consolidated financial statements

7

TARGA RESOURCES CORP.

CONSOLIDATED STATEMENTS OF CHANGES IN OWNERS' EQUITY AND SERIES A PREFERRED STOCK

	Common Stock		Additional Paid in	Retained Earnings (Accumulated	Accumulated Other Comprehensive Income	Treasury Shares		Noncontrolling	Total Owner's	Series A Preferred
	Shares	Amount	Capital	Deficit)	(Loss)	Shares	Amount	Interests	Equity	Stock
	(Unaudited) (In millions, except shares in thousands)									
Balance, December 31, 2016	184,721	$ 0.2	$ 5,506.2	$ (187.3)	$ (38.3)	514	$ (32.2)	$ 475.8	$ 5,724.4	$ 190.8
Impact of accounting standard adoption (see Note 3)	—	—	—	56.1	—	—	—	—	56.1	—
Compensation on equity grants	—	—	21.5	—	—	—	—	—	21.5	—
Distribution equivalent rights	—	—	(4.6)	—	—	—	—	—	(4.6)	—
Shares issued under compensation program	179	—	—	—	—	—	—	—	—	—
Shares and units tendered for tax withholding obligations	(45)	—	—	—	—	45	(2.1)	—	(2.1)	—
Issuance of common stock	30,721	—	1,558.5	—	—	—	—	—	1,558.5	—
Series A Preferred Stock dividends										
Dividends	—	—	—	(45.8)	—	—	—	—	(45.8)	—
Dividends in excess of retained earnings	—	—	(45.8)	45.8	—	—	—	—	—	—
Deemed dividends - accretion of	—	—	(12.5)	—	—	—	—	—	(12.5)	12.5

beneficial conversion feature										
Common stock dividends										
Dividends	—	—	—	(356.9)	—	—	—	—	(356.9)	—
Dividends in excess of retained earnings	—	—	(356.9)	356.9	—	—	—	—	—	—
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(27.3)	(27.3)	—
Contributions from noncontrolling interests	—	—	—	—	—	—	—	16.5	16.5	—
Purchase of noncontrolling interests in subsidiary, net of tax impact	—	—	—	—	—	—	—	(12.5)	(12.5)	—
Other comprehensive income (loss)	—	—	—	—	59.8	—	—	—	59.8	—
Net income (loss)	—	—	—	(61.7)	—	—	—	21.8	(39.9)	—
Balance, June 30, 2017	215,576	$ 0.2	$ 6,666.4	$ (192.9)	$ 21.5	559	$ (34.3)	$ 474.3	$ 6,935.2	$ 203.3

See notes to consolidated financial statements.

TARGA RESOURCES CORP.

CONSOLIDATED STATEMENTS OF CHANGES IN OWNERS' EQUITY AND SERIES A PREFERRED STOCK

	Common Stock		Additional Paid in	Retained Earnings (Accumulated	Accumulated Other Comprehensive Income	Treasury Shares		Noncontrolling	Total Owner's	Series A Preferred
	Shares	Amount	Capital	Deficit)	(Loss)	Shares	Amount	Interests	Equity	Stock
	(Unaudited) (In millions, except shares in thousands)									
Balance, December 31, 2015	56,020	$0.1	$1,457.4	$26.9	$5.7	426	$(28.7)	$4,788.8	$6,250.2	$—
Compensation on equity grants	—	—	13.0	—	—	—	—	2.2	15.2	—
Distribution equivalent rights	—	—	(4.9)	—	—	—	—	(0.2)	(5.1)	—
Shares issued under compensation program	224	—	—	—	—	—	—	—	—	—
Shares and units tendered for tax withholding obligations	(54)	—	—	—	—	54	(0.4)	(0.1)	(0.5)	—
Proceeds from common stock issuances	5,106	—	215.1	—	—	—	—	—	215.1	—
Receivables from common stock offerings	—	—	(36.0)	—	—	—	—	—	(36.0)	—
Issuance of Series A preferred and detachable warrants	—	—	796.8	—	—	—	—	—	796.8	179.9
Series A Preferred Stock dividends										
Dividends	—	—	—	(26.7)	—	—	—	—	(26.7)	—
Dividends in excess of	—	—	(22.9)	22.9	—	—	—	—	—	—

retained earnings										
Deemed dividends - accretion of beneficial conversion feature	—	—	(6.5)	—	—	—	—	—	(6.5)	—
Common stock dividends										
Dividends	—	—	—	(197.3)	—	—	—	—	(197.3)	—
Dividends in excess of retained earnings	—	—	(174.2)	174.2	—	—	—	—	—	—
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(151.0)	(151.0)	—
Contributions from noncontrolling interests	—	—	—	—	—	—	—	19.1	19.1	—
Acquisition of TRP noncontrolling common interests, net of acquisition costs and deferred income taxes	104,526	0.1	3,097.5	—	55.7	—	—	(4,119.7)	(966.4)	—
Other comprehensive income (loss)	—	—	—	—	(67.1)	—	—	12.5	(54.6)	—
Net income (loss)	—	—	—	(25.9)	—	—	—	10.7	(15.2)	—
Balance, June 30, 2016	165,822	$ 0.2	$ 5,335.3	$ (25.9)	$ (5.7)	480	$ (29.1)	$ 562.3	$ 5,837.1	$ 179.9

