APACHE CORP
Form 10-K
March 01, 2007

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

Form 10-K

(Mark One)

[X] **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)**
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2006,
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

A Delaware Corporation **IRS Employer No. 41-0747868**
One Post Oak Central
2000 Post Oak Boulevard, Suite 100
Houston, Texas 77056-4400
Telephone Number (713) 296-6000
Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange On Which Registered**
Common Stock, $0.625 par value	New York Stock Exchange Chicago Stock Exchange NASDAQ National Market
Preferred Stock Purchase Rights	New York Stock Exchange Chicago Stock Exchange
Apache Finance Canada Corporation 7.75% Notes Due 2029 Irrevocably and Unconditionally Guaranteed by Apache Corporation	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act:
Common Stock, $0.625 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1933. Yes [X] No [ ]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [X]

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 [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act

Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ]

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

Aggregate market value of the voting and non-voting common equity held by non-affiliates of registrant as of June 30, 2006	$ 22,470,650,953
Number of shares of registrant s common stock outstanding as of January 31, 2007	330,958,433

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of registrant s proxy statement relating to registrant s 2007 annual meeting of stockholders have been incorporated by reference into Part III hereof.

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All defined terms under Rule 4-10(a) of Regulation S-X shall have their statutorily prescribed meanings when used in this report. Quantities of natural gas are expressed in this report in terms of thousand cubic feet (Mcf), million cubic feet (MMcf), billion cubic feet (Bcf) or trillion cubic feet (Tcf). Oil is quantified in terms of barrels (bbls); thousands of barrels (Mbbls) and millions of barrels (MMbbls). Natural gas is compared to oil in terms of barrels of oil equivalent (boe) or million barrels of oil equivalent (MMboe). Oil and natural gas liquids are compared with natural gas in terms of million cubic feet equivalent (MMcfe) and billion cubic feet equivalent (Bcfe). One barrel of oil is the energy equivalent of six Mcf of natural gas. Daily oil and gas production is expressed in terms of barrels of oil per day (b/d) and thousands or millions of cubic feet of gas per day (Mcf/d and MMcf/d, respectively) or millions of British thermal units per day (MMBtu/d). Gas sales volumes may be expressed in terms of one million British thermal

units (MMBtu), which is approximately equal to one Mcf. With respect to information relating to our working interest in wells or acreage, net oil and gas wells or acreage is determined by multiplying gross wells or acreage by our working interest therein. Unless otherwise specified, all references to wells and acres are gross.

PART I

ITEMS 1 AND 2. BUSINESS AND PROPERTIES

General

Apache Corporation, a Delaware corporation formed in 1954, is an independent energy company that explores for, develops and produces natural gas, crude oil and natural gas liquids. In North America, our exploration and production interests are focused in the Gulf of Mexico, the Gulf Coast, East Texas, the Permian basin, the Anadarko basin and the Western Sedimentary basin of Canada. Outside of North America, we have exploration and production interests onshore Egypt, offshore Western Australia, offshore the United Kingdom in the North Sea (North Sea), and onshore Argentina. Our common stock, par value $0.625 per share, has been listed on the New York Stock Exchange (NYSE) since 1969, on the Chicago Stock Exchange (CHX) since 1960, and on the NASDAQ National Market (NASDAQ) since January 2004. On May 18, 2006, we filed certifications of our compliance with the listing standards of the NYSE and the NASDAQ, including our chief executive officer s certification of compliance with the NYSE standards. Through our website, http://www.apachecorp.com, you can access electronic copies of the charters of the committees of our Board of Directors, other documents related to Apache s corporate governance (including our Code of Business Conduct and Governance Principles), and documents Apache files with the Securities and Exchange Commission (SEC), including our annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, as well as any amendments to these reports. Included in our annual and quarterly reports are the certifications of our chief executive officer and our chief financial officer that are required by applicable laws and regulations. Access to these electronic filings is available as soon as practicable after filing with the SEC. You may also request printed copies of our committee charters or other governance documents by writing to our corporate secretary at the address on the cover of this report.

We hold interests in many of our U.S., Canadian, and other International properties through subsidiaries, including Apache Canada Ltd., DEK Energy Company (DEKALB), Apache Energy Limited (AEL), Apache North America, Inc., and Apache Overseas, Inc. Properties referred to in this document may be held by those subsidiaries. We treat all operations as one line of business.

Our Growth Strategy

Apache s goal is to grow a profitable oil and gas company for the long-term benefit of our shareholders. Our strategy is to build a portfolio of core areas which provide growth opportunities through both grass-roots drilling and acquisition activity. We now have operations in six countries the United States, Canada, Egypt, the United Kingdom sector of the North Sea, Australia, and our newest core area Argentina. Whether in our oldest region, the U.S. Central region, or our newest, we seek to grow profitably while building critical mass that supports sustainable, lower-risk, repeatable drilling opportunities, balanced by higher-risk, higher-reward exploration. We also seek a balance in terms of gas vs. oil, geologic risk, reserve life and political risk.

When acquisition opportunities are identified, operational and technical teams participate in the evaluation process, enabling our personnel to move in quickly to execute exploitation activities (including workovers, recompletions and drilling) that will increase production and reserves, reduce costs per unit produced and enhance profitability. Over time, we build teams that have the technical knowledge and sense of urgency to maximize value. Our local knowledge of producing basins and our proactive culture provide a platform for continued growth through strategic acquisitions and drilling.

We also periodically evaluate our existing assets to determine whether sales of certain assets will provide opportunities to redeploy our capital resources to rebalance our portfolio and generate better prospective rates of return. As a result of this process, in January 2006, we sold our 55 percent interest in the deepwater section of Egypt s West Mediterranean Concession to Amerada Hess for $413 million, and in August we sold our China holdings to Australia-based ROC Oil Company Limited for $260 million. We reinvested these proceeds and purchased estimated proved reserves of 109 MMboe in Argentina.

More than a decade ago, recognizing that the United States was a mature oil and gas country, we added an international exploration component to our portfolio strategy, which provides exposure to larger reserve targets with

which to grow production and reserves through drilling. Apache is also one of the leading acquirers of three-dimensional (3-D) seismic data in the industry today. Our technology experts have developed strategies for rapid and cost-effective acquisition and processing of 3-D data, enabling our technical teams to analyze large swaths of acreage and generate drilling prospects on an accelerated timetable.

Operating regions are given the autonomy necessary to make drilling and operating decisions and to act quickly. Management and incentive systems underscore high cash flow and rate-of-return targets, which are measured monthly, reviewed with senior management quarterly and utilized to determine annual performance rewards.

In the United States, the Gulf Coast region consistently delivers high returns on capital invested, as well as cash flow significantly in excess of our exploration and development spending there. Acquisitions play an important role because with steep decline rates, offshore reserves are generally short-lived and difficult to replace through drilling alone. The Central region brings the balance of long-lived reserves and consistent drilling results in the Permian basin of West Texas and New Mexico, East Texas and the Anadarko basin of western Oklahoma. Apache s future growth in the United States is more likely to be achieved through a combination of drilling and acquisitions, rather than through drilling activity alone. Our $821 million Gulf of Mexico acquisition from BP and $269 million Permian basin acquisition from Amerada Hess, for example, complimented our active drilling program in 2006 and buttressed our growth in the U.S.

In Canada, we have almost seven million gross acres across the Provinces of British Columbia, Alberta, Saskatchewan and the Northwest Territories. We have a multi-year inventory of low-risk drilling opportunities in a number of Apache fields in Central Alberta, including Provost, Hatton and Nevis, and on acreage acquired in the Exxon Mobil Corporation (ExxonMobil) farm-in agreements of 2004 and 2005. With acquisition and land costs having risen significantly in Canada, these farm-ins provide a way for Apache to earn acreage through drilling with no upfront costs. ExxonMobil retains a royalty on fee lands and a convertible working interest on leasehold acreage, both of which vary dependent on activity levels. We also have opportunities to drill deeper exploration targets with higher reserve potential in Northwest Alberta and Northeast British Columbia.

In Egypt s Western Desert, Apache s 10.2 million gross acres encompass a sizable resource in the Cretaceous Upper Bahariya formations and outstanding exploration potential in deeper intervals from lower Cretaceous to Jurassic, established producing trends. The Qasr gas/condensate field, discovered in 2003, is the largest field ever found by Apache with more than 2 trillion cubic feet of gas and 60 million barrels of estimated recoverable reserves.

