

APACHE CORP  
Form 10-Q  
August 11, 2008

**Table of Contents**

**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, 2008**

**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 1-4300  
APACHE CORPORATION**

(Exact name of registrant as specified in its charter)

Delaware

41-0747868

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

Suite 100, One Post Oak Central  
2000 Post Oak Boulevard, Houston, TX

77056-4400

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (713) 296-6000

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 a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

Number of shares of registrant's common stock, outstanding as of June 30, 2008: 334,451,221

**TABLE OF CONTENTS**

**PART I FINANCIAL INFORMATION**

**ITEM 1 FINANCIAL STATEMENTS**

**ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**ITEM 4 CONTROLS AND PROCEDURES**

**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

**ITEM 1A. RISK FACTORS**

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

**ITEM 5. OTHER INFORMATION**

**ITEM 6. EXHIBITS**

**SIGNATURES**

**Index to Exhibits**

**Statement of Computation of Ratio of Earnings to Fixed Charges**

**Certification of Chief Executive Officer**

**Certification of Chief Financial Officer**

**Certification of Chief Executive Officer and Chief Financial Officer**

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Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1 FINANCIAL STATEMENTS**

**APACHE CORPORATION AND SUBSIDIARIES**  
**STATEMENT OF CONSOLIDATED OPERATIONS**  
(Unaudited)

|  | <b>For the Quarter</b>                              |                   | <b>For the Six Months</b> |                     |
|--|---|-------------------|---------------------------|---------------------|
|  | <b>Ended June 30,</b>                               |                   | <b>Ended June 30,</b>     |                     |
|  | <b>2008</b>   | <b>2007</b>       | <b>2008</b>               | <b>2007</b>         |
|  | <b>(In thousands, except per common share data)</b> |                   |                           |                     |
| <b>REVENUES AND OTHER:</b>                 |   |                   |                           |                     |
| Oil and gas production revenues            | \$ 3,904,118  | \$ 2,444,031      | \$ 7,082,067              | \$ 4,467,098        |
| Other                                      | (3,927)   | 28,513            | 5,865                     | 8,321               |
|  | 3,900,191   | 2,472,544         | 7,087,932                 | 4,475,419           |
| <b>OPERATING EXPENSES:</b>                 |   |                   |                           |                     |
| Depreciation, depletion and amortization   | 627,668   | 591,107           | 1,248,157                 | 1,122,020           |
| Asset retirement obligation accretion      | 25,679  | 24,134            | 52,176                    | 48,198              |
| Lease operating expenses                   | 446,738   | 406,667           | 901,376                   | 788,774             |
| Gathering and transportation               | 39,767  | 34,435            | 80,743                    | 65,698              |
| Taxes other than income                    | 298,548   | 143,791           | 541,126                   | 253,761             |
| General and administrative                 | 78,872  | 70,798            | 161,295                   | 138,660             |
| Financing costs, net:                      | 39,050  | 63,358            | 83,303                    | 105,421             |
|  | 1,556,322   | 1,334,290         | 3,068,176                 | 2,522,532           |
| <b>INCOME BEFORE INCOME TAXES</b>          | <b>2,343,869</b>                                    | <b>1,138,254</b>  | <b>4,019,756</b>          | <b>1,952,887</b>    |
| Current income tax provision               | 702,106   | 297,058           | 1,189,906                 | 483,580             |
| Deferred income tax provision              | 196,534   | 207,658           | 363,108                   | 342,820             |
| <b>NET INCOME</b>                          | <b>1,445,229</b>                                    | <b>633,538</b>    | <b>2,466,742</b>          | <b>1,126,487</b>    |
| Preferred stock dividends                  | 1,420   | 1,420             | 2,840                     | 2,840               |
| <b>INCOME ATTRIBUTABLE TO COMMON STOCK</b> | <b>\$ 1,443,809</b>                                 | <b>\$ 632,118</b> | <b>\$ 2,463,902</b>       | <b>\$ 1,123,647</b> |
| <b>NET INCOME PER COMMON SHARE:</b>        |   |                   |                           |                     |
| Basic                                      | \$ 4.32   | \$ 1.91           | \$ 7.38                   | \$ 3.39             |
| Diluted                                    | \$ 4.28   | \$ 1.89           | \$ 7.32                   | \$ 3.37             |

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The accompanying notes to consolidated financial statements  
are an integral part of this statement.

**Table of Contents**

**APACHE CORPORATION AND SUBSIDIARIES**  
**STATEMENT OF CONSOLIDATED CASH FLOWS**  
**(Unaudited)**

|   | <b>For the Six Months Ended</b> |              |
|---|---------------------------------|--------------|
|   | <b>June 30,</b>                 |              |
|   | <b>2008</b>                     | <b>2007</b>  |
|   | <b>(In thousands)</b>           |              |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |                                 |              |
| Net income  | \$ 2,466,742                    | \$ 1,126,487 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                 |              |
| Depreciation, depletion and amortization  | 1,248,157                       | 1,122,020    |
| Asset retirement obligation accretion   | 52,176                          | 48,198       |
| Provision for deferred income taxes   | 363,108                         | 342,820      |
| Other   | 34,250                          | 19,956       |
| Changes in operating assets and liabilities:                                      |                                 |              |
| (Increase) decrease in receivables  | (332,836)                       | (18,774)     |
| (Increase) decrease in drilling advances and other                                | (92,352)                        | (4,812)      |
| (Increase) decrease in inventories  | (1,720)                         | 21,900       |
| (Increase) decrease in deferred charges and other                                 | (133,128)                       | (18,822)     |
| Increase (decrease) in accounts payable   | 246,449                         | (45,686)     |
| Increase (decrease) in accrued expenses   | (84,237)                        | (88,565)     |
| Increase (decrease) in deferred credits and noncurrent liabilities                | (28,696)                        | (54,717)     |
| <br>  |                                 |              |
| Net cash provided by operating activities   | 3,737,913                       | 2,450,005    |
| <br>  |                                 |              |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |                                 |              |
| Additions to oil and gas property   | (2,543,077)                     | (2,205,671)  |
| Acquisition of U.S. Permian Basin properties                                      |                                 | (1,000,000)  |
| Additions to gas gathering, transmission and processing facilities                | (245,627)                       | (202,824)    |
| Restricted cash   | (94,357)                        |              |
| Proceeds from sale of oil and gas properties                                      | 299,937                         | 11,149       |
| Other, net  | (25,438)                        | (96,392)     |
| <br>  |                                 |              |
| Net cash used in investing activities   | (2,608,562)                     | (3,493,738)  |
| <br>  |                                 |              |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |                                 |              |
| Commercial paper and money market borrowings, net                                 | (182,351)                       | (822,529)    |
| Fixed-rate debt borrowings  |                                 | 1,991,753    |
| Payments on fixed-rate debt   | (353)                           | (3,000)      |
| Dividends paid  | (136,145)                       | (102,152)    |
| Common stock activity   | 28,526                          | 18,919       |
| Treasury stock activity, net  | 3,416                           | 10,476       |
| Cost of debt and equity transactions  | (964)                           | (16,145)     |

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|   |              |            |
|---|--------------|------------|
| Other   | 41,139       | 14,529     |
| Net cash provided by (used in) financing activities | (246,732)    | 1,091,851  |
| NET INCREASE IN CASH AND CASH EQUIVALENTS           | 882,619      | 48,118     |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR      | 125,823      | 140,524    |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD          | \$ 1,008,442 | \$ 188,642 |
| SUPPLEMENTARY CASH FLOW DATA:                       |              |            |
| Interest paid, net of capitalized interest          | \$ 90,316    | \$ 63,015  |
| Income taxes paid, net of refunds                   | 1,093,752    | 380,156    |

The accompanying notes to consolidated financial statements  
are an integral part of this statement.

2

---

**Table of Contents**

**APACHE CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET**  
(Unaudited)

|   | <b>June 30,<br/>2008</b> | <b>December 31,<br/>2007</b> |
|---|--------------------------|------------------------------|
|   | <b>(In thousands)</b>    |                              |
| <b>ASSETS</b>   |                          |                              |
| <b>CURRENT ASSETS:</b>  |                          |                              |
| Cash and cash equivalents   | \$ 1,008,442             | \$ 125,823                   |
| Receivables, net of allowance   | 2,266,357                | 1,936,977                    |
| Inventories   | 468,346                  | 461,211                      |
| Drilling advances   | 204,683                  | 112,840                      |
| Derivative instruments  | 864                      | 20,889                       |
| Prepaid assets and other  | 207,654                  | 94,511                       |
|   | 4,156,346                | 2,752,251                    |
| <b>PROPERTY AND EQUIPMENT:</b>  |                          |                              |
| Oil and gas, on the basis of full cost accounting:                        |                          |                              |
| Proved properties   | 37,105,506               | 34,645,710                   |
| Unproved properties and properties under development, not being amortized | 1,666,650                | 1,439,726                    |
| Gas gathering, transmission and processing facilities                     | 2,452,081                | 2,206,453                    |
| Other   | 432,939                  | 416,149                      |
|   | 41,657,176               | 38,708,038                   |
| Less: Accumulated depreciation, depletion and amortization                | (14,722,923)             | (13,476,445)                 |
|   | 26,934,253               | 25,231,593                   |
| <b>OTHER ASSETS:</b>  |                          |                              |
| Restricted cash   | 94,357                   |                              |
| Goodwill, net   | 189,252                  | 189,252                      |
| Deferred charges and other  | 502,951                  | 461,555                      |
|   | \$ 31,877,159            | \$ 28,634,651                |

The accompanying notes to consolidated financial statements  
are an integral part of this statement.



**Table of Contents**

**APACHE CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET**  
**(Unaudited)**

|   | <b>June 30,<br/>2008</b> | <b>December 31,<br/>2007</b> |
|---|--------------------------|------------------------------|
|   | <b>(In thousands)</b>    |                              |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>  |                          |                              |
| <b>CURRENT LIABILITIES:</b>   |                          |                              |
| Accounts payable  | \$ 894,411               | \$ 617,937                   |
| Accrued operating expense   | 108,726                  | 112,453                      |
| Accrued exploration and development   | 882,469                  | 600,165                      |
| Accrued compensation and benefits   | 151,547                  | 172,542                      |
| Accrued interest  | 78,175                   | 78,187                       |
| Accrued income taxes  | 214,695                  | 73,184                       |
| Current debt  | 133,792                  | 215,074                      |
| Asset retirement obligation   | 340,812                  | 309,777                      |
| Derivative instruments  | 1,014,122                | 286,226                      |
| United Kingdom Petroleum Revenue Tax  | 243,962                  | 117,028                      |
| Other   | 61,592                   | 82,443                       |
|   | 4,124,303                | 2,665,016                    |
| <b>LONG-TERM DEBT</b>   | <b>3,912,136</b>         | <b>4,011,605</b>             |
| <b>DEFERRED CREDITS AND OTHER NONCURRENT LIABILITIES:</b>   |                          |                              |
| Income taxes  | 3,597,923                | 3,924,983                    |
| Asset retirement obligation   | 1,421,950                | 1,556,909                    |
| Derivative instruments  | 1,541,608                | 381,791                      |
| Other   | 764,770                  | 716,368                      |
|   | 7,326,251                | 6,580,051                    |
| <b>COMMITMENTS AND CONTINGENCIES (Note 7)</b>   |                          |                              |
| <b>SHAREHOLDERS EQUITY:</b>   |                          |                              |
| Preferred stock, no par value, 5,000,000 shares authorized Series B, 5.68% Cumulative, \$100 million aggregate liquidation value, 100,000 shares issued and outstanding | 98,387                   | 98,387                       |
| Common stock, \$0.625 par, 430,000,000 shares authorized, 342,543,560 and 341,322,088 shares issued, respectively   | 214,090                  | 213,326                      |
| Paid-in capital   | 4,420,133                | 4,367,149                    |
| Retained earnings   | 13,788,073               | 11,457,592                   |

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|   |               |               |
|---|---------------|---------------|
| Treasury stock, at cost, 8,092,339 and 8,394,945 shares, respectively | (229,674)     | (238,264)     |
| Accumulated other comprehensive loss                                  | (1,776,540)   | (520,211)     |
|   | 16,514,469    | 15,377,979    |
|   | \$ 31,877,159 | \$ 28,634,651 |

The accompanying notes to consolidated financial statements  
are an integral part of this statement.

4

---

Table of Contents

**APACHE CORPORATION AND SUBSIDIARIES**  
**STATEMENT OF CONSOLIDATED SHAREHOLDERS EQUITY**  
**(Unaudited)**

|   | Series<br>B    |           | Accumulated             |                    |                 |                    |                      | Total<br>Shareholders<br>Equity |
|---|----------------|-----------|-------------------------|--------------------|-----------------|--------------------|----------------------|---------------------------------|
|   |                |           | Comprehensive<br>Income | Preferred<br>Stock | Common<br>Stock | Paid-In<br>Capital | Retained<br>Earnings |                                 |
|   | (In thousands) |           |                         |                    |                 |                    |                      |                                 |
| BALANCE<br>AT<br>DECEMBER<br>31, 2006                               |                | \$ 98,387 | \$ 212,365              | \$ 4,269,795       | \$ 8,898,577    | \$ (256,739)       | \$ (31,332)          | \$ 13,191,053                   |
| Comprehensive<br>income (loss):                                     |                |           |                         |                    |                 |                    |                      |                                 |
| Net income  | \$ 1,126,487   |           |                         |                    | 1,126,487       |                    |                      | 1,126,487                       |
| Commodity<br>hedges, net of<br>income tax<br>benefit of<br>\$70,660 | (126,848)      |           |                         |                    |                 |                    | (126,848)            | (126,848)                       |
| Comprehensive<br>income   | \$ 999,639     |           |                         |                    |                 |                    |                      |                                 |
| Dividends:  |                |           |                         |                    |                 |                    |                      |                                 |
| Preferred   |                |           |                         |                    | (2,840)         |                    |                      | (2,840)                         |
| Common (\$.30<br>per share)   |                |           |                         |                    | (99,419)        |                    |                      | (99,419)                        |
| Common<br>shares issued   |                |           | 492                     | 26,908             |                 |                    |                      | 27,400                          |
| Treasury<br>shares issued,<br>net                                   |                |           |                         | 2,438              |                 | 13,668             |                      | 16,106                          |
| Compensation<br>Expense   |                |           |                         | 21,422             |                 |                    |                      | 21,422                          |
| FIN 48<br>Adoption  |                |           |                         |                    | (48,502)        |                    |                      | (48,502)                        |
| Other   |                |           |                         | 77                 | 252             |                    |                      | 329                             |
| <br>BALANCE<br>AT JUNE 30,<br>2007                                  |                | \$ 98,387 | \$ 212,857              | \$ 4,320,640       | \$ 9,874,555    | \$ (243,071)       | \$ (158,180)         | \$ 14,105,188                   |
|   |                | \$ 98,387 | \$ 213,326              | \$ 4,367,149       | \$ 11,457,592   | \$ (238,264)       | \$ (520,211)         | \$ 15,377,979                   |

|  |              |            |              |               |              |                |               |             |
|--|--------------|------------|--------------|---------------|--------------|----------------|---------------|-------------|
| BALANCE<br>AT<br>DECEMBER<br>31, 2007                                |              |            |              |               |              |                |               |             |
| Comprehensive<br>income (loss):                                      |              |            |              |               |              |                |               |             |
| Net income   | \$ 2,466,742 |            |              | 2,466,742     |              |                |               | 2,466,742   |
| Commodity<br>hedges, net of<br>income tax<br>benefit of<br>\$667,072 | (1,256,329)  |            |              |               |              | (1,256,329)    |               | (1,256,329) |
| Comprehensive<br>income  | \$ 1,210,413 |            |              |               |              |                |               |             |
| Dividends:   |              |            |              |               |              |                |               |             |
| Preferred  |              |            |              | (2,840)       |              |                |               | (2,840)     |
| Common (\$.40<br>per share)  |              |            |              | (133,435)     |              |                |               | (133,435)   |
| Common<br>shares issued  | 764          | 34,858     |              |               |              |                |               | 35,622      |
| Treasury<br>shares issued,<br>net                                    |              | (270)      |              |               | 8,590        |                |               | 8,320       |
| Compensation<br>Expense  |              | 37,453     |              |               |              |                |               | 37,453      |
| FIN 48   |              | (19,142)   |              |               |              |                |               | (19,142)    |
| Other  |              | 85         |              | 14            |              |                |               | 99          |
| BALANCE<br>AT JUNE 30,<br>2008                                       | \$ 98,387    | \$ 214,090 | \$ 4,420,133 | \$ 13,788,073 | \$ (229,674) | \$ (1,776,540) | \$ 16,514,469 |             |

The accompanying notes to consolidated financial statements  
are an integral part of this statement.

**Table of Contents**

**APACHE CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

These financial statements have been prepared by Apache Corporation (Apache or the Company) without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC), and reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the results for the interim periods, on a basis consistent with the annual audited financial statements. All such adjustments are of a normal recurring nature. Certain information, accounting policies, and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the financial statements and the summary of significant accounting policies and notes included in the Company's most recent annual report on Form 10-K.

**Reclassifications**

Certain prior-period amounts have been reclassified to conform with current year presentations.

**1. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITY**

*Cash Flow Hedges* We periodically use derivative instruments in connection with anticipated crude oil and natural gas sales to mitigate the variability of cash flows associated with commodity price fluctuations. While these instruments mitigate the cash flow risk of future reductions in commodity prices they may also curtail benefits from future increases in commodity prices. We account for derivative instruments and hedging activities in accordance with SFAS 133 and typically elect to designate our commodity derivatives instruments as cash flow hedges.