See notes to consolidated financial statements

TARGA RESOURCES CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
	2017	2016
	(Unaudited)	
	(In millions)	
Cash flows from operating activities		
Net income (loss)	$(39.9)	$(15.2)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization in interest expense	5.9	8.2
Compensation on equity grants	21.5	15.2
Depreciation and amortization expense	394.6	379.6
Goodwill impairment	—	24.0
Accretion of asset retirement obligations	2.2	2.3
Increase (decrease) in redemption value of mandatorily redeemable preferred interests	6.9	(14.6)
Deferred income tax expense (benefit)	(34.5)	4.8
Equity (earnings) loss of unconsolidated affiliates	16.8	9.2
Distributions of earnings received from unconsolidated affiliates	4.0	—
Risk management activities	10.0	3.2
(Gain) loss on sale or disposition of assets	16.2	0.9
(Gain) loss from financing activities	16.5	(21.4)
Change in contingent considerations included in Other expense	1.2	—
Changes in operating assets and liabilities, net of business acquisitions:		
Receivables and other assets	299.0	19.6
Inventories	(68.6)	12.4
Accounts payable and other liabilities	(187.3)	29.3
Net cash provided by operating activities	464.5	457.5
Cash flows from investing activities		
Outlays for property, plant and equipment	(527.6)	(307.7)
Outlays for business acquisition, net of cash acquired	(570.8)	—
Investments in unconsolidated affiliates	(0.6)	—
Return of capital from unconsolidated affiliates	3.2	3.9
Other, net	(12.8)	(1.4)
Net cash used in investing activities	(1,108.6)	(305.2)
Cash flows from financing activities		
Debt obligations:		
Proceeds from borrowings under credit facilities	1,926.0	1,067.0
Repayments of credit facilities	(1,916.0)	(1,457.0)
Proceeds from borrowings under accounts receivable securitization facility	218.5	121.4
Repayments of accounts receivable securitization facility	(243.5)	(115.7)
Open market purchases of senior notes	—	(534.3)
Redemption of senior notes and term loan	(447.6)	—
Proceeds from issuance of common stock	1,573.4	181.2
Proceeds from issuance of preferred stock and warrants	—	994.1

Costs incurred in connection with financing arrangements	(14.9)	(44.3)
Repurchase of shares and units under compensation plans	(0.6)	(0.4)
Purchase of noncontrolling interests in subsidiary	(12.5)	—
Contributions from noncontrolling interests	16.5	19.1
Distributions to noncontrolling interests	(21.4)	(6.3)
Distributions to Partnership unitholders	(5.6)	(144.7)
Dividends paid to common and preferred shareholders	(403.0)	(201.4)
Payments of distribution equivalent rights	—	(0.3)
Net cash provided by (used in) financing activities	669.3	(121.6)
Net change in cash and cash equivalents	25.2	30.7
Cash and cash equivalents, beginning of period	73.5	140.2
Cash and cash equivalents, end of period	$98.7	$170.9

See notes to consolidated financial statements.

TARGA RESOURCES CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Except as noted within the context of each footnote disclosure, the dollar amounts presented in the tabular data within these footnote disclosures are stated in millions of dollars.

Note 1 — Organization and Operations

Our Organization

Targa Resources Corp. ("TRC") is a publicly traded Delaware corporation formed in October 2005. Our common stock is listed on the New York Stock Exchange under the symbol "TRGP." In this Quarterly Report, unless the context requires otherwise, references to "we," "us," "our," "the Company" or "Targa" are intended to mean our consolidated business and operations.

Our Operations

The Company is engaged in the business of:

- gathering, compressing, treating, processing and selling natural gas;
- storing, fractionating, treating, transporting and selling NGLs and NGL products, including services to LPG exporters;
- gathering, storing and terminaling crude oil; and
- storing, terminaling and selling refined petroleum products.

See Note 21 – Segment Information for certain financial information regarding our business segments.

Note 2 — Basis of Presentation

We have prepared these unaudited consolidated financial statements in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. While we derived the year-end balance sheet data from audited financial statements, this interim report does not include all disclosures required by GAAP for annual periods. These unaudited consolidated financial statements and other information included in this Quarterly Report should be read in conjunction with our consolidated financial statements and notes thereto included in our Annual Report.

The unaudited consolidated financial statements for the three and six months ended June 30, 2017 include all adjustments that we believe are necessary for a fair statement of the results for interim periods. All significant intercompany balances and transactions have been eliminated in consolidation. Certain amounts in prior periods may have been reclassified to conform to the current year presentation.

Our financial results for the three and six months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the full year.

One of our indirect subsidiaries is the sole general partner of Targa Resources Partners LP ("the Partnership" or "TRP"). Prior to February 17, 2016, our interests in the Partnership consisted of the following:

- a 2% general partner interest, which we hold through our 100% ownership interest in the general partner of the Partnership;
- all Incentive Distribution Rights ("IDRs");
- 16,309,594 common units representing limited partner interests in the Partnership ("common units"), representing an 8.8% limited partnership interest; and
- a Special GP Interest representing retained tax benefits related to the contribution to the Partnership from us of the APL general partner interest acquired in the ATLS merger.

On February 17, 2016, we completed the transactions contemplated by the Agreement and Plan of Merger (the "TRC/TRP Merger Agreement", and such transactions, the "TRC/TRP Merger" or "Buy-in Transaction"), dated November 2, 2015, by and among us, the general partner of TRP, TRC and Spartan Merger Sub LLC, a subsidiary of us ("Merger Sub") and we acquired indirectly all of the

outstanding TRP common units that we and our subsidiaries did not already own. Upon the terms and conditions set forth in the TRC/TRP Merger Agreement, Merger Sub merged with and into TRP, with TRP continuing as the surviving entity and as a subsidiary of TRC.