In Australia, we have expanded our exploration program to the high-potential Exmouth, Browse and Gippsland basins while continuing to exploit our acreage position and control of key infrastructure in the Carnarvon basin. In the Gippsland basin we actively acquired almost 1.8 million acres over the past three years and have generated a 10-well inventory of high potential exploration prospects to be drilled in 2008. Additionally, Apache and its partners are designing three development projects in the Exmouth basin that are in process of being sanctioned and approved by all parties.

Apache entered the North Sea in 2003 with our acquisition of the Forties field (Forties), the largest field ever discovered in the United Kingdom. As operator, through drilling and extensive improvements to the production infrastructure, we virtually doubled production and significantly reduced per-unit operating costs from the second quarter of 2003. Our 2007 plans include infill and extentional drilling activity at Forties to determine if we can extend the field to the west, as well as exploration drilling on acreage blocks obtained over the past couple of years. We currently have around 100 Forties field drilling locations in our inventory.

For several years we held small interests in Argentina with the long-term view of expanding there through acquisitions. In April 2006, we purchased Pioneer Natural Resources (Pioneer) interests in Neuquén and the Austral

basins for $675 million and subsequently purchased our partner s, Pan American Fueguina S.R.L. (Pan American), interests in Tierra del Fuego, gaining operatorship in the under-exploited, highly prospective Austral basin concessions. Through subsequent workovers, recompletions and development activities, we increased production on the acquired properties and have established Argentina as Apache s latest core area. While we expect unique challenges with evolving governmental regulations, we anticipate growing reserves and production in Argentina.

We exited 2006 with a year-end debt-to-capitalization ratio of 22 percent despite record capital spending of $6.4 billion, excluding asset retirement costs. This flexibility enables us to quickly act on attractive acquisition

transactions as they are identified, such as our agreement in January 2007 to acquire, through a joint venture interest, Permian basin assets from Anadarko Petroleum Company (Anadarko) for $1 billion. The transaction, which is subject to normal closing conditions and adjustments for matters such as preferential rights, is expected to close around the end of the first-quarter of 2007.

Apache has increased reserves in each of the last 21 years and production in 27 of the last 28 years. We believe our strategy and our diversified portfolio of assets provide a platform for profitable growth through drilling and acquisitions across the cycles of our dynamic industry.

In 2007, we are planning another active year of drilling. We revise our capital expenditure estimates throughout the year based on changing industry conditions and results to date. Therefore, accurately projecting annual capital spending is difficult at best. Our preliminary 2007 capital budget approaches $4.5 billion. While in most years capital budgets are expanded as the year unfolds, if commodity prices soften from year-end 2006 levels and service costs do not also decline; we plan to reduce our capital spending. Regarding potential acquisitions, we continually look for properties to which we believe we can add value and earn adequate rates of return and will take advantage of those acquisition opportunities as they arise.

Operating Highlights

Following the sale of our interest in China in the third quarter of 2006, our interests in six countries now comprise our reportable segments: the United States, Canada, Egypt, Australia, the North Sea, and Argentina. In the U.S., our exploration and production activities are spread between two regions: Gulf Coast and Central.

The following table sets out a brief comparative summary of certain key 2006 data for each area. More detailed information regarding oil, natural gas and natural gas liquids (NGLs) production and the average sales prices received in each geographic area for 2006, 2005, and 2004 is available later in this section under Production, Pricing and Lease Operating Cost Data. Also, further discussion and analysis of this data is available in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations in this Form 10-K. For information concerning the revenues, expenses, operating income (loss) and total assets attributable to each of our reportable segments, see Note 13, Supplemental Oil and Gas Disclosures (Unaudited), and Note 12, Business Segment Information of Item 15 in this Form 10-K. For information regarding Oil and Gas Capital Expenditures for each of the last three years, see Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, Capital Resources and Liquidity in this Form 10-K.

	2006 Production (In MMboe)	Percentage of Total 2006 Production	2006 Production Revenue (In millions)	12/31/06 Estimated Proved Reserves (In MMboe)	Percentage of Total Estimated Proved Reserves	2006 Gross New Wells Drilled	2006 Gross New Productive Wells Drilled
Region/Country:							
Gulf Coast	40.6	22.2%	$ 1,865	393.3	17.0%	83	65
Central	27.3	14.9	1,162	551.2	23.8	374	363
Total U.S.	67.9	37.1	3,027	944.5	40.8	457	428

Canada	32.9	18.0	1,380	575.3	24.9	874	740
Total North America	100.8	55.1	4,407	1,519.8	65.7	1,331	1,168
Egypt	33.9	18.5	1,664	281.5	12.2	163	140
Australia	15.7	8.6	408	204.5	8.8	23	7
United Kingdom	21.5	11.8	1,355	196.8	8.5	5	4
Argentina	9.9	5.4	167	110.6	4.8	83	74
China	1.1	0.6	73			6	6
Total International	82.1	44.9	3,667	793.4	34.3	280	231
Total	182.9	100.0%	$ 8,074	2,313.2	100%	1,611	1,399

The following discussions include references to our plans for 2007. These only represent initial estimates and could vary significantly from actual results. In recent years, there have been large differences between our capital expenditure forecasts and our actual activity. During the year, we routinely adjust our level of spending based on results and changing industry conditions.

United States

Gulf Coast The Gulf Coast region comprises our interests in and along the Gulf of Mexico, in the areas on-and offshore Louisiana and Texas. Apache is the largest held-by-production acreage holder and the second largest producer in Gulf waters less than 1,200 feet deep. For the third year in a row, the Gulf Coast was our leading region for both production volumes and revenues. Gulf Coast activities in 2006 focused on restoring production impacted by the 2005 hurricanes, while maintaining an active drilling program. This region performed 296 workover and recompletion operations during 2006 and completed 65 out of 83 total wells drilled as producers. Our drilling locations mostly included proved undeveloped reserves at platforms sustaining minimum or no hurricane damage with access to third-party transport facilities. In June 2006, we acquired producing properties, facilities and prospects on the Outer Continental Shelf of the Gulf of Mexico from BP plc (BP) for $845 million, adding an estimated 44.2 MMboe of proved reserves. The purchase price was allocated as follows: $747 million producing properties, $42 million prospects, $56 million facilities. As of year-end 2006, the Gulf Coast region accounted for 17 percent of our estimated proved reserves. Although actual annual capital expenditures may change considerably in 2007, we currently estimate investing approximately $900 million to drill over 90 wells and to continue our production enhancement and exploitation programs. In addition, we plan to spend an estimated $350 million on repair, redevelopment, and plugging and abandonment work required to repair damage caused by Hurricanes Katrina and Rita in 2005 that will not be covered by insurance.

Central The Central Region includes assets in the Permian basin of West Texas and New Mexico, East Texas, and the Anadarko basin of western Oklahoma, where the Company got its start over 50 years ago. On January 5, 2006, the Company expanded its presence in the Permian basin by purchasing an estimated 31.5 MMboe of reserves in eight fields for $269 million from Amerada-Hess. In early 2007, we also entered into agreements to acquire additional Permian basin interests from Anadarko as described in more detail below under Subsequent Events. As of year-end 2006, the Central region accounted for approximately 24 percent of our estimated proved reserves, the second largest concentration in the Company. During 2006, we participated in drilling 374 wells, 363 of which were completed as productive. Apache performed 615 workovers and recompletions in the region during the year. We currently estimate spending approximately $570 million in 2007 on drilling and production enhancement projects.

Marketing In general, most of our U.S. gas is sold on a monthly basis at either monthly or daily market prices. Our natural gas is sold primarily to Local Distribution Companies (LDCs), utilities, end-users, integrated major oil and gas companies and marketers. In an effort to increase sales to direct users of natural gas and to meet the needs of our customers, we also periodically sell some gas under long-term contracts at prices that fluctuate with market conditions. Approximately eight percent of our 2006 U.S. natural gas production was sold under long-term fixed-price physical contracts which expire in 2007 and 2008. See Item 7A, Quantitative and Qualitative Disclosures about Market Risk Commodity Risk in this Form 10-K.

Apache has historically marketed and continues to sell its U.S. crude oil to integrated major oil companies, purchasers, transporters, and refiners. The objective is to maximize the value of the crude oil sold by identifying the most economical markets and transportation routes available to move the crude oil via pipeline, truck or barge. Sales contracts are generally thirty (30) day evergreen contracts and renew automatically until canceled by either party. These contracts provide for sales at prices which fluctuate with daily oil market conditions, thus capturing the market value of the crude oil each day. We manage our credit risk by selling our oil to creditworthy counterparties and monitoring our exposure on a daily basis.