As of June 30, 2008, we had entered into the following crude oil derivative instruments:

| Production<br>Period | Fixed-Price Swaps |  | Call Options |   | Collars |                                    | Weighted<br>Average<br>Ceiling<br>Price <sup>(1)</sup> |
|----------------------|-------------------|--|--------------|---|---------|------------------------------------|--|
|                      | Mbbls             | Weighted<br>Average<br>Fixed<br>Price <sup>(1)</sup> | Mbbls        | Weighted<br>Average<br>Strike<br>Price <sup>(1)</sup> | Mbbls   | Weighted<br>Average<br>Floor Price |  |
| 2008                 | 2,208             | \$ 69.21   |              | \$  | 6,900   | \$65.51                            | \$ 81.43   |
| 2009                 | 368               | 67.95  |              |   | 9,321   | 63.39                              | 80.14  |
| 2010                 | 2,018             | 70.87  | 368          | 129.50  | 6,016   | 62.11                              | 77.44  |
| 2011                 | 3,285             | 71.16  | 1,095        | 134.17  | 4,377   | 65.83                              | 84.41  |
| 2012                 | 2,926             | 71.34  | 364          | 138.00  | 1,456   | 66.88                              | 85.52  |
| 2013                 | 1,086             | 71.34  |              |   |         |                                    |  |

(1) Crude oil prices primarily represent a weighted average of NYMEX WTI Cushing Index prices on contracts entered into on a per barrel (Bbl) basis.

As of June 30, 2008, we had entered into the following natural gas derivative instruments:

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| Put Options |            |  | Collars    |            |            |   |   |
|-------------|------------|--|------------|------------|------------|---|---|
| Production  | MMBtu      | Weighted Average Strike Price <sup>(1)</sup> | Production | MMBtu      | GJ         | Weighted Average Floor Price <sup>(1)</sup> | Weighted Average Ceiling Price <sup>(1)</sup> |
| Period      | (in 000 s) |  | Period     | (in 000 s) | (in 000 s) |   |   |
| 2008        | 3,680      | \$ 8.75                                      | 2008       | 46,920     |            | \$ 7.27                                     | \$ 10.31                                      |
| 2009        |            |  | 2008       |            | 16,560     | 6.47  | 10.13   |
| 2010        |            |  | 2009       | 18,250     |            | 7.35  | 10.19   |
| 2011        |            |  | 2009       |            | 29,200     | 6.38  | 9.92  |
| 2012        |            |  | 2010       | 1,350      |            | 7.17  | 10.58   |

(1) U.S. natural gas prices represent a weighted average of several contracts entered into on a per million British thermal units (MMBtu) basis and are settled against a combination of indices, including NYMEX Henry Hub, Panhandle Eastern Pipe Line and Houston Ship Channel. The Canadian natural gas prices represent a weighted average of AECO Index prices. The Canadian gas collars are entered into on a per gigajoule (GJ) basis, are converted to U.S. dollars utilizing a June 30, 2008 exchange rate, and are settled against the AECO Index.



**Table of Contents**

*Commodity Derivative Activity in Accumulated Other Comprehensive Income (Loss) (OCI)* Based on market prices as of June 30, 2008, the Company's net unrealized loss in OCI for commodity derivatives designated as cash flow hedges totaled \$2.6 billion (\$1.7 billion after tax). Gains and losses on the hedges will be realized in future earnings contemporaneously with the related sales of natural gas and crude oil production applicable to specific hedges, which will occur through mid-2013. A reconciliation of the components of accumulated OCI in the Statement of Consolidated Shareholders' Equity related to Apache's cash flow hedges is presented in the table below:

|   | <b>Before<br/>tax</b> | <b>After tax</b> |
|---|-----------------------|------------------|
|   | <b>(In millions)</b>  |                  |
| Unrealized loss on derivatives at December 31, 2007 | \$ (639)              | \$ (412)         |
| Realized amounts reclassified into earnings         | 314                   | 203              |
| Net change in derivative fair value                 | (2,237)               | (1,459)          |
| <br>  |                       |                  |
| Unrealized loss on derivatives at June 30, 2008     | \$ (2,562)            | \$ (1,668)       |

*Receivables/Payables Related to Crude Oil and Natural Gas Derivative Instruments* The assets and liabilities for derivative instruments, including \$7 million related to recognition of unrealized derivatives that did not qualify for hedge accounting and hedge ineffectiveness are as follows:

|                     | <b>June 30,<br/>2008</b> | <b>December<br/>30<br/>2007</b> |
|---------------------|--------------------------|---------------------------------|
|                     | <b>(In millions)</b>     |                                 |
| Current asset       | \$ 1                     | \$ 21                           |
| Long-term asset     |                          | 7                               |
| Current liability   | (1,014)                  | (286)                           |
| Long-term liability | \$(1,542)                | \$ (382)                        |

**2. DEBT****Credit Facilities**

The Company's June 30, 2008 debt-to-capitalization ratio was 20 percent, down from 22 percent at December 31, 2007.

In February 2008, the Company requested amendments to its existing \$1.5 billion U.S. five-year revolving credit facility to (a) extend the maturity date one year to May 28, 2013 and (b) remove certain restrictions on our Australian entities including their ability to incur liens and issue guarantees. The Company also requested amendments to its \$450 million U.S. credit facility, \$150 million Australian credit facility and \$150 million Canadian credit facility to (a) extend the maturity date one year to May 12, 2013, (b) remove certain restrictions on our Australian entities including their ability to incur liens and issue guarantees, and (c) specific to the Australian credit facility, give the Company the option of increasing the size of the facility up to a maximum amount of \$400 million from the current limit of \$300 million by adding commitments from new or existing lenders.

Lenders approved the amendments removing certain restrictions on our Australian entities, including their ability to incur liens and issue guarantees as well as the amendment allowing the Company to increase the size of Australian credit facility to a maximum of \$400 million. In April 2008, the Company increased the Australian credit facility by \$50 million to \$200 million and as of April 30, lenders had extended the maturity dates on all of the credit facilities.



**Table of Contents****Financing Costs, Net**

Financing costs incurred during the periods noted are composed of the following:

|                                     | For the Quarter Ended<br>June 30, |           | For the Six Months<br>Ended<br>June 30, |            |
|-------------------------------------|-----------------------------------|-----------|---|------------|
|                                     | 2008                              | 2007      | 2008                                    | 2007       |
|                                     | (In thousands)                    |           |   |            |
| Interest expense                    | \$ 66,328                         | \$ 81,816 | \$ 135,635                              | \$ 147,548 |
| Amortization of deferred loan costs | 829                               | 852       | 1,680                                   | 1,546      |
| Capitalized interest                | (22,810)                          | (15,898)  | (44,387)                                | (37,674)   |
| Interest income                     | (5,297)                           | (3,412)   | (9,625)                                 | (5,999)    |
| Financing costs, net                | \$ 39,050                         | \$ 63,358 | \$ 83,303                               | \$ 105,421 |

**3. INCOME TAXES**

The Company estimates its annual effective income tax rate in recording its quarterly provision for income taxes in the various jurisdictions in which the Company operates. Statutory tax rate changes and other infrequent or unusual items are recognized as discrete items in the quarter in which they occur.

Apache and its subsidiaries are subject to U.S. federal income tax as well as income tax in various state and foreign jurisdictions. The Company's tax reserves are related to tax years that may be subject to examination by the relevant taxing authority.

The Company is in Administrative Appeals with the United States Internal Revenue Service (IRS) regarding the 2002 through 2005 tax years and under IRS audit for the 2006 tax year. The Company is also under audit in various states and in most of the Company's foreign jurisdictions as part of its normal course of business.

**4. CAPITAL STOCK****Net Income per Common Share**

A reconciliation of the components of basic and diluted net income per common share is presented in the table below:

|  | For the Quarter Ended June 30,           |   |              |   |              |           |
|--|--|---|--------------|---|--------------|-----------|
|  |  | 2008<br>Weighted<br>Average<br>Common<br>Shares | Per<br>Share | 2007<br>Weighted<br>Average<br>Common<br>Shares | Per<br>Share |           |
|  | Income                                   | Outstanding                                     | Income       | Outstanding                                     | Income       | Per Share |
|  | (In thousands, except per share amounts) |   |              |   |              |           |
| <b>Basic:</b>  |  |   |              |   |              |           |
| Income attributable to common stock                    | \$ 1,443,809                             | 334,208   | \$ 4.32      | \$ 632,118                                      | 331,812      | \$ 1.91   |
| <b>Effect of Dilutive Securities:</b>                  |  |   |              |   |              |           |
| Stock options and other                                |  | 3,468   |              | 2,094   |              |           |
| <b>Diluted:</b>  |  |   |              |   |              |           |
| Income attributable to common stock, including assumed | \$ 1,443,809                             | 337,676   | \$ 4.28      | \$ 632,118                                      | 333,906      | \$ 1.89   |

conversions

8

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**Table of Contents**

|  | <b>For the Six Months Ended June 30,</b>        |   |                      |               |   |                      |
|--|---|---|----------------------|---------------|---|----------------------|
|  | <b>2008</b>                                     |   |                      | <b>2007</b>   |   |                      |
|  | <b>Income</b>                                   | <b>Weighted<br/>Average<br/>Common<br/>Shares<br/>Outstanding</b> | <b>Per<br/>Share</b> | <b>Income</b> | <b>Weighted<br/>Average<br/>Common<br/>Shares<br/>Outstanding</b> | <b>Per<br/>Share</b> |
|  | <b>(In thousands, except per share amounts)</b> |   |                      |               |   |                      |
| <b>Basic:</b>  |   |   |                      |               |   |                      |
| Income attributable to common stock                                | \$ 2,463,902                                    | 333,801   | \$ 7.38              | \$ 1,123,647  | 331,514   | \$ 3.39              |
| <b>Effect of Dilutive Securities:</b>                              |   |   |                      |               |   |                      |
| Stock options and other  |   | 3,001   |                      |               | 2,081   |                      |
| <b>Diluted:</b>  |   |   |                      |               |   |                      |
| Income attributable to common stock, including assumed conversions | \$ 2,463,902                                    | 336,802   | \$ 7.32              | \$ 1,123,647  | 333,595   | \$ 3.37              |

The diluted earnings per share calculation excluded 378,293 shares of common stock that were anti-dilutive at June 30, 2008. There were no anti-dilutive shares excluded from the diluted earnings per share calculation at June 30, 2007.

**Common and Preferred Stock Dividends**

During the second quarter of 2008 and 2007, Apache paid \$50 million in dividends on its common stock. For the six-month periods ended June 30, 2008 and 2007, the Company paid \$133 million and \$99 million, respectively. Dividends paid during the 2008 six-month period included a special cash dividend of 10 cents per common share, paid March 18, 2008. In addition, for the three-month and six-month periods ended June 30, 2008 and 2007, Apache paid a total of \$1.4 million and \$2.8 million, respectively, in dividends on its Series B Preferred Stock.

**Stock-Based Compensation**

*2005 Share Appreciation Plan* On May 5, 2005, the Company's stockholders approved the 2005 Share Appreciation Plan that provided incentives for employees to double Apache's share price to \$108 by the end of 2008, with an interim goal of \$81 to be achieved by the end of 2007. To achieve the trigger price, the Company's stock price had to close at or above the stated threshold for 10 days out of any 30 consecutive trading days by the end of the stated period.

On June 14, 2007, Apache's share price exceeded the interim threshold for the required 10-day period. As such, Apache will issue approximately one million shares of its common stock, after minimum tax withholding requirements, in four equal annual installments. The first and second installments have already been issued. Subsequent installments will be issued in 2009 and 2010 to eligible employees remaining with the Company during that period.

On February 29, 2008, Apache's share price exceeded the second threshold for the required 10-day period. As such, Apache will issue approximately two million shares of its common stock, after minimum tax withholding requirements, in four equal annual installments. The first installment was issued in March 2008. Subsequent installments will be issued in 2009, 2010 and 2011 to eligible employees remaining with the Company during that period.

*2008 Share Appreciation Program* On May 7, 2008, the Stock Option Plan Committee of the Company's board of directors, pursuant to the Apache Corporation 2007 Omnibus Equity Compensation Plan, approved the 2008 Share Appreciation Program (the Program) that provides incentives for employees to double Apache's share price to \$216 by the end of 2012, with an interim goal of \$162 to be achieved by the end of 2010. To achieve the payout, the Company's stock price must close at or above the stated threshold for 10 out of any 30 consecutive trading days before the end of the stated period. Under the Program, if the first threshold is achieved, approximately 1.1 million shares would be awarded at an intrinsic cost of \$180 million. Achieving the second threshold would result in awards of approximately 1.7 million shares at an intrinsic cost of \$359 million. Shares issued to employees would be reduced by the required minimum tax withholding. Awards under the Program are payable in five equal annual installments, beginning on a date not more than 30 days after a threshold is attained for the required measurement period and on the four succeeding anniversaries of the attainment date. Over 90 percent of the value will go to non-executive employees.

**Table of Contents**

Current accounting practices dictate that, regardless of whether these thresholds are ultimately achieved, the Company will recognize, over time, the fair value cost determined at the grant date based on numerous assumptions, including an estimate of the likelihood that Apache's stock price will achieve these thresholds and the expected forfeiture rate. As a result, the Company will recognize expense and capitalized costs of approximately \$193 million over the expected service life of the Program.

The weighted average fair value, based on a Monte Carlo Simulation Model, was \$84.32 per share, determined by using expected volatility of 27.35 percent, an expected dividend yield of 0.52 percent, and a risk free interest rate of 3.03 percent.

On May 7, 2008, the Stock Option Plan Committee of Apache's Board of Directors awarded its Chief Executive Officer 250,000 restricted stock units, 50,000 of which will vest on July 1, 2009. The remaining 200,000 shares will vest ratably on the first business day of the years 2010, 2011, 2012 and 2013. Upon vesting, the Company will issue one share of the Company's common stock as settlement for each restricted stock unit. Thirty thousand of the shares vesting each year will not be eligible for sale by the executive until such time as he retires or otherwise terminates employment with the Company. The restricted stock unit agreement, dated May 8, 2008, is included as an exhibit to this quarterly report on Form 10-Q and incorporated herein by reference.

**Table of Contents****5. BUSINESS SEGMENT INFORMATION**

Apache has producing operations in six countries: the United States (Gulf Coast and Central regions), Canada, Egypt, Australia, offshore the United Kingdom (U.K.) in the North Sea, and Argentina. Early in the second quarter of 2008, we finalized contracts for two exploration blocks in Chile. Financial information by country is presented below:

|   | United<br>States | Canada     | Egypt        | Australia  | U.K.<br>North Sea | Argentina  | Other<br>International | Total        |
|---|------------------|------------|--------------|------------|-------------------|------------|------------------------|--------------|
|   | (In thousands)   |            |              |            |                   |            |                        |              |
| <b>For the<br/>Quarter<br/>Ended<br/>June 30, 2008</b>    |                  |            |              |            |                   |            |                        |              |
| Oil and Gas<br>Production<br>Revenues                     | \$ 1,665,167     | \$ 516,058 | \$ 878,418   | \$ 127,499 | \$ 628,428        | \$ 88,548  | \$                     | \$ 3,904,118 |
| Operating<br>Income (1)                                   | \$ 1,069,688     | \$ 295,585 | \$ 731,592   | \$ 69,182  | \$ 287,706        | \$ 11,965  | \$                     | \$ 2,465,718 |
| Other Income<br>(Expense):                                |                  |            |              |            |                   |            |                        |              |
| Other   |                  |            |              |            |                   |            |                        | (3,927)      |
| General and<br>administrative                             |                  |            |              |            |                   |            |                        | (78,872)     |
| Financing<br>costs, net                                   |                  |            |              |            |                   |            |                        | (39,050)     |
| Income Before<br>Income Taxes                             |                  |            |              |            |                   |            |                        | \$ 2,343,869 |
| <b>For the Six<br/>Months<br/>Ended<br/>June 30, 2008</b> |                  |            |              |            |                   |            |                        |              |
| Oil and Gas<br>Production<br>Revenues                     | \$ 3,034,635     | \$ 922,320 | \$ 1,550,316 | \$ 251,598 | \$ 1,144,804      | \$ 178,394 | \$                     | \$ 7,082,067 |
| Operating<br>Income (1)                                   | \$ 1,852,807     | \$ 476,309 | \$ 1,264,220 | \$ 114,101 | \$ 519,535        | \$ 31,517  | \$                     | \$ 4,258,489 |

|                               |              |
|-------------------------------|--------------|
| Other Income<br>(Expense):    |              |
| Other                         | 5,865        |
| General and<br>administrative | (161,295)    |
| Financing<br>costs, net       | (83,303)     |
| Income Before<br>Income Taxes | \$ 4,019,756 |

|              |               |              |              |              |              |              |           |               |
|--------------|---------------|--------------|--------------|--------------|--------------|--------------|-----------|---------------|
| Total Assets | \$ 13,191,709 | \$ 7,542,245 | \$ 4,258,260 | \$ 2,308,963 | \$ 2,816,537 | \$ 1,745,382 | \$ 14,063 | \$ 31,877,159 |
|--------------|---------------|--------------|--------------|--------------|--------------|--------------|-----------|---------------|