At the effective time of the TRC/TRP Merger, each outstanding TRP common unit not owned by us or our subsidiaries was converted into the right to receive 0.62 shares of our common stock. We issued 104,525,775 shares of our common stock to third-party unitholders of the common units of the Partnership in exchange for all of the 168,590,009 outstanding common units of the Partnership that we previously did not own. No fractional shares were issued in the TRC/TRP Merger, and TRP common unitholders instead received cash in lieu of fractional shares. There were no changes to our other interests in the Partnership.

TRP's 5,000,000 9.0% Series A Fixed-to-Floating Rate Cumulative Redeemable Perpetual Preferred Units (the "Preferred Units") remain outstanding after the TRC/TRP Merger. The Preferred Units are listed on the NYSE under "NGLS PRA" and are publicly traded. The Preferred Units are reported as noncontrolling interests in our financial statements.

As we continued to control the Partnership after the TRC/TRP Merger, the resulting change in our ownership interest was accounted for as an equity transaction, which is reflected in our Consolidated Balance Sheet as a reduction of noncontrolling interests and a corresponding increase in common stock and additional paid in capital. The TRC/TRP Merger was a taxable exchange that resulted in a book/tax difference in the basis of the underlying assets acquired (our investment in TRP). The tax impact is presented as a reduction of additional paid-in capital consistent with the accounting for tax effects of transactions with noncontrolling interests.

The earnings recorded by TRP that were attributed to its common units held by the public prior to February 17, 2016 are reflected within "Net income attributable to noncontrolling interests" in our Consolidated Statements of Operations for periods prior to the merger date.

On October 19, 2016, TRP executed the Third Amended and Restated Agreement of Limited Partnership of Targa Resources Partners LP (the "Third A&R Partnership Agreement"), effective as of December 1, 2016. The Third A&R Partnership Agreement (i) eliminated the IDRs held by the General Partner, and related distribution and allocation provisions, (ii) eliminated the Special GP Interest held by the General Partner, (iii) provided the ability to declare monthly distributions in addition to quarterly distributions, (iv) modified certain provisions relating to distributions from available cash, (v) eliminated the Class B Unit provisions and (vi) made changes to reflect the passage of time and removed provisions that were no longer applicable. In connection with the Third A&R Partnership Agreement, on December 1, 2016, TRP issued to the General Partner (i) 20,380,286 Common Units and 424,590 General Partner Units in exchange for the elimination of the IDRs and (ii) 11,267,485 Common Units and 234,739 General Partner Units in exchange for the elimination of the Special GP Interest.

We have historically calculated the provision for income taxes during interim reporting periods by applying an estimate of the annual effective tax rate for the full fiscal year to ordinary income or loss (pretax income or loss excluding unusual or infrequently occurring discrete items) for the reporting period. When calculating the annual estimated effective income tax rate for the six months ended June 30, 2017, we were subject to a loss limitation rule because the year-to-date ordinary loss exceeded the full-year expected ordinary loss. The tax benefit for that year-to-date ordinary loss was limited to the amount that would be recognized if the year-to-date ordinary loss were the anticipated ordinary loss for the full year. This requires us to use our statutory rate of 37.3% rather than the annual estimated effective tax rate to calculate the benefit for the period. The income tax benefit for the three months ended June 30, 2017 is the result of the difference between the annual effective tax rate used to calculate income tax

(expense) benefit for the three months ended March 31, 2017 and the statutory rate used to calculate income tax (expense) benefit for the six months ended June 30, 2017.

Note 3 — Significant Accounting Policies

Accounting Policy Updates

The accounting policies that we follow are set forth in Note 3 – Significant Accounting Policies of the Notes to Consolidated Financial Statements in our Annual Report. There were no significant updates or revisions to our policies during the six months ended June 30, 2017, except as noted below.

Recent Accounting Pronouncements

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. The update also creates a new Subtopic 340-40, Other Assets and Deferred Costs –

Contracts with Customers, which provides guidance for the incremental costs of obtaining a contract with a customer and those costs incurred in fulfilling a contract with a customer that are not in the scope of another topic. The new revenue standard requires that entities should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entities expect to be entitled in exchange for those goods or services. To achieve that core principle, the standard requires a five step process of (1) identifying the contracts with customers, (2) identifying the performance obligations in the contracts, (3) determining the transaction price, (4) allocating the transaction price to the performance obligations, and (5) recognizing revenue when, or as, the performance obligations are satisfied. The amendment also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

With the issuance in August 2015 of ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, the revenue recognition standard is effective for the annual period beginning after December 15, 2017, and for annual and interim periods thereafter. Earlier adoption is permitted for annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. We must retrospectively apply the new revenue recognition standard to transactions in all prior periods presented, but will have a choice between either (1) restating each prior period presented or (2) presenting a cumulative effect adjustment in the period the standard is adopted.

In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations. The amendments in this update improve the operability and understandability of the implementation guidance on principal versus agent considerations, including clarifying that an entity should determine whether it is a principal or an agent for each specified good or service promised to a customer. These amendments are effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2017, with early adoption permitted.