Canada

Overview Our exploration and development activity in our Canadian region is concentrated in the Provinces of Alberta, British Columbia, Saskatchewan and to a lesser degree the Northwest Territories. The region comprises

24.9 percent of our estimated proved reserves, the largest in the Company. We hold over 4.9 million net acres in Canada, the largest of our North American regions. Canada was our most active drilling area in 2006, with Apache participating in 874 wells, focused primarily on low-risk shallow development wells. We completed 740 as producers and conducted 274 workover and recompletion projects. Although actual annual capital expenditures may change with industry conditions and results, we currently estimate spending approximately $770 million in 2007 to drill approximately 380 wells, continue our exploitation program, albeit at a lower level, and continue developing our gas processing infrastructure. Our 2007 drilling program will include more deeper, higher risk-reward exploration wells and fewer shallow development wells.

Apache is also targeting fields such as Provost and Nevis in Alberta for coalbed methane (CBM) and in the process has emerged as one of Canada s largest producers of CBM. The North and South Grant Lands obtained through farm-in agreements (discussed below) provide additional CBM potential.

In 2005, Apache signed a farm-in agreement with ExxonMobil covering approximately 650,000 acres of undeveloped properties in the Western Canadian province of Alberta. Under the agreement, Apache is to drill and operate 145 new wells over a 36-month period with upside potential for further drilling. ExxonMobil retains a royalty on fee lands and a convertible working interest on leasehold acreage, both of which vary dependent on activity levels. The agreement also allows Apache to test additional horizons on approximately 140,000 acres of property covered in a 2004 farm-in agreement with ExxonMobil. The 2004 farm-in agreement covered approximately 380,000 acres and stipulated drilling at least 250 wells over a two-year period beginning in October 2004. The 250 well commitment was met and the agreement was extended for an additional year. In 2006, Apache drilled 218 wells on the 2005 and 2004 farm-in acreage earning 93 additional acreage sections. Through the end of 2006, Apache has now drilled a total of 675 wells on the farm-in acreage from both agreements.

Marketing Our Canadian natural gas sales focuses on sales to LDCs, utilities, end-users, integrated majors, supply aggregators and marketers. Our composite client portfolio is credit worthy and diverse. Improved North American natural gas pipeline connectivity has triggered a closer correlation between Canadian and United States natural gas prices. To diversify our market exposure and optimize pricing differences in the U.S. and Canada, we transport natural gas via our firm transportation contracts to California, the Chicago area, and eastern Canada. Our objective is to sell the majority of our production monthly, either into the first of the month market, or the daily market. Over 95 percent of our Canadian natural gas production is sold on a monthly basis at either monthly or daily market prices. Approximately two percent of our sales are long-term fixed-price sales. The longest term for these sales expires in 2011. The remainder is sold under long-term commitments to Canadian aggregators and end-users where the prices we receive under these contracts fluctuate monthly with market indices.

Our Canadian crude oil is primarily sold to refiners, integrated majors and marketers. To increase the market value of our condensate and heavier crudes, our condensate is either used or sold for blending purposes. We sell our crude oil and NGLs on Canadian Postings, which are market reflective prices that depend on worldwide crude oil prices and are adjusted for transportation and quality. In order to reach more purchasers and diversify our market, we transport crude on 12 pipelines to the major trading hubs within Alberta and Saskatchewan.

Egypt

Overview In Egypt, our operations are conducted pursuant to production sharing contracts under which the contractor partner pays all operating and capital expenditure costs for exploration and development. A percentage of the production, usually up to 40 percent, is available to the contractor partners to recover operating and capital expenditure costs. In general, the balance of the production is allocated between the contractor partners and the Egyptian General Petroleum Corporation (EGPC) on a contractually defined basis. Apache is the second largest acreage holder and the most active driller in the Western Desert of Egypt. Egypt is the country with our largest single

acreage position where, as of December 31, 2006, we held approximately 10.2 million gross acres in 19 separate concessions. Development leases within concessions generally have a 25-year life with extensions possible for additional commercial discoveries, or on a negotiated basis. Apache is the largest producer of liquid hydrocarbons and natural gas in the Western Desert. Egypt contributed approximately 21 percent of Apache s production revenues and 19 percent of total production. Egypt accounted for 12 percent of total estimated proved reserves as of December 31, 2006. The Company reports all estimated proved reserves held under production sharing agreements utilizing the economic interest method, which excludes the host country s share of reserves.

In 2006, Apache had an active drilling program in Egypt, completing 140 of 163 wells, an 86 percent success rate, and conducted 390 workovers and recompletions. We currently plan to spend approximately $1 billion in 2007. Of this, $600 million will be for drilling and production enhancement work. We recently received approval to expand our Western Desert gas processing capacity and infrastructure to evacuate an additional 200 MMcf/d gas volumes driven by the Qasr field discovery. We project that this upgrade will take two years to complete at a total cost of $950 million, excluding actual gas well drilling costs and we have included $350 million in our capital expenditures for 2007.

On January 6, 2006, the Company completed the sale of its 55 percent interest in the deepwater section of Egypt s West Mediterranean Concession to Amerada Hess for $413 million.

Please refer to Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates, Allowance for Doubtful Accounts in this Form 10-K for a discussion of our Egyptian receivables.

Marketing We and our partners have sold our gas production to EGPC under an Industry Pricing Formula; which is a sliding scale based on Dated-Brent crude oil with a minimum of $1.50 per MMbtu and a maximum of $2.65 per MMbtu which corresponds to a Dated-Brent price of $21.00 per barrel. Generally, the Industry Pricing Formula applies to all new gas discovered and produced. In exchange for extension of the Khalda Concession lease in July 2004, Apache agreed to accept Industry Pricing on all production in excess of 100 MMcf/d, but preserved the higher price formula until 2013 on the initial 100 MMcf/d.

Oil from the Khalda Concession, the Qarun Concession and other nearby Western Desert blocks is either sold directly to EGPC or other third-parties. The oil sales are made either directly into the Egyptian oil pipeline grid, exported via one of two terminals on the north coast of Egypt, or sold to third parties (non-governmental) through the MIDOR refinery located in northern Egypt. Oil production that is presently sold to EGPC is sold on a spot basis at a Western Desert price (indexed to Brent). In 2006, we exported 28 cargoes (approximately 8.6 million barrels) of Western Desert crude oil from the El Hamra and Sidi Kerir terminals located on the northern coast of Egypt. These export cargoes were sold at market prices comparable to domestic sales to EGPC. Additionally, 24 cargoes representing 3.5 million barrels were sold in Egypt to other non-governmental purchasers at prevailing market prices. Export sales from both the Khalda and Qarun areas in the Western Desert have continued in 2007.

Australia

Overview Our exploration activity in Australia is focused in the offshore Carnarvon, Gippsland, Browse, and Perth basins where Apache holds 6.8 million net acres in 35 Exploration Permits, 10 Production Licenses, and six Retention Leases. Production operations are concentrated in the Carnarvon basin which is the location of all 10 Production Licenses, nine of which are operated by Apache. In 2006, the region generated $408 million of production revenues producing 15.7 MMboe (8.6 percent of our total production) and accounted for 8.8 percent of our year-end estimated proved reserves. During the year we participated in drilling 23 wells; 18 exploration and five development wells. Four of the exploration wells and three of the development wells were productive for a 30 percent success rate.

Exploration successes in 2006 included the Theo and West Cycad oil discoveries and the Gnu and Bambra East gas finds. The West Cycad oil discovery was drilled in the Harriet Joint Venture (HJV) area and is slated to begin production in the first quarter of 2007. The successful Theo well was drilled in the Exmouth sub-basin and is scheduled to begin production in 2009. The Gnu well was drilled in the Reindeer/Caribou field and added significant new reserves. First production from the Reindeer/Caribou field is targeted for late 2008 or early 2009. The Bambra East well was a successful gas well in the HJV, which more than doubled the volume of gas attributed to the Bambra

field area. Gas production from this asset will begin in 2007 subject to augmentation of existing infrastructure.

During 2007, our Australian region plans to expand the HJV oil and gas production through development of the 2006 discoveries and drilling three additional wells: Bambra 8, Doric 2 and Lee 3. We will monitor the effects of the increased water injection at Stag and possibly drill an additional producer. We will also begin the initial phase of development drilling at the Van Gogh field. A key factor for success in 2007 will be increasing gas production and

reserves to fulfill the requirements of our sales contracts, exploration success and initiating the Theo field development and final sanctions thereof. We currently estimate spending approximately $460 million in 2007 to drill 30 exploration, appraisal and development wells and another $50 million for new facilities.