**For the  
Quarter  
Ended  
June 30, 2007**

|                                       |              |            |            |            |            |           |              |
|---------------------------------------|--------------|------------|------------|------------|------------|-----------|--------------|
| Oil and Gas<br>Production<br>Revenues | \$ 1,060,972 | \$ 358,543 | \$ 469,635 | \$ 141,620 | \$ 336,899 | \$ 76,362 | \$ 2,444,031 |
|---------------------------------------|--------------|------------|------------|------------|------------|-----------|--------------|

|                         |            |            |            |           |            |           |              |
|-------------------------|------------|------------|------------|-----------|------------|-----------|--------------|
| Operating<br>Income (1) | \$ 521,001 | \$ 152,307 | \$ 349,040 | \$ 59,859 | \$ 151,014 | \$ 10,676 | \$ 1,243,897 |
|-------------------------|------------|------------|------------|-----------|------------|-----------|--------------|

|                               |              |
|-------------------------------|--------------|
| Other Income<br>(Expense):    |              |
| Other                         | 28,513       |
| General and<br>administrative | (70,798)     |
| Financing<br>costs, net       | (63,358)     |
| Income Before<br>Income Taxes | \$ 1,138,254 |

**For the Six  
Months  
Ended  
June 30, 2007**

|                                       |              |            |            |            |            |            |              |
|---------------------------------------|--------------|------------|------------|------------|------------|------------|--------------|
| Oil and Gas<br>Production<br>Revenues | \$ 1,922,289 | \$ 678,713 | \$ 866,242 | \$ 245,804 | \$ 610,507 | \$ 143,543 | \$ 4,467,098 |
|---------------------------------------|--------------|------------|------------|------------|------------|------------|--------------|

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|                         |    |         |    |         |    |         |    |         |    |         |    |        |    |           |
|-------------------------|----|---------|----|---------|----|---------|----|---------|----|---------|----|--------|----|-----------|
| Operating<br>Income (1) | \$ | 894,557 | \$ | 280,613 | \$ | 622,949 | \$ | 102,583 | \$ | 266,762 | \$ | 21,183 | \$ | 2,188,647 |
|-------------------------|----|---------|----|---------|----|---------|----|---------|----|---------|----|--------|----|-----------|

Other Income

(Expense):

|       |  |  |  |  |  |  |  |  |  |  |  |  |  |       |
|-------|--|--|--|--|--|--|--|--|--|--|--|--|--|-------|
| Other |  |  |  |  |  |  |  |  |  |  |  |  |  | 8,321 |
|-------|--|--|--|--|--|--|--|--|--|--|--|--|--|-------|

|                               |  |  |  |  |  |  |  |  |  |  |  |  |  |           |
|-------------------------------|--|--|--|--|--|--|--|--|--|--|--|--|--|-----------|
| General and<br>administrative |  |  |  |  |  |  |  |  |  |  |  |  |  | (138,660) |
|-------------------------------|--|--|--|--|--|--|--|--|--|--|--|--|--|-----------|

|                         |  |  |  |  |  |  |  |  |  |  |  |  |  |           |
|-------------------------|--|--|--|--|--|--|--|--|--|--|--|--|--|-----------|
| Financing<br>costs, net |  |  |  |  |  |  |  |  |  |  |  |  |  | (105,421) |
|-------------------------|--|--|--|--|--|--|--|--|--|--|--|--|--|-----------|

Income Before

|              |  |  |  |  |  |  |  |  |  |  |  |  |  |              |
|--------------|--|--|--|--|--|--|--|--|--|--|--|--|--|--------------|
| Income Taxes |  |  |  |  |  |  |  |  |  |  |  |  |  | \$ 1,952,887 |
|--------------|--|--|--|--|--|--|--|--|--|--|--|--|--|--------------|

|              |    |            |    |           |    |           |    |           |    |           |    |           |    |        |    |            |
|--------------|----|------------|----|-----------|----|-----------|----|-----------|----|-----------|----|-----------|----|--------|----|------------|
| Total Assets | \$ | 11,942,642 | \$ | 7,026,501 | \$ | 2,879,714 | \$ | 1,522,149 | \$ | 2,038,736 | \$ | 1,511,457 | \$ | 10,732 | \$ | 26,931,931 |
|--------------|----|------------|----|-----------|----|-----------|----|-----------|----|-----------|----|-----------|----|--------|----|------------|

- 1) Operating  
Income consists  
of oil and gas  
production  
revenues less  
depreciation,  
depletion and  
amortization,  
asset retirement  
obligation  
accretion, lease  
operating  
expenses,  
gathering and  
transportation  
costs, and taxes  
other than  
income.



**Table of Contents****6. ASSET RETIREMENT OBLIGATIONS**

The following table describes changes to the Company's asset retirement obligation (ARO) liability for the six months ended June 30, 2008:

|  | <b>2008</b><br><b>(In thousands)</b> |
|--|--------------------------------------|
| Asset retirement obligation at December 31, 2007 | \$ 1,866,686                         |
| Liabilities incurred                             | 171,509                              |
| Liabilities settled                              | (327,609)                            |
| Accretion expense                                | 52,176                               |
| Revisions in estimated liabilities               |                                      |
| <br>   |                                      |
| Asset retirement obligation at June 30, 2008     | \$ 1,762,762                         |
| <br>   |                                      |
| Current portion                                  | \$ 340,812                           |
| Long-term portion                                | 1,421,950                            |

The asset retirement obligation reflects the estimated present value of the amount of dismantlement, removal, site reclamation and similar activities associated with our oil and gas properties. The Company utilizes current retirement costs to estimate the expected cash outflows for retirement obligations. To determine the current present value of this obligation, some key assumptions the Company must make include the ultimate productive life of the properties, a risk adjusted discount rate, and an inflation factor. To the extent future revisions to these assumptions impact the present value of the existing ARO liability, a corresponding adjustment is made to the oil and gas property balance.

Liabilities settled primarily relate to individual properties plugged and abandoned during the period. Most of the current year abandonment activity was in the Gulf of Mexico, a portion of which relates to the continued abandonment of platforms lost in 2005 during Hurricanes Katrina and Rita.

**7. COMMITMENTS AND CONTINGENCIES****Legal Matters**

*Grynberg* As more fully described in Note 9 of the financial statements in our annual report on Form 10-K for our 2007 fiscal year, in 1997, Jack J. Grynberg began filing lawsuits against other natural gas producers, gatherers, and pipelines claiming that the defendants have under paid royalty to the federal government and Indian tribes by mis-measurement of the volume and heating content of natural gas and are responsible for acts of others who mis-measured natural gas. The claims against Apache were dismissed, though Mr. Grynberg has appealed the dismissal. No material changes in this matter have occurred since the filing of our most recent annual report on Form 10-K.

*Argentine Environmental Claims* In connection with the Pioneer acquisition in 2006, the Company acquired a subsidiary of Pioneer in Argentina (PNRA) that is involved in various administrative proceedings with environmental authorities in the Neuquén Province relating to permits for and discharges from operations in that province. In addition, PNRA was named in a suit initiated against oil companies operating in the Neuquén basin entitled *Asociación de Superficialarios de la Patagonia v. YPF S.A., et. al.*, originally filed on August 21, 2003, in the Argentine National Supreme Court of Justice relating to various environmental and remediation claims. All of these matters are more fully described in Note 9 of the financial statements in our annual report on Form 10-K for our 2007 fiscal year. No material change in the status of these matters has occurred since the filing of our most recent annual report on Form 10-K.

*Louisiana Restoration* As more fully described in Note 9 of the financial statements in our annual report on Form 10-K for our 2007 fiscal year, numerous surface owners have filed claims or sent demand letters to various oil and gas companies, including Apache, claiming that, under either expressed or implied lease terms or Louisiana law, they are liable for damage measured by the cost of restoration of leased premises to their original condition as well as damages

for contamination and cleanup. No material change in the status of these matters has occurred since the filing of our most recent annual report on Form 10-K.

**Table of Contents**

*Hurricane Related Litigation* As more fully described in Note 9 of the financial statements in our annual report on Form 10-K for our 2007 fiscal year, in a case styled *Ned Comer, et al vs. Murphy Oil USA, Inc., et al*, Case No: 1:05-cv-00436; U.S.D.C., *United States District Court, Southern District of Mississippi.*, Mississippi property owners allege that hurricanes meteorological effects increased in frequency and intensity due to global warming, and there will be continued future damage from increasing intensity of storms and sea level rises. They claim this was caused by the various defendants (oil and gas companies, electric and coal companies, and chemical manufacturers). No material change in the status of this matter has occurred since the filing of our most recent annual report on Form 10-K.

*Australia Gas Pipeline Force Majeure* As more fully described in Item 2 of this quarterly report on Form 10-Q, Company subsidiaries reported a pipeline explosion that interrupted deliveries of natural gas to customers under various long-term contracts. The subsidiaries and their joint venture participants have declared force majeure under those contracts. Although no litigation has been filed, two customers have threatened to file suit challenging the declaration of force majeure under their contracts. Contract prices under their contracts are significantly below current spot prices for natural gas in Australia. Exposure related to such threatened lawsuits is not currently determinable. Company subsidiaries intend to vigorously defend against any such lawsuits.

*Other Matters* The Company is involved in other litigation and is subject to government and regulatory controls in the normal course of business. The Company has an accrued liability of approximately \$12 million for other legal contingencies that are deemed to be probable of occurring and can be reasonably estimated. It is management's opinion that the loss for any such other litigation matters and claims that are reasonably possible to occur will not have a material adverse affect on the Company's financial position or results of operations.

**Environmental Matters**

As of June 30, 2008, the Company had an undiscounted reserve for environmental remediation of approximately \$27 million. The Company is not aware of any environmental claims existing as of June 30, 2008, which have not been provided for or would otherwise have a material impact on its financial position or results of operations. There can be no assurance, however, that current regulatory requirements will not change, or past non-compliance with environmental laws will not be discovered on the Company's properties.

**Other Commitments**

In January 2008, Apache, BP plc and Chevron Corporation entered into a contract with Wild Well Control, Inc, to decommission certain downed platforms and related well facilities located offshore Louisiana in the Gulf of Mexico for a fixed fee of \$750 million. Apache's portion is 37.5 percent, or \$281 million, which is included as part of the Company's accrued asset retirement obligation. We have spent \$33 million of the \$281 million as of June 30, 2008.

**8. FAIR VALUE*****Fair Value Measurements***

The Company adopted SFAS No. 157, Fair Value Measurements, as of the beginning of 2008. SFAS No. 157 defines fair value, and establishes disclosure requirements for assets and liabilities presented at fair value on the consolidated balance sheet. Fair value is the amount that would be received from the sale of an asset or paid for the transfer of a liability in an orderly transaction between market participants. A liability is quantified at the price it would take to transfer the liability to a new obligor, not at the amount that would be paid to settle the liability with the creditor.

To better quantify fair value, SFAS No. 157 establishes a three-level hierarchy, prioritizing and defining the types of inputs used to measure fair value. Level 1 inputs consist of unadjusted quoted prices for identical instruments in active markets. Level 2 inputs consist of quoted prices for similar instruments. Level 3 valuations are derived from inputs which are significant and unobservable, and have the lowest priority.

**Table of Contents**

The following table presents the Company's material assets and liabilities measured at fair value for each hierarchy level as of June 30, 2008.

|                                   | <b>As of June 30, 2008</b>           |                       |                     |                     |
|-----------------------------------|--------------------------------------|-----------------------|---------------------|---------------------|
|                                   | <b>Fair Value Measurements Using</b> |                       |                     |                     |
|                                   | <b>Total Fair</b>                    | <b>Quoted</b>         | <b>Significant</b>  | <b>Significant</b>  |
|                                   | <b>Value</b>                         | <b>Prices</b>         | <b>Other Inputs</b> | <b>Unobservable</b> |
|                                   |                                      | <b>in</b>             | <b>(Level 2)</b>    | <b>Inputs</b>       |
|                                   |                                      | <b>Active</b>         | <b>(Level 2)</b>    | <b>(Level 3)</b>    |
|                                   |                                      | <b>Markets</b>        | <b>(Level 2)</b>    | <b>(Level 3)</b>    |
|                                   |                                      | <b>(Level</b>         | <b>(Level 2)</b>    | <b>(Level 3)</b>    |
|                                   |                                      | <b>1)</b>             | <b>(Level 2)</b>    | <b>(Level 3)</b>    |
|                                   |                                      | <b>(In thousands)</b> |                     |                     |
| <b>Assets:</b>                    |                                      |                       |                     |                     |
| Crude Oil and Natural Gas Options | \$ 864                               | \$                    | \$ 864              | \$                  |
| <b>Liabilities:</b>               |                                      |                       |                     |                     |
| Oil and Gas Collars               | \$1,829,132                          | \$                    | \$1,829,132         | \$                  |
| Fixed-Price Oil Swaps             | 726,598                              |                       | 726,598             |                     |

Derivative instruments are valued using forward commodity price curves provided by reputable third-party brokers. The fair value of derivative instruments are not actively quoted in the open market, and are valued using Level 2 inputs.

**9. RECENTLY ISSUED ACCOUNTING STANDARDS NOT YET ADOPTED**

In March 2008, the Financial Accounting Standards Board (FASB) issued SFAS No. 161 Disclosures about Derivative Instruments and Hedging Activities. The statement amends SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities. SFAS No. 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133 and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years beginning after November 15, 2008. We are currently evaluating the provisions of SFAS No. 161 and assessing the impact, if any, it may have on the Company.

In December 2007, the FASB issued a revision to SFAS No. 141 Business Combinations (SFAS No. 141(R)). The revision broadens the definition of a business combination to include all transactions or other events in which control of one or more businesses is obtained. Further, the statement establishes principles and requirements for how an acquirer recognizes assets acquired, liabilities assumed and any non-controlling interests acquired. SFAS No. 141(R) is effective for business combination transactions for which the acquisition date is on or after the beginning of the first reporting period beginning on or after December 15, 2008. Early adoption is prohibited. Apache is currently evaluating the provisions of SFAS No. 141(R) and assessing the impact, if any, it may have on the Company.

Also in December 2007, the FASB issued SFAS No. 160 Noncontrolling Interests in Consolidated Financial Statements. This statement amends Accounting Research Bulletin No. 51 Consolidated Financial Statements. SFAS No. 160 establishes accounting and reporting standards for the noncontrolling interests in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary, sometimes called a minority interest, is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. Additionally, the amounts of consolidated net income attributable to both the parent and the noncontrolling interest must be reported separately on the face of the income statement. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Early adoption is prohibited. We are currently evaluating the provisions of SFAS No. 160 and assessing the impact, if any, it may have on the Company.

**10. SUPPLEMENTAL GUARANTOR INFORMATION**

Apache Finance Pty Ltd. (Apache Finance Australia) and Apache Finance Canada Corporation (Apache Finance Canada) are subsidiaries of Apache that have issued publicly traded securities, and the following condensed consolidating financial statements are provided as an alternative to filing separate financial statements.

Each of the Companies presented in the condensed consolidating financial statements has been fully consolidated in Apache's consolidated financial statements. As such, these condensed consolidating financial statements should be read in conjunction with the financial statements of Apache Corporation and Subsidiaries and notes.

**Table of Contents**

**APACHE CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**  
**For the Quarter Ended June 30, 2008**

|   | Apache<br>Corporation | Apache<br>North<br>America | Apache<br>Finance<br>Australia | Apache<br>Finance<br>Canada | All Other<br>Subsidiaries<br>of Apache<br>Corporation | Reclassifications<br>&<br>Eliminations | Consolidated |
|---|-----------------------|----------------------------|--------------------------------|-----------------------------|---|--|--------------|
|   | (In thousands)        |                            |                                |                             |   |  |              |
| <b>REVENUES AND OTHER:</b>                |                       |                            |                                |                             |   |  |              |
| Oil and gas production revenues           | \$ 1,623,565          | \$                         | \$                             | \$                          | \$ 2,301,447  | \$ (20,894)                            | \$ 3,904,118 |
| Equity in net income (loss) of affiliates | 782,543               | 6,742                      | 14,166                         | 92,918                      | (55,375)  | (840,994)                              |              |
| Other                                     | 9,889                 |                            | (7,459)                        | 14,657                      | (20,091)  | (923)                                  | (3,927)      |
|   | 2,415,997             | 6,742                      | 6,707                          | 107,575                     | 2,225,981   | (862,811)                              | 3,900,191    |
| <b>OPERATING EXPENSES:</b>                |                       |                            |                                |                             |   |  |              |
| Depreciation, depletion and amortization  | 299,879               |                            |                                |                             | 327,789   |  | 627,668      |
| Asset retirement obligation accretion     | 16,931                |                            |                                |                             | 8,748   |  | 25,679       |
| Lease operating expenses                  | 202,001               |                            |                                |                             | 244,737   |  | 446,738      |
| Gathering and transportation costs        | 10,849                |                            |                                |                             | 49,812  | (20,894)                               | 39,767       |
| Taxes other than income                   | 61,617                |                            |                                |                             | 236,931   |  | 298,548      |
| General and administrative                | 65,829                |                            |                                |                             | 13,966  | (923)                                  | 78,872       |
| Financing costs, net                      | 32,629                |                            | 4,498                          | 14,113                      | (12,190)  |  | 39,050       |
|   | 689,735               |                            | 4,498                          | 14,113                      | 869,793   | (21,817)                               | 1,556,322    |
| <b>INCOME (LOSS) BEFORE INCOME TAXES</b>  |                       |                            |                                |                             |   |  |              |
| Provision (benefit) for income taxes      | 1,726,262             | 6,742                      | 2,209                          | 93,462                      | 1,356,188   | (840,994)                              | 2,343,869    |
|   | 281,033               |                            | (4,533)                        | 48,495                      | 573,645   |  | 898,640      |
| <b>NET INCOME</b>                         | 1,445,229             | 6,742                      | 6,742                          | 44,967                      | 782,543   | (840,994)                              | 1,445,229    |
| Preferred stock dividends                 | 1,420                 |                            |                                |                             |   |  | 1,420        |

|   |              |          |          |           |            |              |              |
|---|--------------|----------|----------|-----------|------------|--------------|--------------|
| INCOME<br>ATTRIBUTABLE TO<br>COMMON STOCK | \$ 1,443,809 | \$ 6,742 | \$ 6,742 | \$ 44,967 | \$ 782,543 | \$ (840,994) | \$ 1,443,809 |
|---|--------------|----------|----------|-----------|------------|--------------|--------------|