In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. These amendments clarify the guidance on identification of performance obligations and licensing. The amendments include that entities do not have to decide if goods and services are performance obligations if they are considered immaterial in the context of a contract. Entities are also permitted to account for the shipping and handling that takes place after the customer has gained control of the goods as actions to fulfill the contract rather than separate services. In order to identify a performance obligation in a customer contract, an entity has to determine whether the goods or services are distinct, and ASU No. 2016-10 clarifies how the determination can be made.

In May 2016, the FASB issued ASU 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. These amendments address certain implementation issues related to assessing collectability, presentation of sales taxes, noncash consideration, and completed contracts and contract modifications at transition, and also provide additional practical expedients.

In December 2016, the FASB issued ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers. The amendments in this update clarify the disclosure requirements for performance obligations, provide optional exemptions from the disclosure requirement for remaining performance obligations for specific situations in which an entity need not estimate variable consideration to recognize revenue and provide clarified guidance regarding impairment testing of capitalized contract costs.

We expect to adopt this new revenue recognition standard on January 1, 2018, presenting a cumulative effect adjustment in the period the standard is adopted. We also anticipate electing the practical expedient to apply the guidance retrospectively to only those contracts that are not completed contracts at the date of initial application. We have disaggregated contracts within our two segments and are in the process of reviewing contracts and transaction

types with counterparties in order to evaluate how the new standard would impact our current revenue recognition and disclosure policies upon adoption. In addition, we are also evaluating the implications around principal versus agent considerations, as well as whether certain contracts within our gathering and processing segment create relationships with counterparties akin to suppliers or involve significant sharing of risks that would exclude such contracts from the scope of Topic 606.

Leases

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The amendments in this update require, among other things, that lessees recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Lessees and lessors must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. We expect to adopt the amendments in the first quarter of 2019 and are currently evaluating the impacts of the amendments to our consolidated financial statements and accounting practices for leases.

Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. These amendments change the measurement of credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The amendments in this update affect investments in loans, investments in debt securities, trade receivables, net investments in leases, off-balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The amendments replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. We expect to adopt this guidance on January 1, 2019, and are continuing to evaluate the impact on our measurement of credit losses.

Cash Flow Classification

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force). These amendments clarify how entities should classify certain cash receipts and cash payments on the statement of cash flows related to the following transactions: (1) debt prepayment or extinguishment costs; (2) settlement of zero-coupon debt instruments or other debt instruments with coupon rates that are insignificant in relation to the effective interest rate of the borrowing; (3) contingent consideration payments made after a business combination; (4) proceeds from the settlement of insurance claims; (5) proceeds from the settlement of corporate-owned life insurance; (6) distributions received from equity method investees; and (7) beneficial interests in securitization transactions. Additionally, the update clarifies how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash flows. These amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, with early adoption permitted. We are currently evaluating the effect of the amendments on our consolidated financial statements and related disclosures.

Recognition of Intra-Entity Transfers of Assets Other than Inventory

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other than Inventory. The amendments in this update are intended to improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. Current GAAP prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party or otherwise recovered, which is an exception to the principle of comprehensive recognition of current and deferred income taxes in GAAP. This update eliminates the exception by requiring entities to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs.

We early adopted the applicable amendments in first quarter of 2017 on a modified retrospective basis which resulted in a cumulative effect adjustment on retained earnings as of January 1, 2017 of $56.1 million in order to recognize unamortized tax expense previously deferred of $40.1 million and deferred tax assets previously unrecognized of $96.2 million. We did not have intra-entity transfers of assets other than inventory during the current period.

Business Combinations

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The amendments clarify the definition of a business to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses by providing an initial required screen to determine when an integrated set of assets and activities is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group

of similar identifiable assets, the set is not a business. This screen reduces the number of transactions that need to be further evaluated. If the screen is not met, then the amendments (1) require that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and (2) remove the evaluation of whether a market participant could replace missing elements. The amendments also provide a framework to assist entities in evaluating whether both an input and a substantive process are present. These amendments are effective for annual periods beginning after December 15, 2017, including interim periods within those periods, with early application permitted for transactions that have not been previously reported. We will apply this guidance to all transactions completed subsequent to our adoption of these amendments.

Goodwill Impairment

In January 2017, FASB issued ASU 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, which eliminates Step 2 from the goodwill impairment test. Step 2 required entities to compute the implied fair value of goodwill if it was determined that the carrying amount of a reporting unit exceeded its fair value. Under the amendments in this update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. The goodwill impairment recognized should not exceed the total amount of goodwill allocated to that reporting unit.

Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. These amendments are effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We expect to apply these amendments for our annual goodwill impairment test as of November 30, 2017, or earlier if events or changes in circumstances indicate that an interim goodwill impairment test is necessary.

Other Income

In February 2017, FASB issued ASU 2017-05, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20), which clarifies the scope of Subtopic 610-20 and adds guidance for partial sales of nonfinancial assets. Specifically, the amendments clarify that the guidance applies to all nonfinancial assets and in substance nonfinancial assets unless other specific guidance applies and defines "in substance financial asset" as an asset or group of assets for which substantially all of the fair value consists of nonfinancial assets and the group or subsidiary is not a business. These amendments also impact the accounting for partial sales of nonfinancial assets, whereby an entity that transfers its controlling interest in a nonfinancial asset, but retains a noncontrolling ownership interest, will measure the retained interest at fair value resulting in the full gain/loss recognition upon sale. These amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, with early adoption permitted. We are currently evaluating the effect of such amendments on our consolidated financial statements.