Marketing In 2006, we executed three new gas sales contracts in Australia. As of December 31, 2006, Apache had a total of 22 active gas contracts with expiration dates ranging from April 2007 to July 2030. Generally, natural gas is sold in Western Australia under long-term, fixed-price contracts, many of which contain price escalation clauses based on the Australian consumer price index.

We continue to export all of our crude oil production into the international market at prices which fluctuate with world market conditions.

North Sea

Overview In 2006, the North Sea region generated $1.35 billion of revenue, producing 21.5 million barrels of oil equivalent. We continued to develop our North Sea core area around the Forties field, including investments in upgrades to improve the operating efficiency of our platforms. Despite this, 2006 production was down 11 percent from 2005 primarily because of production interruptions associated with commissioning of major facility projects, and temporary shutdown of the Forties Pipeline System during the third quarter of 2006. Our focus in 2006 on infrastructure projects also displaced drilling operations needed to mitigate natural decline.

In 2006, we invested $329 million of capital in the North Sea region, including investments on drilling, recompletion and facility upgrades.

At Forties we commissioned a number of key facility projects to improve production efficiency and lower operating costs, including new power generation, a multi-platform distribution system, water injection upgrades and drilling rig modification. Also during 2006, seismic survey data acquired over Forties in 2005 was processed for inversion to identify bypassed oil in the main reservoir units and update the inventory of future drilling targets. We also drilled one appraisal well outside Forties, and had a second appraisal well and an exploration well in progress at the end of 2006.

There were no significant additions to North Sea acreage in 2006; however, in early 2007 Apache was awarded 62,320 acres from four licenses applied for in the UK 24th Licensing Round. In block 22/6a (Bacchus), Apache increased equity from 60 percent to 70 percent and became Operator (purchasing ExxonMobil s 20 percent share and farming out 10 percent). A further 652 square kilometers of 3D seismic was acquired over six blocks of our acreage.

North Sea capital expenditures for 2007 are currently estimated at $480 million. After a year with minimal drilling, activity will significantly increase. In Forties, we will continue the development drilling program, with 15 new wells planned, and complete platform upgrades begun last year. Upgrades for 2007 include finalizing installation of additional produced water re-injection pumps and deep gas lift compressors, and commissioning of direct fluid export from Forties Bravo to Forties Charlie. These projects will enable Forties to meet stringent new environmental targets for produced water discharge to sea as well as enhance reservoir management capabilities, and should enhance runtime efficiency. Outside Forties, four exploration and appraisal wells are scheduled to be drilled in the first half of the year.

Marketing In 2006, we entered into two new term contracts for the physical sale of Forties crude at prevailing market prices, which are composed of base market indices, adjusted for the higher quality of Forties crude relative to Brent and a premium to reflect the higher market value for term arrangements. Also in 2006, a new value adjustment formula (Quality Bank Adjustor) was implemented in BP s Forties Pipeline System, through which Forties crude is shipped and commingled with crudes from other central North Sea fields. The original formula was challenged by

Apache in June 2005, as it did not accurately value the Forties crude quality relative to the other crudes shipped on the Forties Pipeline System. The new agreed upon comingled stream on the formula better represents Forties crude value and effectively increases the volume allocated to Apache from the Forties Pipeline System.

Argentina

Argentina became our newest core area following two significant acquisitions in 2006 that substantially increased our presence in the country. In the second quarter, we completed our purchase of Pioneer s operations in Argentina for $675 million with estimated proved reserves of 22 MMbbls of liquid hydrocarbons and 297 Bcf of natural gas. In the third quarter, we acquired additional interests in (and now operate) seven concessions in the Tierra del Fuego Province from Pan American for total consideration of $429 million. Our oil and gas assets are located in the Neuquén, San Jorge and Austral basins of Argentina. In 2006, we had 9.9 MMboe of production and 110.6 MMboe of estimated proved reserves, approximately 5.4 percent and 4.8 percent, respectively, of Apache s total production and reserves.

We plan to invest approximately $180 million drilling over 100 wells and spend an additional $60 million on production enhancement projects in 2007.

Marketing In Argentina we extended our existing natural gas contracts to regulated markets through April 2007, per the Argentine Secretary of Energy s request. We expect to reach a new agreement during the first-quarter of 2007 with the Argentine government, which will set the volumes to be delivered to the regulated market for the period 2007 through 2011. We also entered into four new term contracts up to two years in duration for a total of 22 MMcf/d. These four contracts enabled Apache to lock in higher priced contracts while awaiting a new agreement to cover the internal demand of Argentina for 2007 onward.

In October 2006, the Argentina government removed the export tax exempt status previously afforded the province of Tierra del Fuego through a Special Customs area exemption. The government has further assessed an export tax on all exports from Argentina based upon the price paid for natural gas imports from Bolivia. This tax reduces the value we are receiving under our contract with Methanex in Chile. We have entered into an interim agreement with Methanex to mitigate the effects of this tax and are working to reach an economically suitable final agreement. The Methanex contract represents less than 10 percent of our gas sales in Argentina.

Other International

China. On August 8, 2006, the Company completed the sale of our 24.5 percent interest in the Zhao Dong block offshore the People s Republic of China, to Australia-based ROC Oil Company Limited for $260 million, marking Apache s exit from China. The transaction was effective July 1, 2006, and the Company recorded a gain of approximately $174 million in the third-quarter of 2006.

Subsequent Events

On January 18, 2007, the Company announced that it is acquiring controlling interest in 28 oil and gas fields in the Permian basin of West Texas from Anadarko Petroleum Corporation (Anadarko) for $1 billion. Apache estimates that these fields had proved reserves of 57 million barrels (MMbbls) of liquid hydrocarbons and 78 billion cubic feet (Bcf) of natural gas as of yearend 2006. The transaction will be effective the earlier of closing or March 31, 2007. Approximately 10 percent of the Permian basin properties are subject to third-party preferential purchase rights which, if exercised, would reduce the interests we purchase in those properties and the purchase price we would pay. The Company intends to fund the acquisition with debt. Apache and Anadarko are entering into a joint-venture arrangement to effect the transaction. In connection with the acquisition, the Company entered into cash flow hedges to protect against commodity price volatility. For the period of July 2007 through June 2010, the Company entered into hedges for a portion of both the oil and the natural gas with NYMEX based costless collars.

In anticipation of closing the Anadarko transaction, we completed a public offering in January 2007 of $500 million of 5.625-percent notes due 2017 and $1 billion of 6.0-percent notes due 2037. The net proceeds from the offering ($1.48 billion, net of original issue discounts and underwriting commissions) were used to repay a portion of our outstanding commercial paper, which was incurred to finance acquisitions we made in 2006 and for general corporate purposes.

Drilling Statistics

Worldwide, in 2006, we participated in drilling 1,611 gross wells, with 1,399 (87 percent) completed as producers. We also performed more than 1,700 workovers and recompletions during the year. Historically, our drilling activities in the U.S. generally concentrate on exploitation and extension of existing, producing fields rather than exploration. As a general matter, our operations outside of the U.S. focus on a mix of exploration and exploitation wells. In addition to our completed wells, at year-end several wells had not yet reached completion: 76 in the U.S. (40.27 net); 10 in Canada (10 net); 18 in Egypt (17.12 net); three in Australia (2.06 net); and two in the North Sea (1.94 net).