**Table of Contents**

**APACHE CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**  
**For the Quarter Ended June 30, 2007**

|   | <b>Apache<br/>Corporation</b> | <b>Apache<br/>North<br/>America</b> | <b>Apache<br/>Finance<br/>Australia</b> | <b>Apache<br/>Finance<br/>Canada</b> | <b>All Other<br/>Subsidiaries<br/>of Apache<br/>Corporation</b> | <b>Reclassifications<br/>&amp;<br/>Eliminations</b> | <b>Consolidated</b> |
|---|-------------------------------|-------------------------------------|---|--------------------------------------|---|---|---------------------|
|   | (In thousands)                |                                     |   |                                      |   |   |                     |
| <b>REVENUES AND OTHER:</b>                |                               |                                     |   |                                      |   |   |                     |
| Oil and gas production revenues           | \$ 1,052,514                  | \$                                  | \$                                      | \$                                   | \$ 1,420,049  | \$ (28,532)   | \$ 2,444,031        |
| Equity in net income (loss) of affiliates | 290,281                       | 2,263                               | 5,184                                   | (2,738)                              | (13,328)  | (281,662)   |                     |
| Other                                     | 8,163                         |                                     | (66)                                    |                                      | 20,416  |   | 28,513              |
|   | 1,350,958                     | 2,263                               | 5,118                                   | (2,738)                              | 1,427,137   | (310,194)   | 2,472,544           |
| <b>OPERATING EXPENSES:</b>                |                               |                                     |   |                                      |   |   |                     |
| Depreciation, depletion and amortization  | 270,860                       |                                     |   |                                      | 320,247   |   | 591,107             |
| Asset retirement obligation accretion     | 17,542                        |                                     |   |                                      | 6,592   |   | 24,134              |
| Lease operating expenses                  | 198,360                       |                                     |   |                                      | 236,839   | (28,532)  | 406,667             |
| Gathering and transportation costs        | 14,273                        |                                     |   |                                      | 20,162  |   | 34,435              |
| Taxes other than income                   | 45,272                        |                                     |   |                                      | 98,519  |   | 143,791             |
| General and administrative                | 61,059                        |                                     |   |                                      | 9,739   |   | 70,798              |
| Financing costs, net                      | 53,203                        |                                     | 4,513                                   | 14,112                               | (8,470)   |   | 63,358              |
|   | 660,569                       |                                     | 4,513                                   | 14,112                               | 683,628   | (28,532)  | 1,334,290           |
| <b>INCOME (LOSS) BEFORE INCOME TAXES</b>  |                               |                                     |   |                                      |   |   |                     |
| Provision (benefit) for income taxes      | 690,389                       | 2,263                               | 605                                     | (16,850)                             | 743,509   | (281,662)   | 1,138,254           |
|   | 56,851                        |                                     | (1,658)                                 | (3,705)                              | 453,228   |   | 504,716             |
| <b>NET INCOME</b>                         | 633,538                       | 2,263                               | 2,263                                   | (13,145)                             | 290,281   | (281,662)   | 633,538             |
| Preferred stock dividends                 | 1,420                         |                                     |   |                                      |   |   | 1,420               |
|   | \$ 632,118                    | \$ 2,263                            | \$ 2,263                                | \$ (13,145)                          | \$ 290,281  | \$ (281,662)  | \$ 632,118          |



INCOME  
ATTRIBUTABLE TO  
COMMON STOCK

**Table of Contents**

**APACHE CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**  
**For the Six Months Ended June 30, 2008**

|   | <b>Apache<br/>Corporation</b> | <b>Apache<br/>North<br/>America</b> | <b>Apache<br/>Finance<br/>Australia</b> | <b>Apache<br/>Finance<br/>Canada</b> | <b>All Other<br/>Subsidiaries<br/>of Apache<br/>Corporation</b> | <b>Reclassifications<br/>&amp;<br/>Eliminations</b> | <b>Consolidated</b> |
|---|-------------------------------|-------------------------------------|---|--------------------------------------|---|---|---------------------|
|   | <b>(In thousands)</b>         |                                     |   |                                      |   |   |                     |
| <b>REVENUES AND OTHER:</b>                |                               |                                     |   |                                      |   |   |                     |
| Oil and gas production revenues           | \$ 2,976,970                  | \$                                  | \$                                      | \$                                   | \$ 4,143,766  | \$ (38,669)   | \$ 7,082,067        |
| Equity in net income (loss) of affiliates | 1,425,632                     | 14,792                              | 25,092                                  | 182,511                              | (57,866)  | (1,590,161)   |                     |
| Other                                     | 9,855                         |                                     | (7,459)                                 | 29,314                               | (24,000)  | (1,845)   | 5,865               |
|   | 4,412,457                     | 14,792                              | 17,633                                  | 211,825                              | 4,061,900   | (1,630,675)   | 7,087,932           |
| <b>OPERATING EXPENSES:</b>                |                               |                                     |   |                                      |   |   |                     |
| Depreciation, depletion and amortization  | 588,395                       |                                     |   |                                      | 659,762   |   | 1,248,157           |
| Asset retirement obligation accretion     | 34,708                        |                                     |   |                                      | 17,468  |   | 52,176              |
| Lease operating expenses                  | 415,326                       |                                     |   |                                      | 486,050   |   | 901,376             |
| Gathering and transportation costs        | 20,976                        |                                     |   |                                      | 98,436  | (38,669)  | 80,743              |
| Taxes other than income                   | 115,826                       |                                     |   |                                      | 425,300   |   | 541,126             |
| General and administrative                | 132,712                       |                                     |   |                                      | 30,428  | (1,845)   | 161,295             |
| Financing costs, net                      | 70,102                        |                                     | 8,995                                   | 28,226                               | (24,020)  |   | 83,303              |
|   | 1,378,045                     |                                     | 8,995                                   | 28,226                               | 1,693,424   | (40,514)  | 3,068,176           |
| <b>INCOME (LOSS) BEFORE INCOME TAXES</b>  |                               |                                     |   |                                      |   |   |                     |
|   | 3,034,412                     | 14,792                              | 8,638                                   | 183,599                              | 2,368,476   | (1,590,161)   | 4,019,756           |
| Provision (benefit) for income taxes      | 567,670                       |                                     | (6,154)                                 | 48,654                               | 942,844   |   | 1,553,014           |
| <b>NET INCOME</b>                         | <b>2,466,742</b>              | <b>14,792</b>                       | <b>14,792</b>                           | <b>134,945</b>                       | <b>1,425,632</b>  | <b>(1,590,161)</b>                                  | <b>2,466,742</b>    |
|   | 2,840                         |                                     |   |                                      |   |   | 2,840               |

Preferred stock  
dividends

INCOME  
ATTRIBUTABLE TO

|              |              |           |           |            |              |                |              |
|--------------|--------------|-----------|-----------|------------|--------------|----------------|--------------|
| COMMON STOCK | \$ 2,463,902 | \$ 14,792 | \$ 14,792 | \$ 134,945 | \$ 1,425,632 | \$ (1,590,161) | \$ 2,463,902 |
|--------------|--------------|-----------|-----------|------------|--------------|----------------|--------------|

**Table of Contents**

**APACHE CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**  
**For the Six Months Ended June 30, 2007**

|   | <b>Apache<br/>Corporation</b> | <b>Apache<br/>North<br/>America</b> | <b>Apache<br/>Finance<br/>Australia</b> | <b>Apache<br/>Finance<br/>Canada</b> | <b>All Other<br/>Subsidiaries<br/>of Apache<br/>Corporation</b> | <b>Reclassifications<br/>&amp;<br/>Eliminations</b> | <b>Consolidated</b> |
|---|-------------------------------|-------------------------------------|---|--------------------------------------|---|---|---------------------|
|   | <b>(In thousands)</b>         |                                     |   |                                      |   |   |                     |
| <b>REVENUES AND OTHER:</b>                |                               |                                     |   |                                      |   |   |                     |
| Oil and gas production revenues           | \$ 1,890,062                  | \$                                  | \$                                      | \$                                   | \$ 2,651,783  | \$ (74,747)   | \$ 4,467,098        |
| Equity in net income (loss) of affiliates | 586,854                       | 6,743                               | 13,014                                  | 35,272                               | (26,239)  | (615,644)   |                     |
| Other                                     | 14,003                        |                                     | (66)                                    |                                      | (5,616)   |   | 8,321               |
|   | 2,490,919                     | 6,743                               | 12,948                                  | 35,272                               | 2,619,928   | (690,391)   | 4,475,419           |
| <b>OPERATING EXPENSES:</b>                |                               |                                     |   |                                      |   |   |                     |
| Depreciation, depletion and amortization  | 497,752                       |                                     |   |                                      | 624,268   |   | 1,122,020           |
| Asset retirement obligation accretion     | 35,180                        |                                     |   |                                      | 13,018  |   | 48,198              |
| Lease operating expenses                  | 392,191                       |                                     |   |                                      | 471,330   | (74,747)  | 788,774             |
| Gathering and transportation costs        | 26,500                        |                                     |   |                                      | 39,198  |   | 65,698              |
| Taxes other than income                   | 82,185                        |                                     |   |                                      | 171,576   |   | 253,761             |
| General and administrative                | 113,388                       |                                     |   |                                      | 25,272  |   | 138,660             |
| Financing costs, net                      | 87,575                        |                                     | 9,026                                   | 28,224                               | (19,404)  |   | 105,421             |
|   | 1,234,771                     |                                     | 9,026                                   | 28,224                               | 1,325,258   | (74,747)  | 2,522,532           |
| <b>INCOME (LOSS) BEFORE INCOME TAXES</b>  |                               |                                     |   |                                      |   |   |                     |
| Provision (benefit) for income taxes      | 1,256,148                     | 6,743                               | 3,922                                   | 7,048                                | 1,294,670   | (615,644)   | 1,952,887           |
|   | 129,661                       |                                     | (2,821)                                 | (8,256)                              | 707,816   |   | 826,400             |
| <b>NET INCOME</b>                         | <b>1,126,487</b>              | <b>6,743</b>                        | <b>6,743</b>                            | <b>15,304</b>                        | <b>586,854</b>  | <b>(615,644)</b>                                    | <b>1,126,487</b>    |
|   | 2,840                         |                                     |   |                                      |   |   | 2,840               |

Preferred stock  
dividends

INCOME  
ATTRIBUTABLE TO

|              |              |          |          |           |            |              |              |
|--------------|--------------|----------|----------|-----------|------------|--------------|--------------|
| COMMON STOCK | \$ 1,123,647 | \$ 6,743 | \$ 6,743 | \$ 15,304 | \$ 586,854 | \$ (615,644) | \$ 1,123,647 |
|--------------|--------------|----------|----------|-----------|------------|--------------|--------------|

**Table of Contents**

**APACHE CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**  
**For the Six Months Ended June 30, 2008**

|   | Apache<br>Corporation | Apache<br>North<br>America | Apache<br>Finance<br>Australia | Apache<br>Finance<br>Canada<br>(In<br>thousands) | All Other<br>Subsidiaries<br>of Apache<br>Corporation | Reclassifications<br>&<br>Eliminations | Consolidated |
|---|-----------------------|----------------------------|--------------------------------|--|---|--|--------------|
| CASH PROVIDED<br>BY (USED IN)<br>OPERATING<br>ACTIVITIES                    | \$ 1,168,611          | \$                         | \$ (3,194)                     | \$ (22,652)                                      | \$ 2,595,148  | \$                                     | \$ 3,737,913 |
| CASH FLOWS<br>FROM<br>INVESTING<br>ACTIVITIES:                              |                       |                            |                                |  |   |  |              |
| Additions to oil and<br>gas property  | (765,114)             |                            |                                |  | (1,777,963)   |  | (2,543,077)  |
| Additions to gas<br>gathering,<br>transmission and<br>processing facilities |                       |                            |                                |  | (245,627)   |  | (245,627)    |
| Restricted cash   | (94,357)              |                            |                                |  |   |  | (94,357)     |
| Proceeds from sale<br>of oil & gas<br>properties                            | 198,842               |                            |                                |  | 101,095   |  | 299,937      |
| Investment in<br>subsidiaries, net  | (175,241)             | (5,974)                    |                                |  | (23,974)  | 205,189                                |              |
| Other, net  | (11,242)              |                            |                                |  | (14,196)  |  | (25,438)     |
| NET CASH USED<br>IN INVESTING<br>ACTIVITIES                                 | (847,112)             | (5,974)                    |                                |  | (1,960,665)   | 205,189                                | (2,608,562)  |
| CASH FLOWS<br>FROM<br>FINANCING<br>ACTIVITIES:                              |                       |                            |                                |  |   |  |              |
| Commercial paper<br>and money market<br>borrowings, net                     | (140,670)             |                            | (2,781)                        | (2,091)  | 90,189  | (126,998)                              | (182,351)    |
| Payments on<br>fixed-rate debt  |                       |                            |                                |  | (353)   |  | (353)        |

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|  |            |       |       |         |            |           |              |
|--|------------|-------|-------|---------|------------|-----------|--------------|
| Dividends paid                                       | (136,145)  |       |       |         |            |           | (136,145)    |
| Common stock activity                                | 28,526     | 5,974 | 5,974 | 22,993  | 43,250     | (78,191)  | 28,526       |
| Treasury stock activity, net                         | 3,416      |       |       |         |            |           | 3,416        |
| Cost of debt and equity transactions                 | (964)      |       |       |         |            |           | (964)        |
| Other  | 41,139     |       |       |         |            |           | 41,139       |
| NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES  | (204,698)  | 5,974 | 3,193 | 20,902  | 133,086    | (205,189) | (246,732)    |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 116,801    |       | (1)   | (1,750) | 767,569    |           | 882,619      |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR       | 3,626      |       | 1     | 1,751   | 120,445    |           | 125,823      |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD           | \$ 120,427 | \$    | \$    | \$ 1    | \$ 888,014 | \$        | \$ 1,008,442 |

**Table of Contents**

**APACHE CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**  
**For the Six Months Ended June 30, 2007**

|  | Apache<br>Corporation | Apache<br>North<br>America | Apache<br>Finance<br>Australia | Apache<br>Finance<br>Canada<br>(In<br>thousands) | All Other<br>Subsidiaries<br>of Apache<br>Corporation | Reclassifications<br>&<br>Eliminations | Consolidated |
|--|-----------------------|----------------------------|--------------------------------|--|---|--|--------------|
| CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES                    | \$ 1,994,465          | \$                         | \$ (8,353)                     | \$ (1,020,725)                                   | \$ 1,484,618  | \$                                     | \$ 2,450,005 |
| CASH FLOWS FROM INVESTING ACTIVITIES:                              |                       |                            |                                |  |   |  |              |
| Additions to oil and gas property                                  | (1,025,001)           |                            |                                |  | (1,180,670)   |  | (2,205,671)  |
| Acquisition of U.S. Permian Basin properties                       | (1,000,000)           |                            |                                |  |   |  | (1,000,000)  |
| Additions to gas gathering, transmission and processing facilities |                       |                            |                                |  | (202,824)   |  | (202,824)    |
| Proceeds from sale of oil & gas properties                         | 4,641                 |                            |                                |  | 6,508   |  | 11,149       |
| Investment in subsidiaries, net                                    | (1,037,929)           | (9,025)                    |                                |  | (1,029,349)   | 2,076,303                              |              |
| Other, net   | (17,329)              |                            |                                |  | (79,063)  |  | (96,392)     |
| NET CASH USED IN INVESTING ACTIVITIES                              | (3,075,618)           | (9,025)                    |                                |  | (2,485,398)   | 2,076,303                              | (3,493,738)  |
| CASH FLOWS FROM FINANCING ACTIVITIES:                              |                       |                            |                                |  |   |  |              |
|  | (833,700)             |                            | (795)                          | (2,819)  | 31,601  | (16,816)                               | (822,529)    |



|   |                  |              |              |                  |                   |                    |                   |
|---|------------------|--------------|--------------|------------------|-------------------|--------------------|-------------------|
| Commercial paper and money market borrowings, net           |                  |              |              |                  |                   |                    |                   |
| Fixed-rate debt borrowings                                  | 1,991,595        |              | 124          |                  | 34                |                    | 1,991,753         |
| Payments on fixed-rate debt                                 |                  |              |              |                  |                   | (3,000)            | (3,000)           |
| Dividends paid  | (102,152)        |              |              |                  |                   |                    | (102,152)         |
| Common stock activity                                       | 18,919           | 9,025        | 9,025        | 1,023,510        | 1,017,927         | (2,059,487)        | 18,919            |
| Treasury stock activity, net                                | 10,476           |              |              |                  |                   |                    | 10,476            |
| Cost of debt and equity transactions                        | (16,145)         |              |              |                  |                   |                    | (16,145)          |
| Other   | 14,529           |              |              |                  |                   |                    | 14,529            |
| <b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>            | <b>1,083,522</b> | <b>9,025</b> | <b>8,354</b> | <b>1,020,725</b> | <b>1,046,528</b>  | <b>(2,076,303)</b> | <b>1,091,851</b>  |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b> | <b>2,369</b>     |              | <b>1</b>     |                  | <b>45,748</b>     |                    | <b>48,118</b>     |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>       | <b>4,148</b>     |              |              | <b>1</b>         | <b>136,375</b>    |                    | <b>140,524</b>    |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>           | <b>\$ 6,517</b>  | <b>\$</b>    | <b>\$ 1</b>  | <b>\$ 1</b>      | <b>\$ 182,123</b> | <b>\$</b>          | <b>\$ 188,642</b> |