Stock Compensation – Scope of Modification Accounting

In May 2017, FASB issued ASU 2017-09, Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting, which clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. Under the new guidance, an entity will apply modification accounting only if the fair value, vesting conditions or the classification of the award changes as a result of the change in terms or conditions of a share-based payment award. In addition, the new guidance clarifies that regardless of whether an entity is required to apply modification accounting, the existing disclosure requirements and other aspects of GAAP associated with modifications continue to apply. These amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, with early adoption permitted. We early adopted the applicable amendments in second quarter of 2017 and will apply the new guidance prospectively to awards modified on or after the adoption date.

Financial Instruments with Down Round Features

In July 2017, FASB issued ASU 2017-11, Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part I) Accounting for Certain Financial Instruments with Down Round Features. (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception. The amendments in this update are intended to simplify the accounting for certain equity-linked financial instruments and embedded features with down round features that result in the strike price being reduced on the basis of the pricing of future equity offerings. Under the new guidance, a down round feature will no longer need to be considered when determining whether certain financial instruments or embedded features should be classified as liabilities or equity instruments. That is, a down round feature will no longer preclude equity classification when assessing whether an instrument or embedded feature is indexed to an entity's own stock. In addition, the amendments clarify existing disclosure requirements for equity-classified instruments. These amendments are effective for fiscal years, and interim

periods within those years, beginning after December 15, 2018, with early adoption permitted. We early adopted the applicable amendments in the second quarter of 2017 on a retrospective basis noting no effect on our consolidated financial statements.

Note 4 – Acquisitions and Divestitures

2017 Acquisitions

Permian Acquisition

On March 1, 2017, Targa completed the purchase of 100% of the membership interests of Outrigger Delaware Operating, LLC, Outrigger Southern Delaware Operating, LLC (together “New Delaware”) and Outrigger Midland Operating, LLC (“New Midland” and together with New Delaware, the “Permian Acquisition”).

We paid $484.1 million in cash at closing on March 1, 2017, and paid an additional $90.0 million in cash on May 30, 2017 (collectively, the “initial purchase price”). Subject to certain performance-linked measures and other conditions, additional cash of up

to $935.0 million may be payable to the sellers of New Delaware and New Midland in potential earn-out payments that may occur in 2018 and 2019. The potential earn-out payments will be based upon a multiple of realized gross margin from contracts that existed on March 1, 2017.

New Delaware's gas gathering and processing and crude gathering assets are located in Loving, Winkler, Pecos and Ward counties in Texas. The operations are backed by producer dedications of more than 145,000 acres under long-term, largely fee-based contracts, with an average weighted contract life of 14 years. The New Delaware assets include 70 MMcf/d of processing capacity. Currently, there is 40,000 Bbl/d of crude gathering capacity on the New Delaware system. Since March 1, 2017, financial and statistical data of New Delaware have been included in Sand Hills operations.

New Midland's gas gathering and processing and crude gathering assets are located in Howard, Martin and Borden counties in Texas. The operations are backed by producer dedications of more than 105,000 acres under long-term, largely fee-based contracts, with an average weighted contract life of 13 years. The New Midland assets include 10 MMcf/d of processing capacity. Currently, there is 40,000 Bbl/d of crude gathering capacity on the New Midland system. Since March 1, 2017, financial and statistical data of New Midland have been included in SAOU operations.

New Delaware's gas gathering and processing assets were connected to our Sand Hills system in the first quarter of 2017 and we expect that New Midland's gas gathering and processing assets will be connected to our existing WestTX system during 2017. We believe connecting the acquired assets to our legacy Permian footprint creates operational and capital synergies, and will afford enhanced flexibility in serving our producer customers.

On January 26, 2017, we completed a public offering of 9,200,000 shares of our common stock (including the shares sold pursuant to the underwriters' overallotment option) at a price to the public of $57.65, providing net proceeds of $524.2 million. We used the net proceeds from this public offering to fund the cash portion of the Permian Acquisition purchase price due upon closing and for general corporate purposes.

The acquired businesses contributed revenues of $36.4 million and a net loss of $12.6 million to us for the period from March 1, 2017 to June 30, 2017, and are reported in our Gathering and Processing segment. As of June 30, 2017, we had incurred $5.2 million of acquisition-related costs. These expenses are included in Other expense in our Consolidated Statements of Operations for the six months ended June 30, 2017.

Pro Forma Impact of Permian Acquisition on Consolidated Statement of Operations

The following summarized unaudited pro forma Consolidated Statement of Operations information for the six months ended June 30, 2017 and June 30, 2016 assumes that the Permian Acquisition occurred as of January 1, 2016. We prepared the following summarized unaudited pro forma financial results for comparative purposes only. The summarized unaudited pro forma information may not be indicative of the results that would have occurred had we completed this acquisition as of January 1, 2016, or that would be attained in the future.

	June 30, 2017 Pro Forma	June 30, 2016 Pro Forma
Revenues	$3,994.4	$3,034.3
Net income (loss)	(41.2)	(36.0)

The pro forma consolidated results of operations amounts have been calculated after applying our accounting policies, and making the following adjustments to the unaudited results of the acquired businesses for the periods indicated:

- Reflect the amortization expense resulting from the preliminary estimate of the fair value of intangible assets recognized as part of the Permian Acquisition. For the purposes of preparing the pro forma adjustments we have assumed a 15-year life using the straight-line method. The amortization method and lives for the Permian Acquisition intangibles will be reviewed and possibly revised as we finalize the valuations.