The following table shows the results of the oil and gas wells drilled and tested for each of the last three fiscal years:

	Net Exploratory			Net Development			Total Net Wells		
	Productive	**Dry**	**Total**	**Productive**	**Dry**	**Total**	**Productive**	**Dry**	**Total**
2006									
United States	2.9	2.7	5.6	266.4	15.3	281.7	269.3	18.0	287.3
Canada	34.3	6.4	40.7	577.3	114.8	692.1	611.6	121.2	732.8
Egypt	11.8	8.9	20.7	122.7	10.4	133.1	134.5	19.4	153.9
Australia	1.2	9.3	10.5	1.0	1.3	2.3	2.2	10.6	12.8
North Sea		1.0	1.0	3.9		3.9	3.9	1.0	4.9
Argentina	9.3	5.3	14.6	60.8	2.0	62.8	70.1	7.3	77.4
Other International				1.5		1.5	1.5		1.5
Total	59.5	33.6	93.1	1,033.6	143.8	1177.4	1,093.1	177.5	1,270.6
2005									
United States	5.0	3.1	8.1	248.8	24.1	272.9	253.8	27.2	281.0
Canada	273.4	107.6	381.0	1,057.0		1,057.0	1,330.4	107.6	1,438.0
Egypt	17.8	6.9	24.7	79.4	7.1	86.5	97.2	14.0	111.2
Australia	.7	6.8	7.5	11.8	4.8	16.6	12.5	11.6	24.1
North Sea		7.8	7.8	12.6	1.9	14.5	12.6	9.7	22.3
Argentina	6.3	3.0	9.3	15.6	1.0	16.6	21.9	4.0	25.9
Other International				3.7	.2	3.9	3.7	.2	3.9
Total	303.2	135.2	438.4	1,428.9	39.1	1,468.0	1,732.1	174.3	1,906.4
2004									
United States	3.3	3.5	6.8	202.8	24.2	227.0	206.1	27.7	233.8
Canada	6.7	9.3	16.0	1,102.3	84.2	1,186.5	1,109.0	93.5	1,202.5
Egypt	9.5	6.5	16.0	91.5	4.5	96.0	101.0	11.0	112.0
Australia	4.0	7.5	11.5	3.4	1.2	4.6	7.4	8.7	16.1
North Sea		1.0	1.0	11.7	3.9	15.6	11.7	4.9	16.6
Argentina				1.2		1.2	1.2		1.2
Other International				3.7	.3	4.0	3.7	.3	4.0
Total	23.5	27.8	51.3	1,416.6	118.3	1,534.9	1,440.1	146.1	1,586.2

Productive Oil and Gas Wells

The number of productive oil and gas wells, operated and non-operated, in which we had an interest as of December 31, 2006, is set forth below:

	Gas		Oil		Total	
	Gross	Net	Gross	Net	Gross	Net
Gulf Coast	973	752	890	621	1,863	1,373
Central	3,113	1,609	5,219	3,337	8,332	4,946
Canada	7,980	6,915	2,453	995	10,433	7,910
Egypt	33	32	425	404	458	436
Australia	10	6	35	18	45	24
North Sea			59	57	59	57
Argentina	276	246	484	426	760	672
Total	12,385	9,560	9,565	5,858	21,950	15,418

Production, Pricing and Lease Operating Cost Data

The following table describes, for each of the last three fiscal years, oil, NGLs and gas production, average lease operating costs per boe (including severance and other taxes) and average sales prices for each of the countries where we have operations.

	Production			Average Lease	Average Sales Price		
Year Ended December 31,	Oil (Mbbls)	NGLs (Mbbls)	Gas (MMcf)	Operating Cost per Boe	Oil (Per bbl)	NGLs (Per bbl)	Gas (Per Mcf)
2006							
United States	24,394	2,915	243,442	$ 10.66	$ 54.22	$ 38.44	$ 6.54
Canada	7,561	798	147,579	9.54	59.90	35.40	6.09
Egypt	20,648		79,424	4.36	63.60		4.42
Australia	4,341		67,933	4.95	68.25		1.65
North Sea	21,368		752	27.00	63.04		10.64
Argentina	2,503	561	40,878	4.39	42.79	36.64	.99
Other International	1,156			4.67	62.73		
Total	81,971	4,274	580,008	$ 10.35	$ 59.92	$ 37.70	$ 5.17
2005							
United States	24,188	2,757	218,081	$ 9.11	$ 47.97	$ 32.44	$ 7.22
Canada	8,212	816	135,750	7.54	53.05	31.07	7.29
Egypt	20,126		60,484	3.85	53.69		4.59
Australia	5,613		45,003	7.17	57.61		1.72

North Sea	23,903		842	17.94	53.00		9.17
Argentina	424		1,137	6.54	37.54		1.14
Other International	2,968			3.79	44.24		
Total	85,434	3,573	461,297	$ 8.87	$ 51.66	$ 32.13	$ 6.35
2004							
United States	24,841	3,026	236,663	$ 6.53	$ 38.75	$ 26.66	$ 5.45
Canada	9,262	947	119,669	6.49	38.57	24.44	5.30
Egypt	19,099		50,412	3.37	37.35		4.35
Australia	9,214		43,227	7.11	41.96		1.65
North Sea	19,338		684	4.22	24.22		5.53
Argentina	207		1,394	6.46	32.89		.65
Other International	2,775			3.89	32.88		
Total	84,736	3,973	452,049	$ 5.73	$ 35.24	$ 26.13	$ 4.91

Gross and Net Undeveloped and Developed Acreage

The following table sets out our gross and net acreage position in each country where we have operations.

	Undeveloped Acreage		Developed Acreage	
	Gross Acres	Net Acres	Gross Acres	Net Acres
United States	1,526,857	939,911	2,965,614	1,829,626
Canada	3,900,899	2,712,924	2,944,150	2,192,895
Egypt	8,806,053	6,037,303	1,399,203	1,274,567
Australia	11,319,040	6,694,350	527,450	316,480
North Sea	1,468,159	1,244,358	29,924	29,174
Argentina	2,447,510	2,108,575	257,000	195,000
Total Company	29,468,518	19,737,421	8,123,341	5,837,742

As of December 31, 2006, we had 736,497, 2,918,890, and 1,802,281 net acres scheduled to expire by December 31, 2007, 2008 and 2009, respectively, if production is not established or we take no other action to extend the terms. We plan to continue the terms of many of these licenses and concession areas through operational or administrative actions and do not expect a significant portion of our net acreage position to expire before such actions occur.

The other international drilling statistics on the preceding page and the Production, Pricing and Lease Operating Cost Data above include activity in China, where Apache ceased operations in August 2006.

Estimated Proved Reserves and Future Net Cash Flows

As of December 31, 2006, Apache had total estimated proved reserves of 1,061 MMbbls of crude oil, condensate and NGLs and 7.5 Tcf of natural gas. Combined, these total estimated proved reserves are equivalent to 2.3 billion barrels of oil equivalent or 13.9 Tcf of natural gas. During 2006, the Company s reserves grew nine percent with increases in all our countries. The Company s reserves have increased for 21 consecutive years.

Proved oil and gas reserves are the estimated quantities of natural gas, crude oil, condensate and NGLs that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. The Company reports all estimated proved reserves held under production sharing arrangements utilizing the economic interest method, which excludes the host country s share of reserves. Reserve estimates are considered proved if economical producibility is supported by either actual production or conclusive formation tests. Estimated reserves that can be produced economically through application of improved recovery techniques are included in the proved classification when successful testing by a pilot project or the operation of an active, improved recovery program in the reservoir provides support for the engineering analysis on which the project or program is based. Estimated proved developed oil and gas reserves can be expected to be recovered through existing wells with existing equipment and operating methods.

Apache emphasizes that its reported reserves are estimates which, by their nature, are subject to revision. The estimates are made using available geological and reservoir data, as well as production performance data. These estimates are reviewed throughout the year, and revised either upward or downward, as warranted by additional performance data.

Apache s proved reserves are estimated at the property level and compiled for reporting purposes by a centralized group of experienced reservoir engineers who are independent of the operating groups. These engineers interact with engineering and geoscience personnel in each of Apache s operating areas, and with accounting and marketing employees to obtain the necessary data for projecting future production, costs, net revenues and ultimate recoverable reserves. Reserves are reviewed internally with senior management and presented to Apache s Board of Directors in summary form on a quarterly basis. Annually, each property is reviewed in detail by our centralized and operating region engineers to ensure forecasts of operating expenses, netback prices, production trends and development timing are reasonable.

We engage Ryder Scott Company, L.P. Petroleum Consultants as independent petroleum engineers to review our estimates of proved hydrocarbon liquid and gas reserves and provide an opinion letter on the reasonableness of Apache s internal projections. Ryder Scott opined that they were in acceptable agreement with the Company s overall reserve estimates and that the reserves they reviewed conform to the SEC s definition of proved reserves as set forth in Rule 210.4-10(a) of Regulation S-X. The independent reviews typically cover a large percentage of major value fields, international properties and new wells drilled during the year. During 2006, 2005 and 2004, their review covered 75, 74 and 79 percent of Apache s worldwide estimated reserve value, respectively.

The Company s estimates of proved reserves and proved developed reserves as of December 31, 2006, 2005 and 2004, changes in estimated proved reserves during the last three years, and estimates of future net cash flows and discounted future net cash flows from estimated proved reserves are contained in Note 13, Supplemental Oil and Gas Disclosures (Unaudited) of Item 15 in this Form 10-K. These estimated future net cash flows are based on prices on the last day of the year and are calculated in accordance with Statement of Financial Accounting Standards (SFAS) No. 69, Disclosures about Oil and Gas Producing Activities. Disclosure of this value and related reserves has been prepared in accordance with SEC Regulation S-X Rule 4-10.