**Table of Contents**

**APACHE CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATING BALANCE SHEET**  
**As of June 30, 2008**

|  | Apache<br>Corporation | Apache<br>North<br>America | Apache<br>Finance<br>Australia | Apache<br>Finance<br>Canada | All Other<br>Subsidiaries<br>of Apache<br>Corporation | Reclassifications<br>&<br>Eliminations | Consolidated  |
|--|-----------------------|----------------------------|--------------------------------|-----------------------------|---|--|---------------|
|  | (In thousands)        |                            |                                |                             |   |  |               |
| <b>ASSETS</b>                              |                       |                            |                                |                             |   |  |               |
| <b>CURRENT ASSETS:</b>                     |                       |                            |                                |                             |   |  |               |
| Cash and cash equivalents                  | \$ 120,427            | \$                         | \$                             | \$ 1                        | \$ 887,914  | \$                                     | \$ 1,008,342  |
| Receivables, net of allowance              | 1,054,517             |                            |                                | 1,222                       | 1,210,618   |  | 2,266,357     |
| Inventories                                | 27,481                |                            |                                |                             | 440,865   |  | 468,346       |
| Drilling advances and others               | 210,063               |                            |                                |                             | 203,138   |  | 413,201       |
| Short-term investments                     |                       |                            |                                |                             | 100   |  | 100           |
|  | 1,412,488             |                            |                                | 1,223                       | 2,742,635   |  | 4,156,346     |
| <b>PROPERTY AND EQUIPMENT, NET</b>         | 12,382,821            |                            |                                |                             | 14,551,432  |  | 26,934,253    |
| <b>OTHER ASSETS:</b>                       |                       |                            |                                |                             |   |  |               |
| InterCompany receivable, net               | 1,212,843             |                            | (169,035)                      | (251,139)                   | (792,669)   |  |               |
| Restricted cash                            | 94,357                |                            |                                |                             |   |  | 94,357        |
| Goodwill, net                              |                       |                            |                                |                             | 189,252   |  | 189,252       |
| Equity in affiliates                       | 11,859,854            | 521,993                    | 742,610                        | 2,321,079                   | (174,608)   | (15,270,928)                           |               |
| Deferred charges and other                 | 227,339               |                            |                                | 1,003,510                   | 272,102   | (1,000,000)                            | 502,951       |
|  | \$ 27,189,702         | \$ 521,993                 | \$ 573,575                     | \$ 3,074,673                | \$ 16,788,144   | \$ (16,270,928)                        | \$ 31,877,159 |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b> |                       |                            |                                |                             |   |  |               |
| <b>CURRENT LIABILITIES:</b>                |                       |                            |                                |                             |   |  |               |

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|  |               |            |            |              |               |                 |               |
|--|---------------|------------|------------|--------------|---------------|-----------------|---------------|
| Short-term debt                                    | \$            | \$         | \$ 99,933  | \$           | \$ 33,859     | \$              | \$ 133,792    |
| Accounts payable                                   | 611,850       |            |            |              | 282,561       |                 | 894,411       |
| Other accrued expenses                             | 1,918,228     |            | (16,360)   | 46,633       | 1,147,599     |                 | 3,096,100     |
|  | 2,530,078     |            | 83,573     | 46,633       | 1,464,019     |                 | 4,124,303     |
| LONG-TERM DEBT                                     | 3,264,205     |            |            | 647,033      | 898           |                 | 3,912,136     |
| DEFERRED CREDITS AND OTHER NONCURRENT LIABILITIES: |               |            |            |              |               |                 |               |
| Income taxes                                       | 1,179,601     |            | (39,374)   | 4,653        | 2,453,043     |                 | 3,597,923     |
| Advances from gas purchasers                       | 1,507         |            |            |              |               |                 | 1,507         |
| Asset retirement obligation                        | 822,465       |            |            |              | 599,485       |                 | 1,421,950     |
| Derivative instruments                             | 1,381,341     |            | 7,383      |              | 152,884       |                 | 1,541,608     |
| Other  | 1,496,036     |            |            | 9,266        | 257,961       | (1,000,000)     | 763,263       |
|  | 4,880,950     |            | (31,991)   | 13,919       | 3,463,373     | (1,000,000)     | 7,326,251     |
| COMMITMENTS AND CONTINGENCIES                      |               |            |            |              |               |                 |               |
| SHAREHOLDERS EQUITY                                | 16,514,469    | 521,993    | 521,993    | 2,367,088    | 11,859,854    | (15,270,928)    | 16,514,469    |
|  | \$ 27,189,702 | \$ 521,993 | \$ 573,575 | \$ 3,074,673 | \$ 16,788,144 | \$ (16,270,928) | \$ 31,877,159 |

**Table of Contents**

**APACHE CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATING BALANCE SHEET**  
**As of December 31, 2007**

|  | Apache<br>Corporation | Apache<br>North<br>America | Apache<br>Finance<br>Australia | Apache<br>Finance<br>Canada | All Other<br>Subsidiaries<br>of Apache<br>Corporation | Reclassifications<br>&<br>Eliminations | Consolidated  |
|--|-----------------------|----------------------------|--------------------------------|-----------------------------|---|--|---------------|
|  | (In thousands)        |                            |                                |                             |   |  |               |
| <b>ASSETS</b>                              |                       |                            |                                |                             |   |  |               |
| <b>CURRENT ASSETS:</b>                     |                       |                            |                                |                             |   |  |               |
| Cash and cash equivalents                  | \$ 3,626              | \$                         | \$ 1                           | \$ 1,751                    | \$ 120,445  | \$                                     | \$ 125,823    |
| Receivables, net of allowance              | 883,022               |                            |                                |                             | 1,053,955   |  | 1,936,977     |
| Inventories                                | 25,445                |                            |                                |                             | 435,766   |  | 461,211       |
| Drilling advances and others               | 140,335               |                            |                                |                             | 87,905  |  | 228,240       |
|  | 1,052,428             |                            | 1                              | 1,751                       | 1,698,071   |  | 2,752,251     |
| <b>PROPERTY AND EQUIPMENT, NET</b>         | 11,858,362            |                            |                                |                             | 13,373,231  |  | 25,231,593    |
| <b>OTHER ASSETS:</b>                       |                       |                            |                                |                             |   |  |               |
| InterCompany receivable, net               | 1,080,893             |                            | (170,000)                      | (253,268)                   | (657,625)   |  |               |
| Goodwill, net                              |                       |                            |                                |                             | 189,252   |  | 189,252       |
| Equity in affiliates                       | 10,512,679            | 451,161                    | 670,908                        | 2,137,603                   | (168,977)   | (13,603,374)                           |               |
| Deferred charges and other                 | 211,399               |                            |                                | 1,003,668                   | 246,488   | (1,000,000)                            | 461,555       |
|  | \$ 24,715,761         | \$ 451,161                 | \$ 500,909                     | \$ 2,889,754                | \$ 14,680,440   | \$ (14,603,374)                        | \$ 28,634,651 |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b> |                       |                            |                                |                             |   |  |               |
| <b>CURRENT LIABILITIES:</b>                |                       |                            |                                |                             |   |  |               |
| Accounts payable                           | \$ 414,733            | \$                         | \$                             | \$                          | \$ 203,204  | \$                                     | \$ 617,937    |
| Other accrued expenses                     | 1,170,670             |                            | (12,994)                       | 39,438                      | 634,891   |  | 1,832,005     |

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|  |               |            |            |              |               |                 |               |
|--|---------------|------------|------------|--------------|---------------|-----------------|---------------|
| Current debt                                       | 139,100       |            |            |              | 75,974        |                 | 215,074       |
|  | 1,724,503     | (12,994)   | 39,438     |              | 914,069       |                 | 2,665,016     |
| LONG-TERM DEBT                                     | 3,263,820     | 99,890     | 646,996    |              | 899           |                 | 4,011,605     |
| DEFERRED CREDITS AND OTHER NONCURRENT LIABILITIES: |               |            |            |              |               |                 |               |
| Income taxes                                       | 1,582,346     | (37,148)   | 5,630      |              | 2,374,155     |                 | 3,924,983     |
| Advances from gas purchasers                       | 12,004        |            |            |              |               |                 | 12,004        |
| Asset retirement obligation                        | 962,287       |            |            |              | 594,622       |                 | 1,556,909     |
| Derivative instruments                             | 346,408       |            |            |              | 35,383        |                 | 381,791       |
| Other  | 1,446,414     |            | 9,317      |              | 248,633       | (1,000,000)     | 704,364       |
|  | 4,349,459     | (37,148)   | 14,947     |              | 3,252,793     | (1,000,000)     | 6,580,051     |
| COMMITMENTS AND CONTINGENCIES                      |               |            |            |              |               |                 |               |
| SHAREHOLDERS EQUITY                                | 15,377,979    | 451,161    | 451,161    | 2,188,373    | 10,512,679    | (13,603,374)    | 15,377,979    |
|  | \$ 24,715,761 | \$ 451,161 | \$ 500,909 | \$ 2,889,754 | \$ 14,680,440 | \$ (14,603,374) | \$ 28,634,651 |

**Table of Contents****ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

These financial statements should be read in conjunction with the financial statements and the summary of significant accounting policies and notes included in the Company's most recent annual report on Form 10-K.

Apache Corporation (Apache) is an independent energy company whose principle business includes exploration, development and production of crude oil, natural gas and natural gas liquids. We operate in six countries: the United States, Canada, Egypt, Australia, offshore the United Kingdom in the North Sea, and Argentina. Early in the second quarter of 2008, we finalized contracts for two exploration blocks in Chile.

Second quarter and first half 2008 earnings were our best quarterly and six months earnings on record. Crude oil and natural gas prices soared during the quarter, with crude oil prices reaching unprecedented levels.

**Second Quarter 2008 compared to Second Quarter 2007**

Apache earned a record \$1.44 billion, or \$4.28 per diluted common share, in the second quarter of 2008, more than double the \$632 million (\$1.89 per share) earned in the same quarter of 2007. Cash flow from operating activities totaled \$1.9 billion, compared to \$1.4 billion last year, an increase of 39 percent. The 2007 second-quarter effective tax rate and earnings were impacted by a \$68 million non-cash deferred tax expense charge, related to the weakening U.S. dollar, and a \$17 million Canadian tax rate reduction benefit. A similar charge in the second quarter of 2008 had negligible impact on the quarter's effective tax rate and earnings.

Record quarterly oil and gas price realizations and higher crude oil production generated a quarterly record \$3.9 billion of oil and gas production revenues, 60 percent higher than the 2007 comparable quarter. Crude oil realizations averaged \$110.32 a barrel, 72 percent above 2007 second-quarter prices, while natural gas realizations averaged \$8.09 per thousand cubic feet (Mcf), up 47 percent. Even though historically high commodity prices continue to increase industry demand and competition for services, thereby pressuring costs, this quarter's pre-tax margin was the best in our history, more than twice the 2007 quarter. For a more detailed discussion of our revenue and cost components, please refer to Results of Operations in this Item 2.

**Pre-tax Margins**

|                                    | <b>For the Quarter Ended June 30,</b> |             |
|------------------------------------|---------------------------------------|-------------|
|                                    | <b>2008</b>                           | <b>2007</b> |
|                                    | <b>(In thousands, except margin)</b>  |             |
| Income before Income Taxes         | \$2,343,869                           | \$1,138,254 |
| Barrels of oil equivalent produced | 50,196                                | 52,068      |
| Margin per boe produced            | \$ 46.69                              | \$ 21.86    |

**Year-to-Date 2008 compared to Year-to-Date 2007**

Apache earned a record \$2.5 billion, or \$7.32 per diluted common share, for the six-month period ending June 30, 2008, more than double the \$1.1 billion (\$3.37 per share) earned in the same period last year. The 2008 six-month period earnings are equal to 88 percent of 2007 full-year earnings. Cash flow from operating activities totaled \$3.7 billion for the six-month period, compared to \$2.5 billion last year, an increase of 53 percent. The 2007 period effective tax rate and earnings were impacted by a \$71 million non-cash deferred tax expense charge, related to the weakening U.S. dollar, and the \$17 million benefit discussed above. The 2008 period saw a small benefit from currency fluctuations.

Higher oil and gas prices and rising oil production combined to generate \$7.1 billion of oil and gas production revenues, up 59 percent compared to the 2007 six-month period. Crude oil realizations averaged \$99.76 a barrel, 66 percent above 2007 year-to-date prices, while natural gas realizations averaged \$7.25 per Mcf, up 35 percent. Apache's pre-tax margin for the period was double the 2007 period margins. For a more detailed discussion of our revenue and cost components, please refer to Results of Operations in this Item 2.

**Table of Contents****Pre-tax Margins**

|                                    | <b>For the Six Months Ended<br/>June 30,</b> |             |
|------------------------------------|--|-------------|
|                                    | <b>2008</b>                                  | <b>2007</b> |
|                                    | <b>(In thousands, except margin)</b>         |             |
| Income before Income Taxes         | \$4,019,756                                  | \$1,952,887 |
| Barrels of oil equivalent produced | 100,940                                      | 100,335     |
| Margin per boe produced            | \$ 39.82                                     | \$ 19.46    |

**Second Quarter 2008 Operating Highlights**

## U.S. Central

- § Thirteen production wells were drilled in the Permian Basin on properties acquired at the end of the first quarter of 2007 with initial production rates substantially exceeding pre-drill estimates, owing largely to completion techniques developed through Apache's experience elsewhere in the Permian Basin. Oil production on the acquired properties has increased 18 percent since Apache took ownership.
- § Production in the Stiles Ranch area of the Texas Panhandle increased to more than 70 million cubic feet per day (MMcf/d) (41.5 MMcf/d net to Apache) during the second quarter. We ended the quarter with eight drilling rigs operating in the area.

## U.S. Gulf Coast

- § In June 2008, we made a key discovery at the Geauxpher prospect located on Garden Banks Block 462 in deepwater Gulf of Mexico. Mariner Energy, Inc. is the designated operator of the block with a 60 percent working interest. Apache generated the prospect and has 40 percent working interest. A delineation well has been drilled with positive results. Additional potential on the block is recognized which will require additional drilling. We expect the initial discovery to be online around year-end.
- § At Ewing Banks 826, we completed four wells during the first half of 2008 that increased production to 4,800 barrels per day (b/d), up from 700 b/d at the beginning of the year. We own a 100 percent working interest in the field.
- § In south Louisiana, redevelopment of the shallow 2,700 foot reservoir in Golden Meadow Field in LaFourche Parish has resulted in completion of six horizontal wells which are producing an aggregate 1,500 b/d. A seventh well is being completed and an eighth well is being drilled. Apache operates this field with a 100 percent working interest.

## Canada

- § On April 2, 2008, the Company announced that it had completed the sale of non-strategic Canadian properties for \$112 million, subject to normal post-closing adjustments.
- § On April 8, 2008, Apache announced that three successful horizontal wells drilled in the Ootla shale-gas play in northeast British Columbia test-flowed at rates of 8.8 MMcf, 6.1 MMcf, and 5.3 MMcf of gas per day. Apache has a 50 percent interest and operates approximately one-half of its 400,000 gross acreage position in the play. Apache's 50 percent working interest partner, Encana Corporation, also announced that two wells it drilled during the second quarter each produced at an average flow rate of 5 MMcf/d during the first 30 days of production.

## Egypt

- § Following the close of the quarter, Apache announced on July 30, 2008 that the Heqet-2 well in the Greater Khalda area in Egypt's Western Desert tested 2,100 b/d from the Jurassic Safa formation at a depth of 14,700 feet. We also announced that the Umbarka-174 well tested 4,300 b/d in the main AEB field in the north central portion of the Greater Khalda area.

**Table of Contents**

§ Salam gas plant processing facilities three and four are expected to commence production in the fourth quarter of 2008. This expansion is forecasted to add additional net production of 100 MMcf/d and 5,000 b/d by the end of the year.

**Australia**

§ On April 8, 2008 we announced the Julimar Southeast-1 discovery which logged 195 feet of net pay across five intervals of the Triassic Mungaroo sandstone. On May 1, we announced the Julimar Northwest-1 discovery which logged 43 feet of net pay in the J-17 Triassic Mungaroo sandstone. We have now drilled six discoveries in the complex. We plan to complete our appraisal program later this year while simultaneously pursuing a development strategy. Apache owns a 65 percent interest in and operates the Julimar-Brunello complex.

§ On April 8, 2008, we announced the Halyard-1 discovery on Australia's WA-13-L block, which test-flowed 68 MMcf/d. We are considering running a subsea gathering line from Halyard to an existing pipeline at our East Spar Field, 20 miles to the southeast, to transport the gas to Varanus Island for processing. Using our existing infrastructure would accelerate development of the field and first sales. Apache has a 55 percent interest in and operates the block. Apache obtained governmental approval for the Halyard Field development during the second quarter and we are working toward first production in 2010.