- Reflect the change in depreciation expense resulting from the difference between the historical balances of the Permian Acquisition's property, plant and equipment, net, and the preliminary estimate of the fair value of property, plant and equipment acquired.

- Exclude $5.2 million of acquisition-related costs incurred as of June 30, 2017 from pro forma net income for the six months ended June 30, 2017. Pro forma net income for the six months ended June 30, 2016 was adjusted to include those charges.

• Reflect the income tax effects of the above pro forma adjustments.

The following table summarizes the consideration transferred to acquire New Delaware and New Midland:

Fair Value of Consideration Transferred:		
Cash paid, net of $3.3 million cash acquired	$	570.8
Contingent consideration valuation		416.3
Total	$	987.1

We accounted for the Permian Acquisition as an acquisition of a business under purchase accounting rules. The assets acquired and liabilities assumed related to the Permian Acquisition were recorded at their fair values as of the closing date of March 1, 2017. The fair values below are preliminary and subject to revisions pending the finalization of our review of the valuation. These and other estimates are subject to change as additional information becomes available and is assessed by us. The preliminary fair value of the assets acquired and liabilities assumed at the acquisition date is shown below:

Fair value determination:	March 1, 2017
Trade and other current receivables, net	$ 6.7
Other current assets	0.6
Property, plant and equipment	255.8
Intangible assets	692.3
Current liabilities	(14.1)
Other long-term liabilities	(0.8)
Total identifiable net assets	940.5
Goodwill	46.6
Total fair value of consideration transferred	$ 987.1

Under the acquisition method of accounting, the assets acquired and liabilities assumed are recognized at their estimated fair values, with any excess of the purchase price over the estimated fair value of the identifiable net assets acquired recorded as goodwill. Such excess of purchase price over the fair value of net assets acquired was approximately $46.6 million, which was recorded as goodwill. As of June 30, 2017, this determination is based on our preliminary valuation and is subject to revisions pending the finalization of our review of the valuation. As a result, goodwill is also preliminary. The preliminary goodwill is attributable to expected operational and capital synergies. The goodwill is expected to be amortizable for tax purposes. The attribution of the goodwill to reporting units for the purpose of required future impairment assessments will be completed in conjunction with our finalization of the fair value determination.

The preliminary fair value of assets acquired included trade receivables of $6.7 million, substantially all of which has been subsequently collected.

The valuation of the acquired assets and liabilities was prepared using fair value methods and assumptions including projections of future production volumes and cash flows, benchmark analysis of comparable public companies, expectations regarding customer contracts and relationships, and other management estimates. The fair value measurements of assets acquired and liabilities assumed are based on inputs that are not observable in the market and therefore represent Level 3 inputs, as defined in Note 17 – Fair Value Measurements. These inputs require significant judgments and estimates at the time of valuation.

During the three months ended June 30, 2017, we recorded measurement period adjustments to our preliminary acquisition date fair values due to the refinement of our valuation models, assumptions and inputs, including forecasts of future volumes, capital expenditures and operating expenses. The measurement period adjustments are based upon information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the measurement of the amounts recognized at that date. We have recognized these measurement period adjustments in the current reporting period, with the effect on the consolidated statements of operations resulting from the change to the provisional amounts calculated as if the acquisition had been completed at March 1, 2017. During the three months ended June 30, 2017, the acquisition date fair value of contingent consideration liability decreased by $45.3 million, intangible assets increased by $66.7 million, and other assets, net, increased by $0.4 million, which resulted in a decrease in goodwill of $112.4 million. These adjustments resulted in an increase in depreciation and amortization expense of $0.4 million recorded in the three months ended June 30, 2017.

Contingent Consideration

A contingent consideration liability arising from potential earn-out payments in connection with the Permian Acquisition has been recognized at its preliminary fair value. We agreed to pay up to an additional $935.0 million in potential earn-out payments that may occur in 2018 and 2019. The preliminary acquisition date fair value of the potential earn-out payments of $416.3 million was recorded within Other long-term liabilities on our Consolidated Balance Sheets. Changes in the fair value of this liability, excluding any measurement period adjustments of the acquisition date fair value, are included in earnings. During the six months ended June 30, 2017, we recognized $1.1 million as Other expense related to the change in fair value of the contingent consideration. See Note 17 – Fair Value Measurements for additional discussion of the fair value methodology.

As of June 30, 2017, the fair value of the first potential earn-out payment of $40.6 million has been recorded as a component of accounts payable and accrued liabilities, which are current liabilities on our Consolidated Balance Sheets. As of June 30, 2017, the fair value of the second potential earn-out payment of $376.8 million has been recorded within Other long-term liabilities on our Consolidated Balance Sheets.

Flag City Acquisition

On May 9, 2017, we purchased all of the equity interests in Flag City Processing Partners, LLC ("FCCP") from Boardwalk Midstream, LLC (“Boardwalk”) and all of the equity interests in FCPP Pipeline, LLC from Boardwalk Field Services, LLC (“BFS”) for a base purchase price of $60.0 million subject to customary closing adjustments. The preliminary adjustment to the base purchase price paid to Boardwalk at closing was an additional $4.7 million. Final adjustments and settlement will occur within 90 days of closing. As part of the acquisition (the “Flag City Acquisition”), we acquired a natural gas processing plant with 150 MMcf/d of operating capacity (the “Flag City Plant”) located in Jackson County, Texas; 24 miles of gas gathering pipeline systems and related rights-of-ways located in Bee and Karnes counties in Texas; 102.1 acres of land surrounding the Flag City Plant; and a limited number of gas supply contracts.