Employees

On December 31, 2006, we had 3,150 employees. Only 25 of these employees are subject to collective bargaining agreements, all of whom are in Argentina.

Offices

Our principal executive offices are located at One Post Oak Central, 2000 Post Oak Boulevard, Suite 100, Houston, Texas 77056-4400. At year-end 2006, we maintained regional exploration and/or production offices in Tulsa, Oklahoma; Houston, Texas; Calgary, Alberta; Cairo, Egypt; Perth, Western Australia; Aberdeen, Scotland; and Buenos Aires, Argentina. Apache leases all of its primary office space. The current lease on our principal executive offices runs through December 31, 2013. For information regarding the Company s obligations under its office leases, see the information appearing in the table in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, Capital Resources and Liquidity, Contractual Obligations and Note 10, Commitments and Contingencies, Other Commitments and Contingencies, Contractual Obligations of Item 15 in this Form 10-K.

Title to Interests

As is customary in our industry, a preliminary review of title records is made at the time we acquire properties, which may include opinions or reports of appropriate professionals or counsel. We believe that our title to all of the various interests set forth above is satisfactory and consistent with the standards generally accepted in the oil and gas industry, subject only to immaterial exceptions which do not detract substantially from the value of the interests or materially interfere with their use in our operations. The interests owned by us may be subject to one or more royalty, overriding royalty, and other outstanding interests (including disputes related to such interests) customary in the industry. The interests may additionally be subject to obligations or duties under applicable laws, ordinances, rules, regulations, and orders of arbitral or governmental authorities. In addition, the interests may be subject to burdens such as production payments, net profits interests, liens incident to operating agreements and current taxes, development obligations under oil and gas leases, and other encumbrances, easements, and restrictions, none of which detract substantially from the value of the interests or materially interfere with their use in our operations.

ITEM 1A. RISK FACTORS

Our business activities and the value of our securities are subject to significant hazards and risks, including those described below. If any of such events should occur, our business, financial condition, liquidity and/or results of operations could be materially harmed, and holders and purchasers of our securities could lose part or all of their investments. Additional risks relating to our securities may be included in the prospectuses for securities we issue in the future.

Our Profitability is Highly Dependent on the Prices of Crude Oil, Natural Gas and Natural Gas Liquids, Which Have Historically Been Very Volatile

Our estimated proved reserves, revenues, profitability, operating cash flows and future rate of growth are highly dependent on the prices of crude oil, natural gas and NGLs, which are affected by numerous factors beyond our control. Historically, these prices have been very volatile. A significant downward trend in commodity prices would have a material adverse effect on our revenues, profitability and cash flow, and could result in a reduction in the carrying value of our oil and gas properties and the amounts of our estimated proved oil and gas reserves.

Our Commodity Hedging May Prevent Us From Benefiting Fully From Price Increases and May Expose Us to Other Risks

To the extent that we engage in hedging activities to protect ourselves from commodity price volatility, we may be prevented from realizing the benefits of price increases above the levels of the hedges.

Acquisitions or Discoveries of Additional Reserves are Needed to Avoid a Material Decline in Reserves and Production

The rate of production from oil and gas properties generally declines as reserves are depleted. Except to the extent that we find or acquire additional properties containing estimated proved reserves, conduct successful exploration and development activities or, through engineering studies, identify additional behind-pipe zones, secondary recovery reserves or tertiary recovery reserves, our estimated proved reserves will decline materially as reserves are produced. Future oil and gas production is, therefore, highly dependent upon our level of success in acquiring or finding additional reserves.

Our Drilling Activities May Not Be Productive

Drilling for oil and gas involves numerous risks, including the risk that we will not encounter commercially productive oil or gas reservoirs. The costs of drilling, completing and operating wells are often uncertain, and drilling operations may be curtailed, delayed or canceled as a result of a variety of factors including, but not limited to:

- unexpected drilling conditions;
- pressure or irregularities in formations;
- equipment failures or accidents;
- fires, explosions, blowouts and surface cratering;
- marine risks such as capsizing, collisions and hurricanes;
- other adverse weather conditions; and
- shortages or delays in the delivery of equipment.

Certain future drilling activities may not be successful and, if unsuccessful, this failure could have an adverse effect on our future results of operations and financial condition. While all drilling, whether developmental or exploratory, involves these risks, exploratory drilling involves greater risks of dry holes or failure to find commercial quantities of

hydrocarbons.

Risks Arising From the Failure to Fully Identify Potential Problems Related to Acquired Reserves or to Properly Estimate Those Reserves

One of our primary growth strategies is the acquisition of oil and gas properties. Although we perform a review of the acquired properties that we believe is consistent with industry practices, such reviews are inherently incomplete. It generally is not feasible to review in depth every individual property involved in each acquisition. Ordinarily, we will focus our review efforts on the higher-value properties and will sample the remainder. However, even a detailed review of records and properties may not necessarily reveal existing or potential problems, nor will it

permit a buyer to become sufficiently familiar with the properties to assess fully their deficiencies and potential. Inspections may not always be performed on every well, and environmental problems, such as ground water contamination, are not necessarily observable even when an inspection is undertaken. Even when problems are identified, we often assume certain environmental and other risks and liabilities in connection with acquired properties. There are numerous uncertainties inherent in estimating quantities of proved oil and gas reserves and actual future production rates and associated costs with respect to acquired properties, and actual results may vary substantially from those assumed in the estimates. In addition, there can be no assurance that acquisitions will not have an adverse effect upon our operating results, particularly during the periods in which the operations of acquired businesses are being integrated into our ongoing operations.

We Are Subject to Governmental Risks That May Impact Our Operations

Our operations have been, and at times in the future may be, affected by political developments and by federal, state, provincial and local laws and regulations such as restrictions on production, changes in taxes, royalties and other amounts payable to governments or governmental agencies, price controls and environmental protection laws and regulations.

Global Political and Economic Developments May Impact Our Operations

Political and economic factors in international markets may have a material adverse effect on our operations. On an equivalent-barrel basis, approximately 63 percent of our oil, NGLs and natural gas production in 2006 was outside the United States, and approximately 59 percent of our estimated proved oil and gas reserves on December 31, 2006 were located outside of the United States.

There are many risks associated with operations in international markets, including changes in foreign governmental policies relating to crude oil, NGLs, and natural gas pricing and taxation, other political, economic or diplomatic developments, changing political conditions and international monetary fluctuations. These risks include: political and economic instability or war; the possibility that a foreign government may seize our property with or without compensation; confiscatory taxation; legal proceedings and claims arising from our foreign investments or operations; a foreign government attempting to renegotiate or revoke existing contractual arrangements, or failing to extend or renew such arrangements; fluctuating currency values and currency controls; and constrained natural gas markets dependent on demand in a single or limited geographical area.

On December 23, 2004, Apache entered into a 20-year insurance contract with the Overseas Private Investment Corporation (OPIC) which provides $300 million of political risk insurance for the Company s Egyptian operations. This policy insures us against (1) non-payment by EGPC of arbitral awards covering amounts owed Apache on past due invoices and (2) expropriation of exportable petroleum when actions taken by the Government of Egypt prevent Apache from exporting our share of production. See Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, Critical Accounting Policies and Estimates, Allowance for Doubtful Accounts in this Form 10-K for additional discussion of our Egyptian receivables.

In addition to the contract with OPIC, the Company has acquired commercial political risk insurance covering significant portions of its investments in Egypt and Argentina. The insurance provides coverage for confiscation, nationalization, and expropriation risks and currency inconvertibility, and is written on multi-year contracts with highly rated international insurers.

Actions of the United States government through tax and other legislation, executive order and commercial restrictions can adversely affect our operating profitability in the U.S. as well as other countries. Various agencies of the United States and other governments have, from time to time, imposed restrictions which have limited our ability

to gain attractive opportunities or even operate in various countries. These restrictions have in the past limited our foreign opportunities and may continue to do so in the future.

Weather and Climate May Have a Significant Impact on Our Revenues and Productivity

Demand for oil and natural gas are, to a significant degree, dependent on weather and climate, which impacts the price we receive for the commodities we produce. In addition, our exploration and development activities and equipment can be adversely affected by severe weather, such as hurricanes in the Gulf of Mexico, which may cause a loss of production from temporary cessation of activity or lost or damaged equipment. While our planning for normal climatic variation, insurance program, and emergency recovery plans mitigate the effects of the weather, not all such effects can be predicted, eliminated or insured against.