§ On June 3, 2008, subsidiaries of the Company reported a gas pipeline explosion and fire at the Varanus Island gas processing and transportation hub offshore Western Australia, approximately 60 miles (100 km) from Karratha on Australia's Northwest Shelf. All 153 people were safely evacuated following the onshore incident. The island's operations, which account for approximately 195 million cubic feet (MMcf) of natural gas and 5,400 barrels of oil per day (net to Apache subsidiaries), have been interrupted. Subsidiaries of the Company are working to resume production as quickly as practicable in a safe and environmentally responsible manner. On August 5, 2008, partial production was reestablished from the John Brookes Field, with full production projected for September 2008. John Brookes accounted for approximately 60 percent and 25 percent of the island's pre-incident natural gas and oil production, respectively. Production from the Harriet Field, which accounted for the remaining 40 percent and 75 percent of the island's pre-incident natural gas and oil production, respectively, is currently projected to be restored by year-end 2008. The Harriet facilities are located adjacent to the pipeline explosion and will require significant repairs to restore production. Company subsidiaries operate the facilities and own a 68.5 percent interest in the Harriet Field and a 55 percent interest in the John Brookes natural gas field. Company subsidiaries maintain replacement cost insurance, subject to a deductible less than \$7 million, with adequate limits to fully cover their share of the cost of restoring the Varanus Island facilities.

**North Sea**

§ Five new wells drilled in the Forties Field this year added an aggregate of 8,900 b/d during the second quarter. We own a 97 percent working interest in the Forties Field.

§ A strike at a refinery in Scotland caused all fields on the Forties Pipeline System to shut in production, including Apache's Forties Field. Despite the impact of the strike and a maintenance turnaround, that together reduced oil production by 5,150 b/d in the second quarter, North Sea production averaged 56,600 b/d.

**Argentina**

§ In the first half of 2008, we drilled 33 new wells with an 88 percent success rate. We currently have a total of eight rigs working, six in the Neuquén Basin and two in Tierra del Fuego.



**Table of Contents****Results of Operations*****Revenues***

|                          | For the Quarter Ended June 30, |      |              |      | For the Six Months Ended June 30, |      |              |      |
|--------------------------|--------------------------------|------|--------------|------|-----------------------------------|------|--------------|------|
|                          | 2008                           |      | 2007         |      | 2008                              |      | 2007         |      |
| Revenues (in thousands): |                                |      |              |      |                                   |      |              |      |
| Oil                      | \$ 2,606,904                   | 67%  | \$ 1,473,621 | 60%  | \$ 4,726,624                      | 67%  | \$ 2,633,550 | 59%  |
| Natural gas              | 1,235,648                      | 32%  | 922,736      | 38%  | 2,233,302                         | 31%  | 1,749,497    | 39%  |
| Natural gas liquids      | 61,566                         | 1%   | 47,674       | 2%   | 122,141                           | 2%   | 84,051       | 2%   |
| Total                    | \$ 3,904,118                   | 100% | \$ 2,444,031 | 100% | \$ 7,082,067                      | 100% | \$ 4,467,098 | 100% |

Effect of cash flow hedges included in oil and gas revenues were as follows:

|   | Three Months Ended<br>June 30, |        | Six Months Ended<br>June 30, |       |
|---|--------------------------------|--------|------------------------------|-------|
|   | 2008                           | 2007   | 2008                         | 2007  |
|   | (In millions)                  |        |                              |       |
| Increase (decrease) in crude oil revenues         | \$ (206)                       | \$ (6) | \$ (303)                     | \$ 10 |
| Increase (decrease) in natural gas revenues       | (15)                           | (3)    | (11)                         | 7     |
| Total increase (decrease) in oil and gas revenues | \$ (221)                       | \$ (9) | \$ (314)                     | \$ 17 |
| Percentage of oil and gas revenues                | 5%                             |        | 4%                           |       |

**Table of Contents****Production and Pricing**

The table below presents oil and gas production revenues, production and average prices realized from sales of natural gas, oil and natural gas liquids.

|                       | For the Quarter Ended June 30, |                  |                        | For the Six Months Ended June 30, |                  |                        |
|-----------------------|--------------------------------|------------------|------------------------|-----------------------------------|------------------|------------------------|
|                       | 2008                           | 2007             | Increase<br>(Decrease) | 2008                              | 2007             | Increase<br>(Decrease) |
| Oil Volume    Barrels |                                |                  |                        |                                   |                  |                        |
| per day:              |                                |                  |                        |                                   |                  |                        |
| United States         | 100,049                        | 91,060           | 9.87%                  | 100,364                           | 82,901           | 21.06%                 |
| Canada                | 17,746                         | 19,036           | (6.78%)                | 17,547                            | 19,034           | (7.81%)                |
| Egypt                 | 64,886                         | 59,890           | 8.34%                  | 63,718                            | 60,129           | 5.97%                  |
| Australia             | 8,367                          | 16,071           | (47.94%)               | 8,894                             | 14,117           | (37.00%)               |
| North Sea             | 56,570                         | 55,209           | 2.47%                  | 57,670                            | 54,445           | 5.92%                  |
| Argentina             | 12,067                         | 11,282           | 6.96%                  | 12,146                            | 11,041           | 10.01%                 |
| <b>Total (1)</b>      | <b>259,685</b>                 | <b>252,548</b>   | <b>2.83%</b>           | <b>260,339</b>                    | <b>241,667</b>   | <b>7.73%</b>           |
| Average Oil price     |                                |                  |                        |                                   |                  |                        |
| Per barrel:           |                                |                  |                        |                                   |                  |                        |
| United States         | \$ 97.64                       | \$ 60.08         | 62.52%                 | \$ 90.59                          | \$ 58.21         | 55.63%                 |
| Canada                | 119.16                         | 63.75            | 86.92%                 | 106.33                            | 58.71            | 81.11%                 |
| Egypt                 | 126.20                         | 68.65            | 83.83%                 | 112.28                            | 62.65            | 79.22%                 |
| Australia             | 133.79                         | 74.96            | 78.48%                 | 116.78                            | 71.54            | 63.24%                 |
| North Sea             | 121.10                         | 66.59            | 81.86%                 | 108.23                            | 61.57            | 75.78%                 |
| Argentina             | 50.12                          | 45.78            | 9.48%                  | 47.61                             | 43.26            | 10.06%                 |
| <b>Total (2)</b>      | <b>110.32</b>                  | <b>64.12</b>     | <b>72.05%</b>          | <b>99.76</b>                      | <b>60.21</b>     | <b>65.69%</b>          |
| Natural Gas Volume    |                                |                  |                        |                                   |                  |                        |
| Mcf per day:          |                                |                  |                        |                                   |                  |                        |
| United States         | 758,524                        | 801,778          | (5.39%)                | 751,269                           | 770,974          | (2.56%)                |
| Canada                | 357,828                        | 389,218          | (8.06%)                | 359,289                           | 386,136          | (6.95%)                |
| Egypt                 | 233,793                        | 234,466          | (.29%)                 | 238,385                           | 238,951          | (.24%)                 |
| Australia             | 129,531                        | 196,249          | (34.00%)               | 160,355                           | 195,608          | (18.02%)               |
| North Sea             | 2,507                          | 1,944            | 28.96%                 | 2,556                             | 1,917            | 33.33%                 |
| Argentina             | 197,284                        | 216,187          | (8.74%)                | 181,209                           | 207,263          | (12.57%)               |
| <b>Total (3)</b>      | <b>1,679,467</b>               | <b>1,839,842</b> | <b>(8.72%)</b>         | <b>1,693,063</b>                  | <b>1,800,849</b> | <b>(5.99%)</b>         |
| Average Natural Gas   |                                |                  |                        |                                   |                  |                        |
| price    Per Mcf:     |                                |                  |                        |                                   |                  |                        |
| United States         | \$ 10.62                       | \$ 7.29          | 45.68%                 | \$ 9.50                           | \$ 7.13          | 33.24%                 |
| Canada                | 9.63                           | 6.79             | 41.83%                 | 8.59                              | 6.62             | 29.76%                 |
| Egypt                 | 6.26                           | 4.48             | 39.73%                 | 5.72                              | 4.26             | 34.27%                 |
| Australia             | 2.17                           | 1.79             | 21.23%                 | 2.14                              | 1.78             | 20.22%                 |
| North Sea             | 21.90                          | 13.39            | 63.55%                 | 19.05                             | 10.90            | 74.77%                 |

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|           |      |      |        |      |      |        |
|-----------|------|------|--------|------|------|--------|
| Argentina | 1.39 | 1.02 | 36.27% | 1.60 | 1.08 | 48.15% |
| Total (4) | 8.09 | 5.51 | 46.82% | 7.25 | 5.37 | 35.01% |

Natural Gas Liquids  
(NGL)

Volume Barrels per  
day:

|               |        |        |          |        |        |         |
|---------------|--------|--------|----------|--------|--------|---------|
| United States | 7,231  | 8,060  | (10.29%) | 7,236  | 7,631  | (5.18%) |
| Canada        | 1,868  | 2,113  | (11.59%) | 2,052  | 2,172  | (5.52%) |
| Argentina     | 2,905  | 2,816  | 3.16%    | 2,812  | 2,726  | 3.15%   |
| Total         | 12,004 | 12,989 | (7.58%)  | 12,100 | 12,529 | (3.42%) |

Average NGL Price  
Per barrel:

|               |          |          |          |          |          |        |
|---------------|----------|----------|----------|----------|----------|--------|
| United States | \$ 65.27 | \$ 42.10 | 55.04%   | \$ 61.32 | \$ 38.78 | 58.12% |
| Canada        | 59.26    | 39.28    | 50.87%   | 56.05    | 35.29    | 58.83% |
| Argentina     | 32.31    | 36.06    | (10.40%) | 39.98    | 33.68    | 18.71% |
| Total         | 56.36    | 40.33    | 39.75%   | 55.46    | 37.06    | 49.65% |

(1) Approximately 18 percent of oil production was subject to financial derivative hedges for the second quarter and six-month period of 2008; 18 percent and 16 percent for the 2007 second quarter and six-month period, respectively.

(2) Reflects a per barrel reduction of \$8.72 and \$6.40 for the 2008 second quarter and six-month period, respectively; a decrease of \$.26 and an increase of \$.22 for the

2007 second quarter and six-month period, respectively.

(3) Approximately 20 percent and 19 percent of natural gas production was subject to financial derivative hedges for the second quarter and six-month period of 2008; 19 percent and 17 percent for the 2007 second quarter and six-month period, respectively.

(4) Reflects a per Mcf reduction of \$.10 and \$.03 for the 2008 second quarter and six-month period, respectively; a decrease of \$.02 for the 2007 second quarter and a \$.02 increase for the 2007 six-month period.

**Table of Contents****Contributions to Oil and Natural Gas Revenues**

The following table presents each country's oil revenues and gas revenues as a percentage of total oil revenues and gas revenues, respectively.

|               | Oil Revenues<br>For the Quarter<br>Ended<br>June 30, |      | Gas Revenues<br>For the Quarter<br>Ended<br>June 30, |      | Oil Revenues<br>For the Six Months<br>Ended June 30, |      | Gas Revenues<br>For the Six Months<br>Ended June 30, |      |
|---------------|--|------|--|------|--|------|--|------|
|               | 2008   | 2007 | 2008   | 2007 | 2008   | 2007 | 2008   | 2007 |
|               | United States  | 34%  | 34%  | 59%  | 58%  | 35%  | 33%  | 58%  |
| Canada        | 7%   | 7%   | 26%  | 26%  | 7%   | 8%   | 25%  | 26%  |
| North America | 41%  | 41%  | 85%  | 84%  | 42%  | 41%  | 83%  | 83%  |
| Egypt         | 29%  | 25%  | 11%  | 10%  | 28%  | 26%  | 11%  | 11%  |
| Australia     | 4%   | 8%   | 2%   | 4%   | 4%   | 7%   | 3%   | 4%   |
| North Sea     | 24%  | 23%  |  |      | 24%  | 23%  | 1%   |      |
| Argentina     | 2%   | 3%   | 2%   | 2%   | 2%   | 3%   | 2%   | 2%   |
| Total         | 100%   | 100% | 100%   | 100% | 100%   | 100% | 100%   | 100% |

**Second Quarter 2008 Compared to Second Quarter 2007**

**Crude Oil Revenues** Second-quarter crude oil revenues increased \$1.13 billion on a 72 percent increase in average realized price and a three percent increase in daily production.

U.S. oil revenues were \$391 million higher, driven by a 63 percent increase in realized crude oil prices and a 10 percent increase in daily production. Gulf Coast region production increased 18 percent on drilling and recompletion activity and production restored from hurricane damaged properties after the second quarter of last year. Central region production was down one percent.

Egyptian crude oil revenues increased \$371 million, on an 84 percent increase in price realizations and an eight percent increase in production. Price realizations averaged \$126.20 per barrel, up \$68.65 from the 2007 comparable period. Net oil production in Egypt increased 4,996 barrels per day (b/d) as both rising commodity prices and increased gross production combined to more than offset the impact that higher commodity prices have on cost recovery volumes.

North Sea crude oil revenues increased 86 percent, or \$289 million from last year's second quarter, with an 82 percent gain in pricing driving most of the increase. Production grew two percent over the prior year's comparable quarter. Production added in the current quarter from a successful drilling program, was mitigated by scheduled maintenance at our Bravo-Charlie platform and a 48-hour union strike which shut down the Forties Pipeline System.

Canadian oil revenues rose \$82 million on an 87 percent increase in price realizations. Prices increased \$55.41 to \$119.16 per barrel. Production was down seven percent on natural decline, third-party downtime and property divestitures.

Argentina's crude oil revenues increased \$8 million, split evenly between a seven percent increase in production and a nine percent increase in realized price. Higher production related to successful drilling, workover and recompletion activities.

Australian crude oil revenues fell \$8 million compared to the prior year second quarter with production 48 percent lower. Crude price realizations averaged a company best at \$134 per barrel. The lower production was associated with natural decline in several fields and production shut-in caused by the Varanus Island pipeline explosion.

*Natural Gas Revenues* Second-quarter natural gas revenues increased \$313 million driven by a 47 percent increase in realized prices. Worldwide production was down nine percent. All core gas producing regions, with the exception of Australia, realized higher natural gas revenues.

U.S. natural gas revenues increased \$201 million. U.S. natural gas price realizations averaged \$10.62, up \$3.33 per Mcf. Gulf Coast daily production was eight percent lower on natural decline, which more than offset gains from drilling and recompletion activities and production restored from hurricane-damaged properties after the second quarter of 2007. Central region production remained relatively flat to the 2007 period.

**Table of Contents**

Egyptian gas revenues were \$38 million higher than second-quarter 2007. Higher price realizations led to stronger revenues, with our average gas price rising 40 percent on flat production.

Canadian gas revenues increased \$73 million, or 30 percent, over the previous year's second-quarter amount, led by stronger prices. Second-quarter natural gas realizations averaged \$9.63 per Mcf, 42 percent higher than the prior year. Natural decline and property divestitures lowered production by eight percent.

Argentina's natural gas revenues increased \$5 million on a 36 percent increase in realized price. Production declined nine percent primarily because of gas re-injection in Tierra del Fuego related to gas export and pipeline restrictions and natural decline.

Second-quarter Australian gas revenues fell \$6 million from prior year, with production down 34 percent. The production drop off was primarily caused by production shut-in caused by the Varanus Island pipeline explosion, but also reflects lower customer demand relative to the 2007 period. Prices averaged \$2.17 per Mcf for the quarter, up from \$1.79 in the 2007 comparable period.

**Year-to-Date 2008 Compared to Year-to-Date 2007**

*Crude Oil Revenues* Year-to-date crude oil revenues increased \$2.09 billion on a 66 percent increase in average realized price and an eight percent increase in daily production.

U.S. oil revenues were \$781 million higher, driven by a 56 percent increase in realized crude oil prices and a 21 percent increase in daily production. Production increased 27 percent in the Gulf Coast region and 13 percent in the Central region. Gulf Coast region production gains were associated with drilling and recompletion activity and production restored from hurricane-damaged properties in the second half of 2007. Central region production was up from Permian Basin properties acquired at the end of March 2007. Prices in the U.S. averaged \$90.59 per barrel in 2008 compared to \$58.21 in 2007.

Egypt's crude oil revenues increased \$620 million on a 79 percent increase in realized price and six percent increase in daily crude oil production. Egypt's 2008 price realizations were up \$49.63 to \$112.28 per barrel. Net oil production in Egypt increased 3,589 b/d as both rising commodity prices and increased gross production combined to more than offset the impact that higher commodity prices have on cost recovery volumes.

North Sea oil revenues increased \$529 million, driven by a 76 percent higher realized price and a six percent increase in production. Oil price realizations averaged \$108.23, up \$46.66 per barrel. Production growth was attributed to a successful drilling program which more than offset natural decline.

Canada's oil revenues increased \$137 million. Realized prices were up 81 percent and averaged \$106.33 per barrel. Daily production declined eight percent from natural decline in various fields.

Argentina's crude oil revenues increased \$19 million with production and realized prices each up 10 percent. Higher production was related to successful drilling, workover and recompletion activities.

Australia's oil revenues increased \$6 million in the first half of 2008 compared to 2007. Oil realizations averaged a company best at \$116.78 per barrel, \$45.24 more than last year's amount. Production fell 37 percent, primarily because of natural decline, but also as the result of the Varanus Island pipeline explosion.

*Natural Gas Revenues* Year-to-date natural gas revenues increased \$484 million driven by a 35 percent increase in realized natural gas prices. Worldwide production was down six percent from 2007. All core gas producing regions saw higher natural gas revenues.