The gas processing activities under the Flag City Plant contracts have been transferred to our Silver Oak Plants. We have shut down the Flag City Plant and intend to move the plant and its component parts to other Targa locations.

We accounted for this purchase as an asset acquisition and have capitalized less than $0.1 million of acquisition related costs as a component of the cost of assets acquired, which resulted in a preliminary allocation of $51.5 million of property, plant and equipment, $8.5 million of intangible assets for customer contracts and $4.7 million of current assets and liabilities, net.

Purchase of Outstanding Silver Oak II Interests

Effective as of June 1, 2017, we repurchased from SN Catarina, LLC (a subsidiary of Sanchez Energy Corp.) the remaining 10% interest in our consolidated Silver Oak II Gas processing facility and other related assets located in Bee County, Texas for a purchase price of $12.5 million. The change in our ownership interest was accounted for as an equity transaction representing the acquisition of a noncontrolling interest and no gain or loss was recognized in our Consolidated Statements of Operations as a result.

2017 Divestiture

Sale of Venice Gathering System, L.L.C.

Through our 76.8% ownership interest in Venice Energy Services Company, L.L.C. (“VESCO”), we have operated the Venice Gas Plant and the Venice gathering system. On April 4, 2017, VESCO entered into a purchase and sale agreement with Rosefield Pipeline Company, LLC, an affiliate of Arena Energy, LP, to sell its 100% ownership interests in Venice Gathering System, L.L.C. (“VGS”), a Delaware limited liability company engaged in the business of transporting natural gas in interstate commerce, under authorization granted by and subject to the jurisdiction of the Federal Energy Regulatory Commission (“FERC”), for approximately $0.4 million in cash. Additionally, the VGS asset retirement obligations (“ARO”) were assumed by the buyer. VGS owns and operates a natural gas gathering system in the Gulf of Mexico. Historically, VGS has been reported in our Gathering and Processing segment. After the sale of VGS, we continue to operate the Venice Gas Plant through our ownership in VESCO. Targa Midstream Services LLC will continue to operate the Venice gathering system for up to four months after closing pursuant to a Transition Services Agreement with VGS.

As a result of the April 4, 2017 sale, we recognized a loss of $16.1 million in our Consolidated Statements of Operations for the three months ended March 31, 2017 as part of Other operating (income) expense to impair our basis in the VGS net assets to its fair value. As such, the VGS divestiture had no impact on our net income for the three months ended June 30, 2017 and its primary impact was the removal of the VGS assets and liabilities from our Consolidated Balance Sheet.

Note 5 — Inventories

	June 30, 2017	December 31, 2016
Commodities	$187.8	$ 126.9
Materials and supplies	9.9	10.8
	$197.7	$ 137.7

Note 6 — Property, Plant and Equipment and Intangible Assets

Property, Plant and Equipment

	June 30, 2017	December 31, 2016	Estimated Useful Lives (In Years)
Gathering systems	$6,849.2	$6,626.8	5 to 20
Processing and fractionation facilities	3,561.2	3,390.2	5 to 25
Terminaling and storage facilities	1,233.6	1,205.0	5 to 25
Transportation assets	342.7	451.4	10 to 25
Other property, plant and equipment	284.0	274.2	3 to 25
Land	122.4	121.3	—
Construction in progress	920.5	449.8	—
Property, plant and equipment	13,313.6	12,518.7	
Accumulated depreciation	(3,086.8)	(2,827.7)	
Property, plant and equipment, net	$10,226.8	$9,691.0	
Intangible assets	$2,737.4	$2,036.6	10 to 20
Accumulated amortization	(472.7)	(382.6)	
Intangible assets, net	$2,264.7	$1,654.0	

Intangible Assets

Intangible assets consist of customer contracts and customer relationships acquired in the Permian and Flag City Acquisitions in 2017, the mergers with Atlas Energy L.P. and Atlas Pipeline Partners L.P. in 2015 (collectively, the "Atlas mergers") and our Badlands acquisition in 2012. The fair values of these acquired intangible assets were determined at the date of acquisition based on the present values of estimated future cash flows. Key valuation assumptions include probability of contracts under negotiation, renewals of existing contracts, economic incentives to retain customers, past and future volumes, current and future capacity of the gathering system, pricing volatility and the discount rate.

The intangible assets acquired in the Permian Acquisition were recorded at a preliminary fair value of $692.3 million pending completion of final valuations. For the purposes of preparing the accompanying financial statements (which include four months of amortization of these intangible assets), we are amortizing these intangible assets over a 15-year life using the straight-line method. The amortization method and lives for the Permian Acquisition intangibles will be reviewed and possibly revised as we finalize the valuations over the upcoming months.

The intangible assets acquired in the Flag City Acquisition were recorded at a preliminary fair value of $8.5 million pending completion of the final valuation. For the purposes of preparing the accompanying financial statements (which include two months of amortization of these intangible assets), we are amortizing these intangible assets over a 10-year life using the straight-line method. The amortization method and lives for the Flag City Acquisition intangibles will be reviewed and possibly revised as we finalize the valuation.

The intangible assets acquired in the Atlas mergers are being amortized over a 20-year life using the straight-line method, as a reliably determinable pattern of amortization could not be identified. Amortization expense attributable to our intangible assets related to the Badlands acquisition is recorded using a method that closely reflects the cash flow pattern underlying their intangible asset valuation over a 20-year life.