Costs Incurred Related to Environmental Matters

We, as an owner or lessee and operator of oil and gas properties, are subject to various federal, provincial, state, local and foreign country laws and regulations relating to discharge of materials into, and protection of the environment. These laws and regulations may, among other things, impose liability on the lessee under an oil and gas lease for the cost of pollution clean-up resulting from operations, subject the lessee to liability for pollution damages, and require suspension or cessation of operations in affected areas.

We have made and will continue to make expenditures in our efforts to comply with these requirements, which we believe are necessary business costs in the oil and gas industry. We have established policies for continuing compliance with environmental laws and regulations, including regulations applicable to our operations in all countries in which we do business. We also have established operational procedures and training programs designed to minimize the environmental impact of our field facilities. The costs incurred by these policies and procedures are inextricably connected to normal operating expenses such that we are unable to separate the expenses related to environmental matters; however, we do not believe any such additional expenses are material to our financial position or results of operations.

Apache manages its exposure to environmental liabilities on properties to be acquired by identifying existing problems and assessing the potential liability. The Company also conducts periodic reviews, on a company-wide basis, to identify changes in its environmental risk profile. These reviews evaluate whether there is a probable liability, its amount, and the likelihood that the liability will be incurred. The amount of any potential liability is determined by considering, among other matters, incremental direct costs of any likely remediation and the proportionate cost of our employees who are expected to devote a significant amount of time to any possible remediation effort. Our general policy is to limit any reserve additions to incidents or sites that are considered probable to result in an expected remediation cost exceeding $100,000.

We maintain insurance coverage, which we believe is customary in the industry, although we are not fully insured against all environmental risks. As described in Note 10, Commitments and Contingencies of Item 15, in this Form 10-K, on December 31, 2006, we had an accrued liability of $17 million for environmental remediation. We have not incurred any material environmental remediation costs in any of the periods presented and we are not aware of any future environmental remediation matters that would be material to our financial position or results of operations.

Although environmental requirements have a substantial impact upon the energy industry, generally these requirements do not appear to affect us any differently, or to any greater or lesser extent, than other upstream companies in the industry. We do not believe that compliance with federal, provincial, state, local or foreign country provisions regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, will have a material adverse effect upon the capital expenditures, earnings or competitive position of Apache or its subsidiaries; however, there is no assurance that changes in or additions to laws or regulations regarding

the protection of the environment will not have such an impact.

Industry Competition

Strong competition exists in all sectors of the oil and gas exploration and production industry. We compete with major integrated and other independent oil and gas companies for acquisition of oil and gas leases, properties and reserves, equipment and labor required to explore, develop and operate those properties and the marketing of oil and natural gas production. Higher recent crude oil and natural gas prices have increased the costs of properties

available for acquisition and there are a greater number of companies with the financial resources to pursue acquisition opportunities. Many of our competitors have financial and other resources substantially larger than those we possess and have established strategic long-term positions and maintain strong governmental relationships in countries in which we may seek new entry. As a consequence, we may be at a competitive disadvantage in bidding for drilling rights. In addition, many of our larger competitors may have a competitive advantage when responding to factors that affect demand for oil and natural gas production, such as changing worldwide prices and levels of production, the cost and availability of alternative fuels and the application of government regulations. We also compete in attracting and retaining personnel, including geologists, geo-physicists, engineers and other specialists.

Insurance Does Not Cover All Risks

Exploration for and production of oil and natural gas can be hazardous, involving unforeseen occurrences such as blowouts, cratering, fires and loss of well control, which can result in damage to or destruction of wells or production facilities, injury to persons, loss of life, or damage to property or the environment. We maintain insurance against certain losses or liabilities arising from our operations in accordance with customary industry practices and in amounts that management believes to be prudent; however, insurance is not available to us against all operational risks.

In response to large underwriting losses caused by Hurricanes Katrina and Rita, the insurance industry has reduced capacity for windstorm damage and substantially increased premium rates. As a result, there is no assurance that Apache will be able to arrange insurance to cover fully its Gulf of Mexico exposures at a reasonable cost when the current policies expire.

ITEM 1B. UNRESOLVED SEC STAFF COMMENTS

As of December 31, 2006, we did not have any unresolved comments from the SEC staff that were received 180 or more days prior to yearend. We responded to comments from the SEC staff that we received in December 2006, and are awaiting final resolution. We do not believe the comments or our responses thereto materially impact any previous or prospective disclosures.

ITEM 3. LEGAL PROCEEDINGS

See the information set forth in Note 10, Commitments and Contingencies of Item 15 and Item 1A, Risk Factors, Costs Incurred Related to Environmental Matters in this Form 10-K.

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

No matters were submitted to a vote of our security holders during the most recently ended fiscal quarter.

PART II

ITEM 5. MARKET FOR THE REGISTRANT S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

During 2006, Apache common stock, par value $0.625 per share, was traded on the New York and Chicago Stock exchanges, and the NASDAQ National Market under the symbol APA. The table below provides certain information regarding our common stock for 2006 and 2005. Prices were obtained from The New York Stock Exchange, Inc. Composite Transactions Reporting System. Per share prices and quarterly dividends shown below have been rounded to the indicated decimal place.

	2006				2005			
	Price Range		Dividends Per Share		Price Range		Dividends Per Share	
	High	Low	Declared	Paid	High	Low	Declared	Paid
First Quarter	$ 76.25	$ 63.17	$ .10	$ .10	$ 65.90	$ 47.45	$ .08	$ .08
Second Quarter	75.66	56.50	.10	.10	67.99	51.52	.08	.08
Third Quarter	72.40	59.18	.15	.10	78.60	64.85	.10	.08
Fourth Quarter	70.50	59.99	.15	.15	75.95	59.36	.10	.10

The closing price per share of our common stock, as reported on the New York Stock Exchange Composite Transactions Reporting System for January 31, 2007, was $72.97. On January 31, 2007, there were 330,958,433 shares of our common stock outstanding held by approximately 7,000 shareholders of record and approximately 319,000 beneficial owners.

We have paid cash dividends on our common stock for 42 consecutive years through December 31, 2006. When, and if, declared by our board of directors, future dividend payments will depend upon our level of earnings, financial requirements and other relevant factors.

In 1995, under our stockholder rights plan, each of our common stockholders received a dividend of one preferred stock purchase right (a right) for each 2.310 outstanding shares of common stock (adjusted for subsequent stock dividends and a two-for-one stock split) that the stockholder owned. These rights were originally scheduled to expire on January 31, 2006. Effective as of that date, the rights were reset to one right per share of common stock and the expiration was extended to January 31, 2016. Unless the rights have been previously redeemed, all shares of Apache common stock are issued with rights and, the rights trade automatically with our shares of common stock. For a description of the rights, please refer to Note 8, Capital Stock of Item 15 in this Form 10-K.

In 2003, our board of directors declared a two-for-one common stock split which was distributed on January 14, 2004 to holders of record on December 31, 2003. In connection with the stock split, the Company issued 166,254,667 shares.

Information concerning securities authorized for issuance under equity compensation plans is set forth under the caption Equity Compensation Plan Information in the proxy statement relating to the Company s 2007 annual meeting of stockholders, which is incorporated herein by reference.

The following stock price performance graph is intended to allow review of stockholder returns, expressed in terms of the appreciation of the Company s common stock relative to two broad-based stock performance indices. The information is included for historical comparative purposes only and should not be considered indicative of future stock performance. The graph compares the yearly percentage change in the cumulative total stockholder return on the Company s common stock with the cumulative total return of the Standard & Poor s Composite 500

Stock Index and of the Dow Jones U.S. Exploration and Production Index (formerly Dow Jones Secondary Oils Stock Index) from December 31, 2001 through December 31, 2006.

Comparison of Five Year Cumulative Total Return
For the Year Ended December 31, 2006

	2001	2002	2003	2004	2005	2006
Apache Corporation	100	115.13	173.15	217.15	295.92	289.11
S & P s Composite 500 Stock	100	77.9	100.25	111.15	116.61	135.03
DJ US Expl & Prod Index*	100	102.17	133.9	189.97	314.06	330.93

* formerly DJ Secondary Oil Stock Index

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected financial data of the Company and its consolidated subsidiaries over the five-year period ended December 31, 2006, which information has been derived from the Company s audited financial statements. This information should be read in connection with, and is qualified in its entirety by the more detailed information in the Company s financial statements of Item 15 in this Form 10-K.