U.S. natural gas revenues increased \$304 million. Natural gas prices averaged \$9.50, up \$2.37 per Mcf. Production declined three percent. Central region daily production was up five percent on drilling and recompletion activities and incremental volumes from Permian Basin properties acquired at the end of March 2007. Gulf Coast daily production was seven percent lower on natural decline which more than offset gains from drilling and recompletion activities and production restored from hurricane-damaged properties in the second half of 2007.

Canada's natural gas revenues increased \$99 million on a 30 percent increase in realized natural gas prices. Gas price realizations climbed \$1.97 to \$8.59 per Mcf. Natural gas production decreased seven percent because of natural decline in various areas and property divestitures.

**Table of Contents**

Egypt contributed an additional \$64 million to consolidated natural gas revenues from a 34 percent increase in realized prices. Egypt's price realizations were up \$1.46 to \$5.72 per Mcf. Production was flat at 238 MMcf/d.

Argentina's natural gas revenues increased \$12 million on a 48 percent increase in realized price. Production was 13 percent lower, caused by re-injection of gas in Tierra del Fuego related to gas export and pipeline restrictions and natural declines.

Australia's natural gas revenues were flat year-over-year with the impact of a 20 percent price increase offset by an 18 percent decline in production. Prices averaged \$2.14 per Mcf, up from \$1.78 in 2007. The lower production was primarily associated with the Varanus Island pipeline explosion, but also includes lower customer demand relative to the 2007 period.

**Costs**

The table below presents a comparison of our expenses on an absolute dollar basis and an equivalent unit of production (boe) basis. Our discussion may reference expenses either on a boe basis or on an absolute dollar basis, or both, depending on their relevance.

|  | For the Quarter Ended June 30, |          |                   |          | For the Six Months Ended June 30, |          |                   |          |
|--|--------------------------------|----------|-------------------|----------|-----------------------------------|----------|-------------------|----------|
|  | 2008<br>(In millions)          | 2007     | 2008<br>(Per boe) | 2007     | 2008<br>(In millions)             | 2007     | 2008<br>(Per boe) | 2007     |
| Depreciation, depletion and amortization (DD&A): |                                |          |                   |          |                                   |          |                   |          |
| Oil and gas property                             | \$ 591                         | \$ 558   | \$ 11.77          | \$ 10.72 | \$ 1,174                          | \$ 1,055 | \$ 11.63          | \$ 10.51 |
| Other assets                                     | 37                             | 33       | .74               | .64      | 74                                | 67       | .73               | .67      |
| Total DD&A                                       | 628                            | 591      |                   |          | 1,248                             | 1,122    |                   |          |
| Asset retirement obligation accretion            | 25                             | 24       | .51               | .46      | 52                                | 48       | .52               | .48      |
| Lease operating costs                            | 447                            | 407      | 8.90              | 7.81     | 902                               | 789      | 8.93              | 7.86     |
| Gathering and transportation costs               | 40                             | 34       | .79               | .66      | 81                                | 66       | .80               | .66      |
| Taxes other than income                          | 298                            | 144      | 5.95              | 2.76     | 541                               | 254      | 5.36              | 2.53     |
| General and administrative expense               | 79                             | 71       | 1.57              | 1.36     | 161                               | 139      | 1.60              | 1.38     |
| Financing costs, net                             | 39                             | 63       | .78               | 1.22     | 83                                | 105      | .83               | 1.05     |
| Total  | \$ 1,556                       | \$ 1,334 | \$ 31.01          | \$ 25.63 | \$ 3,068                          | \$ 2,523 | \$ 30.40          | \$ 25.14 |

**Second Quarter 2008 compared to Second Quarter 2007**

*Depreciation, Depletion and Amortization* The following table details the changes in DD&A of oil and gas properties between the three-month periods of 2008 and 2007.



|               | <b>For the<br/>Quarter<br/>Ended June 30<br/>(In millions)</b> |
|---------------|--|
| 2007 DD&A     | \$ 558   |
| Volume change | (21)   |
| Rate change   | 54   |
| <br>2008 DD&A | <br>\$ 591   |

Full-cost DD&A expense of \$591 million increased \$33 million on an absolute dollar basis; \$54 million on rate reduced by \$21 million on lower volumes. The Company's full-cost DD&A rate increased \$1.05 to \$11.77 per boe. The increase in rate reflects drilling and finding costs that continue to exceed our historical cost basis. The higher industry-wide costs, which also impact estimates of future development costs, are driven by increased demand for drilling services, a consequence of both higher oil and gas prices.

*Lease Operating Expenses (LOE)* Our 2008 second-quarter LOE increased 10 percent on an absolute dollar basis and 14 percent on a per unit basis, as production declined four percent adding to the impact of higher costs.

Our LOE rate increased \$1.09 per boe as follows:

§ The impact of lower production in the second quarter of 2008 resulted in an increase of \$.32 per boe when compared to the same period of 2007.

§ Increased workover activity added \$.35 per boe primarily from the U.S. and Egypt.

**Table of Contents**

§ A weaker U.S. dollar added \$.19 per boe. Over the past 12 months, the U.S. dollar weakened 13 percent against the Australian dollar, four percent against the Canadian dollar, and strengthened one percent against the British Pound.

§ Stock-based compensation increased \$.06 per boe on new grants and an increase in Apache stock price.

§ The balance of the increase is related to higher operating costs in all regions, driven by rising commodity prices and increased labor costs, partially mitigated by decreased hurricane related repairs in the Gulf Coast region and a decrease in our OIL insurance early-withdrawal penalty.

*Gathering and Transportation* Gathering and transportation costs totaled \$40 million, up \$6 million. The following table presents gathering and transportation costs paid by Apache to third-party carriers for each of the periods presented.

|   | <b>For the Quarter Ended<br/>June 30,</b> |              |
|---|---|--------------|
|   | <b>2008</b>                               | <b>2007</b>  |
|   | <b>(In millions)</b>                      |              |
| U.S.                                      | \$ 11                                     | \$ 10        |
| Canada                                    | 16  | 12           |
| North Sea                                 | 7   | 7            |
| Egypt                                     | 5   | 4            |
| Argentina                                 | 1   | 1            |
| <b>Total Gathering and Transportation</b> | <b>\$ 40</b>                              | <b>\$ 34</b> |

The increase in Canada resulted primarily from the impact of higher transportation tariffs and foreign exchange rates.

*Taxes other than Income* Taxes other than income increased \$154 million from the corresponding prior-year on higher product prices. A detail of these taxes follows:

|                                      | <b>For the Quarter Ended<br/>June 30,</b> |               |
|--------------------------------------|---|---------------|
|                                      | <b>2008</b>                               | <b>2007</b>   |
|                                      | <b>(In millions)</b>                      |               |
| Ad Valorem taxes                     | \$ 17                                     | \$ 13         |
| Severance taxes                      | 47  | 38            |
| U.K. PRT                             | 220                                       | 81            |
| Canadian taxes                       | 4   | 6             |
| Other                                | 10  | 6             |
| <b>Total Taxes other than Income</b> | <b>\$ 298</b>                             | <b>\$ 144</b> |

North Sea Petroleum Revenue Tax (PRT) is assessed on net profits from subject fields in the United Kingdom (U.K.) North Sea. U.K. PRT was \$139 million more than the 2007 period on a 160 percent increase in net profits primarily driven by a significant increase in revenues. Severance taxes are incurred primarily on onshore properties in the U.S. and certain properties in Australia and Argentina. The increase in severance taxes resulted from higher taxable revenues in the U.S., consistent with the higher realized oil and natural gas prices. Ad valorem taxes are

assessed on U.S. and Canadian properties. The \$4 million increase resulted from higher taxable valuations associated with increases in oil and natural gas prices.

*General and Administrative Expenses* General and administrative expenses (G&A) were \$8 million higher. On a boe basis, G&A averaged \$1.57, up \$.21 per boe. Higher stock-based compensation driven by new grants, including our 2008 Share Appreciation Plan which provides incentives for employees to increase Apache's share price to \$216 by the end of 2012, and Apache's stock price appreciation added \$.07 to our 2008 rate. Current accounting practices dictate that, regardless of whether the 2008 Share Appreciation Plan targets are ultimately achieved, we must recognize the fair value cost of the grant (a portion of which is recognized as G&A) over the service life of the plan, which began in May 2008. Lower relative production added another \$.06 and a weaker U.S. dollar added \$.01 to the 2008 rate. The balance of the increase in rate was related to higher insurance costs and legal fees

**Table of Contents**

*Financing Costs, Net* Financing costs incurred during the periods noted are composed of the following:

|                                     | <b>For the Quarter Ended<br/>June 30,</b> |               |
|-------------------------------------|---|---------------|
|                                     | <b>2008</b>                               | <b>2007</b>   |
|                                     | <b>(In thousands)</b>                     |               |
| Interest expense                    | \$ 66,328                                 | \$ 81,816     |
| Amortization of deferred loan costs | 829                                       | 852           |
| Capitalized interest                | (22,810)                                  | (15,898)      |
| Interest income                     | (5,297)                                   | (3,412)       |
| <br>Financing costs, net            | <br>\$ 39,050                             | <br>\$ 63,358 |

Interest expense decreased \$16 million on lower average debt balances, which decreased 21 percent. Capitalized interest was up primarily because of higher expenditures associated with long-term construction projects that are under development.

*Provision for Income Taxes* During interim periods, income tax expense is based on the estimated effective income tax rate that is expected for the entire fiscal year. There were no significant changes in statutory tax rates in the major jurisdictions in which the Company operates during the second quarter of 2008 or 2007.

The provision for income taxes increased \$394 million to \$899 million, 78 percent higher than the prior-year taxes, as income before taxes doubled on record oil and gas production revenues. The effective income tax rate in the second quarter of 2008 was 38.3 percent compared to 44.3 percent in the second quarter of 2007. The 2007 rate was higher primarily because of a \$68 million non-cash deferred tax expense related to the effect of the weakening U.S. dollar on re-measurement of our foreign deferred tax liabilities. The foreign exchange impact on second quarter 2008 income taxes was minimal.

***Year-to-Date 2008 Compared to Year-to-Date 2007***

*Depreciation, Depletion and Amortization* The following table details the changes in DD&A of oil and gas properties between the six-month periods of 2008 and 2007.

|               | <b>For the Six<br/>Months<br/>Ended<br/>June 30<br/>(In millions)</b> |
|---------------|---|
| 2007 DD&A     | \$ 1,055  |
| Volume change | 9   |
| Rate change   | 110   |
| <br>2008 DD&A | <br>\$ 1,174  |

Full-cost DD&A expense increased \$119 million, \$110 million of which was related to an increase in the DD&A rate which increased \$1.12 to \$11.63 per boe. The increase in rate reflects drilling and finding costs that continue to exceed our historical cost basis. The higher industry-wide costs, which also impact estimates of future development costs, are driven by increased demand for drilling services, a consequence of higher oil and gas prices.

*Lease Operating Expenses* In the first six-months of 2008, LOE increased 14 percent on an absolute dollar and per unit basis, as production rose one percent providing a partial offset to the impact of higher costs.

Our LOE rate increased \$1.07 per boe as follows:

§ Increased workover activity added \$.40 per boe primarily from the U.S. and Egypt.

- § A weaker U.S. dollar added \$.26 per boe. Over the past 12 months, the U.S. dollar weakened 13 percent against the Australian dollar, four percent against the Canadian dollar, and strengthened one percent against the British Pound.
- § Stock-based compensation increased \$.05 per boe on new grants and an increase in Apache stock price.
- § The balance of the increase is related to higher operating costs in all regions, driven by rising commodity prices, increased labor costs, the acquisition of higher cost oil properties in the U.S. Permian Basin and an additional interest in the higher cost Legendre oil field in Australia, partially offset by decreased hurricane related repairs in the Gulf Coast region and a decrease in our OIL insurance early-withdrawal penalty.

**Table of Contents**

*Gathering and Transportation* Gathering and transportation costs totaled \$81 million, up \$15 million. The following table presents gathering and transportation costs paid by Apache to third-party carriers for each of the periods presented.

|                                    | <b>For the Six Months<br/>Ended<br/>June 30,</b> |             |
|------------------------------------|--|-------------|
|                                    | <b>2008</b>                                      | <b>2007</b> |
|                                    | <b>(In millions)</b>                             |             |
| U.S.                               | \$ 21  | \$ 19       |
| Canada                             | 34   | 24          |
| North Sea                          | 15   | 13          |
| Egypt                              | 9  | 8           |
| Argentina                          | 2  | 2           |
| <br>                               |  |             |
| Total Gathering and Transportation | \$ 81  | \$ 66       |

The increase in Canada resulted primarily from the impact of higher transportation tariffs and foreign exchange rates. U.S. and North Sea costs were up on increased volumes and higher transportation tariffs.

*Taxes other than Income* Taxes other than income totaled \$541 million, an increase of \$287 million on higher product prices. A detail of these taxes follows:

|                               | <b>For the Six Months<br/>Ended<br/>June 30,</b> |             |
|-------------------------------|--|-------------|
|                               | <b>2008</b>                                      | <b>2007</b> |
|                               | <b>(In millions)</b>                             |             |
| Ad Valorem taxes              | \$ 39  | \$ 26       |
| Severance taxes               | 93   | 67          |
| U.K. PRT                      | 385  | 142         |
| Canadian taxes                | 8  | 11          |
| Other                         | 16   | 8           |
| <br>                          |  |             |
| Total Taxes other than Income | \$ 541   | \$ 254      |

U.K. PRT was \$243 million more than the 2007 period on a 163 percent increase in net profits primarily driven by higher oil revenues. The increase in severance taxes resulted from higher taxable revenues in the U.S., consistent with the higher realized oil and natural gas prices. The \$13 million increase in ad valorem taxes resulted from higher taxable valuations associated with increases in oil and natural gas prices and the acquisition of Permian Basin properties late in the first quarter of 2007.

*General and Administrative Expenses* G&A was \$23 million higher. On a boe basis, G&A averaged \$1.60, up \$.22 per boe. Higher stock-based compensation driven by new grants, including our 2008 share appreciation plan which provides incentives for employees to increase Apache's share price to \$216 by the end of 2012, and Apache's stock price appreciation added \$.09 to our 2008 rate. Current accounting practices dictate that, regardless of whether the 2008 Share Appreciation Plan targets are ultimately achieved, we must recognize the fair value cost of the grant (a portion of which is recognized as G&A) over the service life of the plan, which began in May 2008. Higher employee incentive-based bonuses, awarded following Apache's record 2007 results, added \$.02 per boe and an increase in insurance costs added \$.04 per boe.



**Table of Contents**

*Financing Costs, Net* Financing costs incurred during the periods noted are composed of the following:

|                                     | <b>For the Six Months Ended<br/>June 30,</b> |             |
|-------------------------------------|--|-------------|
|                                     | <b>2008</b>                                  | <b>2007</b> |
|                                     | <b>(In thousands)</b>                        |             |
| Interest expense                    | \$ 135,635                                   | \$ 147,548  |
| Amortization of deferred loan costs | 1,680  | 1,546       |
| Capitalized interest                | (44,387)                                     | (37,674)    |
| Interest income                     | (9,625)                                      | (5,999)     |
| Financing costs, net                | \$ 83,303                                    | \$ 105,421  |

Interest expense decreased \$12 million on lower average debt which decreased \$500 million. Capitalized interest was up primarily because of higher expenditures associated with long-term construction projects that are under development.

*Provision for Income Taxes* There were no significant changes in statutory tax rates in the major jurisdictions in which the Company operates during the first six months of 2008 or 2007.

The provision for income taxes increased \$727 million from 2007 to \$1.6 billion as income before taxes more than doubled on significantly higher oil and gas production revenues. The effective income tax rate in the first six months of 2008 was 38.6 percent compared to 42.3 percent in the six months of 2007. The 2007 rate was higher primarily because of a non-cash deferred tax expense charge related to the effect of the weakening U.S. dollar on re-measurement of our foreign deferred tax liabilities. The 2008 period saw a small benefit from currency fluctuations.

**Capital Resources and Liquidity****Sources and Uses of Cash**

The following table presents the sources and uses of our cash and cash equivalents for the six-month periods ended June 30, 2008 and 2007. The table presents capital expenditures on a cash basis; therefore, the amounts differ from capital expenditures referred to elsewhere in this document, which include accruals.

|   | <b>For the Six Months Ended<br/>June 30,</b> |             |
|---|--|-------------|
|   | <b>2008</b>                                  | <b>2007</b> |
|   | <b>(In millions)</b>                         |             |
| <b>Sources of Cash and Cash Equivalents:</b>          |  |             |
| Net Cash Provided by Operating Activities             | \$ 3,738                                     | \$ 2,450    |
| Sales of property and equipment                       | 300  | 11          |
| Fixed-rate debt borrowings                            |  | 1,992       |
| Common stock issuances                                | 29   | 19          |
| Other   | 45   | 25          |
|   | 4,112  | 4,497       |
| <b>Uses of Cash and Cash Equivalents:</b>             |  |             |
| Oil and gas Property                                  | 2,392  | 2,195       |
| Acquisitions  | 151  | 1,011       |
| Gas gathering, transmission and processing facilities | 246  | 203         |
| Restricted cash                                       | 94   |             |
| Net commercial paper and money market repayments      | 183  | 823         |



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|                                       |        |       |
|---------------------------------------|--------|-------|
| Payments of fixed-rate debt           |        | 3     |
| Dividends                             | 136    | 102   |
| Cost of debt and equity transactions  | 1      | 16    |
| Other                                 | 26     | 96    |
|                                       | 3,229  | 4,449 |
| Increase in cash and cash equivalents | \$ 883 | \$ 48 |

**Table of Contents**

*Net Cash Provided by Operating Activities* Apache's net cash provided by operating activities for the first six months of 2008 totaled \$3.7 billion, up \$1.3 billion from the same period in 2007. For a detailed discussion of commodity prices, production, costs and expenses, refer to the Results of Operations of this Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations.