The estimated annual amortization expense for intangible assets, including the provisional Permian and Flag City valuations is approximately $188.4 million, $182.7 million, $171.7 million, $159.5 million and $149.6 million for each of the years 2017 through 2021.

The changes in our intangible assets are as follows:

Balance at December 31, 2016	$1,654.0
Additions from Permian Acquisition	692.3
Additions from Flag City Acquisition	8.5
Amortization	(90.1)
Balance at June 30, 2017	$2,264.7

Note 7 – Goodwill

As described in Note 3 – Significant Accounting Policies, we evaluate goodwill for impairment at least annually on November 30, or more frequently if we believe necessary based on events or changes in circumstances. During the first quarter of 2016, we finalized our 2015 impairment assessment and recorded additional impairment expense of $24.0 million on our Consolidated Statement of Operations. The impairment of goodwill was primarily due to the effects of lower commodity prices, and a higher cost of capital for companies in our industry compared to conditions in February 2015 when we acquired Atlas.

Changes in the net book value of our goodwill are as follows:

	WestTX	SouthTX	Permian	Total
Balance at December 31, 2016, net	$ 174.7	$ 35.3	$ —	$210.0
Permian Acquisition, March 1, 2017 (preliminary valuation)	—	—	46.6	46.6
Balance at June 30, 2017, net	$ 174.7	$ 35.3	$ 46.6	$256.6

Note 8 – Investments in Unconsolidated Affiliates

Our unconsolidated investments consist of a 38.8% non-operated ownership interest in Gulf Coast Fractionators LP (“GCF”) and three non-operated joint ventures in South Texas acquired in the Atlas mergers in 2015: a 75% interest in T2 LaSalle, a gas gathering company; a 50% interest in T2 Eagle Ford, a gas gathering company; and a 50% interest

in T2 EF Cogen ("Cogen"), which owns a cogeneration facility, (together the "T2 Joint Ventures"). The T2 Joint Ventures were formed to provide services for the benefit of the joint interest owners. The T2 LaSalle and T2 Eagle Ford gathering companies have capacity lease agreements with the joint interest owners, which cover their costs of operations (excluding depreciation and amortization). The terms of these joint venture agreements do not afford us the degree of control required for consolidating them in our consolidated financial statements, but do afford us the significant influence required to employ the equity method of accounting.

The following table shows the activity related to our investments in unconsolidated affiliates:

	GCF	T2 LaSalle	T2 Eagle Ford	T2 EF Cogen	Total
Balance at December 31, 2016	$46.1	$ 58.6	$118.6	$17.5	$240.8
Equity earnings (loss)	4.0	(2.4)	(5.4)	(13.0)	(16.8)
Cash distributions (1)	(7.2)	—	—	—	(7.2)
Contributions for expansion projects (2)	—	0.4	1.1	0.1	1.6
Balance at June 30, 2017	$42.9	$ 56.6	$114.3	$4.6	$218.4

(1) Includes $3.2 million in distributions received from GCF in excess of our share of cumulative earnings for the six months ended June 30, 2017. Such excess distributions are considered a return of capital and disclosed in cash flows from investing activities in the Consolidated Statements of Cash Flows in the period in which they occur.
(2) Includes a $1.0 million contribution of property, plant and equipment to T2 Eagle Ford.

Our equity loss for the six months ended June 30, 2017 includes the effect of an impairment in the carrying value of our investment in T2 EF Cogen. As a result of the decrease in current and expected future utilization of the underlying cogeneration assets, we have determined that factors indicate that a decrease in the value of our investment occurred that was other than temporary. As a result of this evaluation, we recorded an impairment loss of approximately $12.0 million in the first quarter of 2017, which represented our proportionate share (50%) of an impairment charge recorded by the joint venture, as well as our impairment of the unamortized excess fair value resulting from the Atlas mergers.

The carrying values of the T2 gathering joint ventures include the effects of the Atlas mergers purchase accounting, which determined fair values for the joint ventures as of the date of acquisition. As of June 30, 2017, $26.9 million of unamortized excess fair value over the T2 LaSalle and T2 Eagle Ford capital accounts remained. These basis differences, which are attributable to the underlying depreciable tangible gathering assets, are being amortized on a straight-line basis as components of equity earnings over the estimated 20-year useful lives of the underlying assets.

Note 9 — Accounts Payable and Accrued Liabilities

	June 30, 2017	December 31, 2016
Commodities	$482.7	$ 574.4
Other goods and services	192.2	117.0
Interest	53.8	52.3
Income and other taxes	45.0	24.2
Permian Acquisition contingent consideration, estimated current portion	40.6	—
Compensation and benefits	29.8	37.2
Preferred Series A dividends payable	22.9	22.9
Other	19.0	15.5
	$886.0	$ 843.5

Accounts payable and accrued liabilities includes $43.1 million and $30.5 million of liabilities to creditors to whom we have issued checks that remain outstanding as of June 30, 2017 and December 31, 2016. The estimated current portion of the Permian Acquisition contingent consideration represents the fair value as of June 30, 2017, of the first potential earn-out payment that may occur in May 2018. The estimated remaining portion would be payable in May 2019 and is recorded within Other long-term liabilities on our Consolidated Balance Sheets.

Note 10 — Debt Obligations

	June 30, 2017	December 31, 2016
Current:		
Obligations of the Partnership: (1)		
Accounts receivable securitization facility, due December 2017	$250.0	$ 275.0
Senior unsecured notes, 5% fixed rate, due January 2018 (2)	250.5	