Historically, fluctuations in commodity prices have been the primary reason for the Company's short-term changes in cash flow from operating activities. Sales volume changes have also impacted cash flow in the short-term, but have not been as volatile as commodity prices. Apache'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* Capital expenditures totaled \$3.2 billion for the first six months of 2008, compared to \$3.6 billion for the comparable period last year. Acquisition capital in the first six months of 2007 exceeded \$1 billion marking the difference between the two comparable periods. The following table presents a summary of the Company's capital expenditures.

|  | <b>For the Six Months Ended<br/>June 30,</b> |             |
|--|--|-------------|
|  | <b>2008</b>                                  | <b>2007</b> |
|  | <b>(In millions)</b>                         |             |
| Exploration and Development:                     |  |             |
| United States                                    | \$ 1,005                                     | \$ 960      |
| Canada   | 353  | 297         |
| Egypt  | 413  | 302         |
| Australia  | 453  | 212         |
| North Sea  | 255  | 287         |
| Argentina  | 146  | 115         |
| Chile  | 4  |             |
|  | 2,629  | 2,173       |
| Acquisitions – Oil and Gas Properties            | 151  | 1,011       |
| Asset Retirement Costs                           | 172  | 127         |
| Capitalized Interest                             | 44   | 38          |
| Gathering Transmission and Processing Facilities | 236  | 203         |
|  |  |             |
| Total Capital Expenditures                       | \$ 3,232                                     | \$ 3,552    |

Exploration and development (E&D) expenditures were up \$456 million, or 21 percent, from the 2007 comparable period to \$2.6 billion. The U.S. accounted for 38 percent of total E&D activity in first six months of 2008, down from 44 percent in the prior-year comparable period. Expenditures in the U.S. were up \$45 million on higher drilling activity and less investment in platforms and production facilities located in the Gulf of Mexico. Canada accounted for 13 percent of worldwide E&D expenditures down from 14 percent in 2007. Canada's E&D expenditures were up \$56 million on increased drilling activity. Australia's E&D expenditures totaled \$453 million, double 2007 spending. Australia's portion of 2008 activity jumped to 17 percent from 10 percent in the comparable 2007 period. Australia's higher expenditures related to increased exploration activity, development drilling on our Van Gogh property, and infrastructure spending on our Pyreneese project. Egypt spent \$111 million more in the 2008 period on higher levels of drilling activity. North Sea E&D expenditures were down \$32 million driven mainly by lower drilling activity.

*Dividends* Common stock dividends paid during the first six months of 2008 rose to \$133 million from \$99 million in 2007, driven by a special cash dividend of 10 cents per common share paid on March 18, 2008. During the first six months of 2008 and 2007, Apache paid \$2.8 million in dividends on its Series B Preferred Stock issued in

August 1998.

**Table of Contents****Liquidity**

|  | <b>June 30,<br/>2008</b> | <b>December<br/>31,<br/>2007</b> |
|--|--------------------------|----------------------------------|
| <b>Millions of dollars except as indicated</b> |                          |                                  |
| Cash   | \$ 1,008                 | \$ 126                           |
| Restricted cash                                | \$ 94                    | \$                               |
| Total debt                                     | \$ 4,046                 | \$ 4,227                         |
| Shareholders' equity                           | \$ 16,514                | \$ 15,378                        |
| Available committed borrowing capacity         | \$ 2,300                 | \$ 2,115                         |
| Floating-rate debt/total debt                  | 1%                       | 5%                               |
| Percent of total debt to capitalization        | 20%                      | 22%                              |

*Cash and Cash Equivalents* We had \$1 billion in cash and cash equivalents at June 30, 2008, compared with \$126 million at December 31, 2007. Substantially all of this cash is in our foreign subsidiaries (\$123 million was in U.S.) and would be subject to additional U.S. income taxes if repatriated. Almost all of the cash is denominated in U.S. dollars and, at times, is invested in highly liquid, investment-grade securities with original maturities of three months or less at the time of purchase. We intend to use our international subsidiaries' cash to fund international projects.

Most of our cash is invested in obligations of the U.S. Government and we have reviewed the creditworthiness of the financial institutions which hold the company's deposits. Thus far, our liquidity and financial position have not been affected by events in the credit markets. We believe that losses from non-performance are unlikely to occur; however, we are not able to predict sudden changes in the creditworthiness of the financial institutions with which we do business.

*Restricted Cash* The Company classifies cash balances as restricted cash when cash is restricted as to withdrawal or usage. As of June 30, 2008, the Company had approximately \$94 million of property divestiture proceeds classified as restricted cash, and held in escrow available for use in a like-kind exchange under Section 1031 of the U.S. federal income tax code. The Company intends to use these funds to acquire noncurrent assets. Accordingly, the restricted cash is classified as long term on our consolidated balance sheet.

*Derivatives* Our commodity derivative instruments are designated as cash flow hedges in accordance with SFAS 133. Under SFAS 133, unrealized gains and losses related to changes in fair value of cash flow hedges are deferred in other comprehensive income. Earnings and cash flows are not impacted until the derivatives are settled (when we either pay cash to, or receive cash from, our counterparties) which occurs contemporaneously with the hedged production. At settlement, if commodity prices exceed the fixed or ceiling price in our derivative instruments, our cash flows provided by the hedged production will be lower than if we had no derivative instruments. For the first half of the year our earnings were reduced by \$314 million. As of June 30, 2008, we had a net liability of \$2.6 billion which represented the fair value of our unrealized commodity derivative instruments as of that date. Approximately \$728 million relates to positions settling in the second half of 2008. The remaining liability will impact future revenues over the periods 2009 through mid-2013. We project that these derivatives will reduce revenues by six percent in 2008, three percent in 2009, two percent in 2010 and 2011, and one percent in 2012 and 2013. Estimated and actual amounts, however, are likely to vary materially as a result of changes in market conditions. We expect future settlements of these liabilities to be funded by proceeds from the sale of the underlying production. Higher prices result in additional cash outlays to settle derivatives, however, they positively impact our liquidity since less than 20 percent of our production is hedged.

*Debt and Credit Facilities* The Company's June 30, 2008 debt-to-capitalization ratio was 20 percent, down from 22 percent at December 31, 2007.

In February 2008 the Company requested amendments to its existing \$1.5 billion U.S. five-year revolving credit facility to (a) extend the maturity date one year to May 28, 2013 and (b) remove certain restrictions on our Australian entities including their ability to incur liens and issue guarantees. The Company also requested amendments to its

\$450 million U.S. credit facility, \$150 million Australian credit facility and \$150 million Canadian credit facility to (a) extend the maturity date one year to May 12, 2013, (b) remove certain restrictions on our Australian entities including their ability to incur liens and issue guarantees, and (c) specific to the Australian credit facility, give the Company the option of increasing the size of the facility up to a maximum amount of \$400 million from the current limit of \$300 million by adding commitments from new or existing lenders.

Lenders approved the amendments removing certain restrictions on our Australian entities, including their ability to incur liens and issue guarantees as well as the amendment allowing the Company to increase the size of Australian credit facility to a maximum of \$400 million. The lenders also extended the maturity date on all of the credit facilities except for \$50 million of the \$1.5 billion U.S. credit facility and \$40 million of the \$450 million U.S. credit facility.

**Table of Contents**

In April 2008, the Company increased the Australian credit facility by \$50 million to \$200 million, half of the maximum amount and as of April 30, lenders had extended the maturity dates on all of the credit facilities.

The Company has available a \$1.95 billion commercial paper program which enables Apache to borrow funds for up to 270 days at competitive interest rates.

As of June 30, 2008, Apache had no commercial paper outstanding. Our weighted-average interest rate for commercial paper was 3.85 percent and 5.37 percent for the first six months of 2008 and 2007, respectively. If the Company is unable to issue commercial paper following a significant credit downgrade or dislocation in the market, the Company's U.S. credit facilities are available as a 100 percent backstop. The Company had available borrowing capacity under our total credit facilities of approximately \$2.3 billion at June 30, 2008.

As of June 30, 2008, current debt includes a \$100 million note due March 2009 and a \$34 million overdraft line repayable on demand in Argentina.

The Company was in compliance with the terms of all credit facilities as of June 30, 2008.

*Canadian Royalties* The government of the Province of Alberta proposed increases to the royalty rates on oil and natural gas production beginning in 2009. If the proposed increases are ultimately enacted, they will adversely impact future earnings and cash flows. We are likely to limit our Alberta capital spending to shallow drilling activity, while reallocating remaining budgeted capital to other areas.

**ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK****Commodity Risk**

We periodically enter into hedging activities on a portion of our projected oil and natural gas production through a variety of financial and physical arrangements intended to support oil and natural gas prices at targeted levels and to manage our overall exposure to oil and gas price fluctuations. Apache may use futures contracts, swaps, options and fixed-price physical contracts to hedge its commodity prices. Realized gains or losses from the Company's price risk management activities are generally recognized in oil and gas production revenues when the associated production occurs. Apache does not generally hold or issue derivative instruments for trading purposes.

Approximately 19 percent of our first six months of 2008 natural gas and 18 percent of our crude oil production was subjected to financial derivative hedges. Hedges in place for the remainder of 2008 are expected to cover similar percentages of production.

On June 30, 2008, the Company had open natural gas derivative hedges in a liability position with a fair value of \$259 million. A 10 percent increase in natural gas prices would reduce the fair value by approximately \$106 million, while a 10 percent decrease in prices would increase the fair value by approximately \$92 million. The Company also had open oil derivatives in a liability position with a fair value of \$2.3 billion. A 10 percent increase in oil prices would decrease the fair value by approximately \$511 million, while a 10 percent decrease in prices would increase the fair value by approximately \$507 million. These fair value changes assume volatility based on prevailing market parameters at June 30, 2008. See Note 1 Derivative Instruments and Hedging Activity of the Notes to consolidated financial statements in this quarterly report on Form 10-Q for notional volumes and terms associated with the Company's derivative contracts.

**Interest Rate Risk**

The Company considers its interest rate risk exposure to be minimal as a result of fixing interest rates on approximately 99 percent of the Company's debt. At June 30, 2008, total debt included \$34 million of floating-rate debt. As a result, Apache's annual interest costs in 2008 will fluctuate based on short-term interest rates on what is presently approximately one percent of our total debt outstanding at June 30, 2008. The impact on cash flow of a 10 percent change in the floating interest rate would be approximately \$0.2 million per quarter on June 30, 2008.

**Foreign Currency Risk**

The Company's cash flow stream relating to certain international operations is based on the U.S. dollar equivalent of cash flows measured in foreign currencies. In Australia, oil production is sold under U.S. dollar contracts and the majority of the gas production is sold under fixed-price Australian dollar contracts. Approximately half of the costs incurred for Australian operations are paid in U.S. dollars. In Canada, the majority of oil and gas production is sold under Canadian dollar contracts. The majority of the costs incurred are paid in Canadian dollars. The North Sea production is sold under U.S. dollar contracts and the majority of costs incurred are paid in U.K. pounds. In Egypt, all



## **Table of Contents**

oil and gas production is sold under U.S. dollar contracts and the majority of the costs incurred are denominated in U.S. dollars. Argentine revenues and expenditures are largely denominated in U.S. dollars, but converted into Argentine pesos at the time of payment. Revenue and disbursement transactions denominated in Australian dollars, Canadian dollars, British pounds, Egyptian pounds and Argentine pesos are converted to U.S. dollar equivalents based on the average exchange rates during the period.

Foreign currency gains and losses also arise when monetary assets and monetary liabilities denominated in foreign currencies are translated at the end of each month. Currency gains and losses are included as either a component of Other under Revenues and Other, or, as is the case when we re-measure our foreign tax liabilities, as a component of the Company's provision for income tax expense on the Statement of Consolidated Operations.

### **Forward-Looking Statements And Risk**

Certain statements in this quarterly report on Form 10-Q, including statements of the future plans, objectives, and expected performance of the Company, are forward-looking statements that are dependent upon certain events, risks and uncertainties that may be outside the Company's control, and which could cause actual results to differ materially from those anticipated. Some of these include, but are not limited to, the market prices of oil and gas, economic and competitive conditions, inflation rates, legislative and regulatory changes, financial market conditions, political and economic uncertainties of foreign governments, future business decisions, and other uncertainties, all of which are difficult to predict.

There are numerous uncertainties inherent in estimating quantities of proved oil and gas reserves and in projecting future rates of production and the timing of development expenditures. The total amount or timing of actual future production may vary significantly from reserves and production estimates. The drilling of exploratory wells can involve significant risks, including those related to timing, success rates and cost overruns. Lease and rig availability, complex geology and other factors can affect these risks. Although Apache may make use of futures contracts, swaps, options and fixed-price physical contracts to mitigate risk, fluctuations in oil and natural gas prices or a prolonged continuation of low prices, may adversely affect the Company's financial position, results of operations and cash flows.

## **ITEM 4 CONTROLS AND PROCEDURES**

### **Disclosure Controls and Procedures**

G. Steven Farris, the Company's President, Chief Executive Officer and Chief Operating Officer, and Roger B. Plank, the Company's Executive Vice President and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2008, the end of the period covered by this report. Based on that evaluation and as of the date of that evaluation, these officers concluded that the Company's disclosure controls and procedures were effective, providing effective means to ensure that information we are required to disclose under applicable laws and regulations is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure.

We periodically review the design and effectiveness of our disclosure controls, including compliance with various laws and regulations that apply to our operations both inside and outside the United States. We make modifications to improve the design and effectiveness of our disclosure controls, and may take other corrective action, if our reviews identify deficiencies or weaknesses in our controls.

### **Changes in Internal Control over Financial Reporting**

There was no change in our internal controls over financial reporting during the period covered by this quarterly report on Form 10-Q that materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.



**Table of Contents****PART II OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

Please refer to Part I, Item 3 of our Annual Report on Form 10-K for the year ended December 31, 2007 (filed with the SEC on February 29, 2008) for a description of material legal proceedings.

**ITEM 1A. RISK FACTORS**

During the quarter ending June 30, 2008, there were no material changes from the risk factors as previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

The Company's annual meeting of stockholders was held in Houston, Texas at 10:00 a.m. local time, on Thursday, May 8, 2008. Proxies for the meeting were solicited pursuant to Regulation 14 under the Securities Exchange Act of 1934.

Out of a total of 333,528,025 shares of the Company's common stock outstanding and entitled to vote, 297,489,062 shares were present at the meeting in person or by proxy, representing 89.2 percent of the shares entitled to vote.

Matters voted upon at the meeting were as follows:

- (a) We received stockholder votes for the election of four directors of Apache, each to serve until Apache's annual meeting in 2011, or until their successors are duly elected. We counted and tabulated all votes and determined the results of the votes as follows:

| <b>Nominee</b>     | <b>For</b>  | <b>Against</b> | <b>Abstain</b> |
|--------------------|-------------|----------------|----------------|
| G. Steven Farris   | 286,435,060 | 7,951,480      | 3,102,522      |
| Randolph M. Ferlic | 269,800,092 | 24,526,079     | 3,162,891      |
| A.D. Frazier, Jr.  | 286,224,216 | 8,128,535      | 3,136,311      |
| John A. Kocur      | 285,308,873 | 9,031,179      | 3,149,010      |

The name of each director whose term of office as a director continued after the meeting is listed below:

|                         |                    |
|-------------------------|--------------------|
| Frederick M. Bohen      | Eugene C. Fiedorek |
| Patricia Albjerg Graham | George D. Lawrence |
| F. H. Merelli           | Rodman D. Patton   |
| Charles J. Pitman       | Raymond Plank      |

- (b) The Company's stockholders defeated the stockholder proposal concerning reimbursement of proxy expenses. The voting results were as follows:

|                 |             |
|-----------------|-------------|
| For             | 34,978,624  |
| Against         | 208,574,092 |
| Abstain         | 17,484,793  |
| Broker Non-Vote | 36,451,553  |

**Table of Contents**

**ITEM 5. OTHER INFORMATION**

None

**ITEM 6. EXHIBITS**

- 10.1 2008 Share Appreciation Program Specifications (incorporated by reference to Exhibit 10.3 to Registrant's Quarterly Report on Form 10-Q for quarter ended March 31, 2008).
- 10.2 Restricted Stock Unit Award Agreement, dated May 8, 2008, between Apache Corporation and G. Steven Farris (incorporated by reference to Exhibit 10.4 to Registrant's Quarterly Report on Form 10-Q for quarter ended March 31, 2008).
- \*12.1 Statement of computation of ratio of earnings to fixed charges and combined fixed charges and preferred stock dividends.
- \*31.1 Certification of Chief Executive Officer.
- \*31.2 Certification of Chief Financial Officer.
- \*32.1 Certification of Chief Executive Officer and Chief Financial Officer.

Management  
contracts or  
compensation  
plans or  
arrangements

\* Filed herewith

**Table of Contents**

**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 hereunto duly authorized.

APACHE CORPORATION

Dated: August 8, 2008

/ s / ROGER B. PLANK

Roger B. Plank  
Executive Vice President and Chief Financial Officer

Dated: August 8, 2008

/ s / REBECCA A. HOYT

Rebecca A. Hoyt  
Vice President and Controller  
(Chief Accounting Officer)

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**Table of Contents**

Index to Exhibits

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