	As of or For the Year Ended December 31,				
	2006	2005	2004	2003	2002
	(In thousands, except per share amounts)				
Income Statement Data					
Total revenues	$ 8,288,779	$ 7,584,244	$ 5,332,577	$ 4,190,299	$ 2,559,873
Income (loss) attributable to common stock	2,546,771	2,618,050	1,663,074	1,116,205	543,514
Net income (loss) per common share:					
Basic	7.72	7.96	5.10	3.46	1.83
Diluted	7.64	7.84	5.03	3.43	1.80
Cash dividends declared per common share	.50	.36	.28	.22	.19
Balance Sheet Data					
Total assets	$ 24,308,175	$ 19,271,796	$ 15,502,480	$ 12,416,126	$ 9,459,851
Long-term debt	2,019,831	2,191,954	2,588,390	2,326,966	2,158,815
Preferred interests of subsidiaries					436,626
Shareholders equity	13,191,053	10,541,215	8,204,421	6,532,798	4,924,280
Common shares outstanding	330,737	330,121	327,458	324,497	302,506

For a discussion of significant acquisitions and divestitures, see Note 2 of Item 15 in this Form 10-K.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Apache Corporation (Apache or the Company) 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.

In 2006, we earned $2.5 billion, within three percent of last year s record earnings, despite a 19 percent decline in gas price realizations. Cash provided by operating activities totaled $4.3 billion, flat to 2005. We also set records for production and reserves with worldwide equivalent production increasing 10 percent, making 2006 the 27th out of the last 28 years that we have reported production growth. Reserves grew nine percent, increasing in every core area, marking the 21st consecutive year of reserve growth at Apache.

Our growth strategy focuses on economic growth through drilling, acquisitions, or a combination of both, depending on, among other things, costs levels, potential rates of return and the availability of acquisition opportunities. We utilize a portfolio approach to provide diversity in terms of geologic risk, geographic location, hydrocarbon mix (crude oil and natural gas) and reserve life. This strategy provides multiple avenues for growth. We took several steps in 2006 to balance and grow our asset base. Outside of North America, we divested two assets: the undeveloped deepwater section of Egypt s West Mediterranean Concession and our interest in the Zhao Dong block offshore the People s Republic of China. To rebalance our international portfolio, we bolstered our position in Argentina purchasing an estimated 109 MMboe of reserves in two separate transactions. After increasing our production on these properties through active operations, Argentina is now our newest core area and we operate an

attractive property base that we believe has significant upside. In the U.S., we completed two strategic purchases strengthening our Permian basin and Gulf of Mexico positions. In January 2006, we purchased an estimated 31 MMboe of proved reserves in long life producing properties in the Permian basin of West Texas. The acquisition was balanced by purchasing 44 MMboe of shorter life, but higher rate-of-return reserves in the Gulf of Mexico. Worldwide, we purchased an estimated 196.5 MMboe of proved reserves. On the exploration and development side, we drilled 1,611 wells with an 87 percent success rate with active drilling programs in all core areas. We invested $3.7 billion in exploration and development activities, excluding asset retirement costs and capitalized interest, adding 224 MMboe in of estimated proved reserves. Our reserve life across our core areas spans from eight to twenty years, with a 46 percent oil and 54 percent natural gas mix, consistent with yearend 2005.

Apache s profitability is a function of commodity prices, the cost to add reserves through drilling and acquisitions and the cost to produce our reserves. Trends in commodity prices directly impact oil and gas revenues and demand for services and thus, have a significant impact on drilling and operating costs. We closely monitor trends in drilling costs in each of our core areas and the prices paid to acquire producing properties and, when appropriate, adjust our capital budgets.

Commodity prices are driven by the prevailing worldwide price for crude oil, spot prices applicable to our United States and Canadian natural gas production and many other factors beyond our control. Historically, these prices have been volatile and unpredictable, and 2006 was no exception. Our 2006 crude oil price realizations averaged $59.92 per barrel, up 16 percent from 2005, ranging from an average monthly high of $68.59 per barrel in July to a low of $52.64 per barrel in October as demand waned in the U.S. with a delay in the onset of seasonal temperatures. Natural gas realizations were 19 percent lower than last year, averaging $5.17 per thousand cubic feet (Mcf), with a high of $8.05 per Mcf in January, and a low of $3.85 per Mcf in October.

A high drilling and operating cost environment once again challenged us in 2006, continuing the trend seen over the past few years. This upward trend is a reflection of increased demand driven by historically high commodity prices. In addition, repair activity from the 2005 Gulf of Mexico hurricanes also increased demand for services in the U.S., and accordingly, costs. Cost increases were reflected in nearly all of our drilling and lease operating cost components, including: rig rates, drill pipe costs, labor costs, chemical costs and the costs of power and fuel. The Company reviews costs for each core area on a routine basis and pursues alternatives in maintaining efficient levels of costs and expenses. Despite pressure from rising costs, 2006 margins, while down slightly from record 2005 levels, were the second highest in our 50-plus-year history. For purposes of this discussion, margins are calculated as follows:

	2006	2005	2004
	(In thousands, except margin)		
Income before Income Taxes	$ 4,009,595	$ 4,206,524	$ 2,663,083
Barrels of oil equivalent produced	182,913	165,890	164,050
Margin per boe produced	$ 44.14	$ 44.95	$ 32.36

While the Company has made considerable progress recovering from the damage caused by Hurricanes Katrina and Rita, which struck in late August and late September 2005, the hurricanes had considerable impact on both 2006 and 2005 operations and results, and will impact 2007 operations. In addition to extensive damage to Apache s onshore and offshore Gulf of Mexico production and transportation facilities, third-party pipelines, terminals and processing facilities, which the Company relies upon to transport and process its crude oil and natural gas also sustained substantial damage. For a discussion of the impact on 2006 and 2005 operations and results refer to Results of Operations and Oil and Gas Capital Expenditures in this Item 7.

Results of Operations

This section includes a discussion of our 2006 and 2005 results of operations and provides insight into unique events and circumstances for each of the Company s six reportable segments. Please refer to Note 12, Business Segment Information of Item 15 in this Form 10-K for segment information.

Acquisitions and Divestitures

2006 Acquisitions

U.S. Permian Basin

On January 5, 2006, the Company purchased Amerada Hess s interest in eight fields located in the Permian basin of West Texas and New Mexico. The original purchase price was reduced from $404 million to $269 million because other interest owners exercised their preferential rights to purchase a number of the properties. The settlement price at closing of $239 million was adjusted for revenues and expenditures occurring between the effective date and the closing date of the acquisition. The acquired fields had estimated proved reserves of 27 MMbbls of liquid hydrocarbons and 27 Bcf of natural gas as of yearend 2005.

Argentina

On April 25, 2006, the Company acquired the operations of Pioneer Natural Resources (Pioneer) in Argentina for $675 million. The settlement price at closing, of $703 million, was adjusted for revenues and expenditures occurring between the effective date and closing date of the acquisition. The properties are located in the Neuquén, San Jorge and Austral basins of Argentina and had estimated net proved reserves of approximately 22 MMbbls of liquid hydrocarbons and 297 Bcf of natural gas as of December 31, 2005. Eight gas processing plants (five operated and three non-operated), 112 miles of operated pipelines in the Neuquén basin and 2,200 square miles of three-dimensional (3-D) seismic data were also included in the transactions. Apache financed the purchase with cash on hand and commercial paper.

The purchase price was allocated to the assets acquired and liabilities assumed based upon the estimated fair values as of the date of acquisition, as follows (in thousands):

Proved property	$ 501,938
Unproved property	189,500
Gas Plants	51,200
Working capital acquired, net	11,256
Asset retirement obligation	(13,635)
Deferred income tax liability	(37,630)
Cash consideration	$ 702,629

On September 19, 2006, Apache acquired additional interests in (and now operates) seven concessions in the Tierra del Fuego Province from Pan American Fueguina S.R.L. (Pan American) for total consideration of $429 million. The settlement price at closing of $396 million was adjusted for normal closing items, including revenues and expenses between the effective date and the closing date of the acquisition. Apache financed the purchase with cash on hand and commercial paper.

The total cash consideration allocated below includes working capital balances purchased, asset retirement obligations assumed and an obligation to deliver specific gas volumes in the future. The purchase price was allocated to the assets acquired and liabilities assumed based upon the estimated fair values as of the date of acquisition, as follows (in thousands):

Proved property	$ 289,916
Unproved property	132,000
Gas plants	12,722
Working capital acquired, net	8,929
Asset retirement obligation	(1,511)
Assumed obligation	(46,000)
Cash consideration	$ 396,056

Offshore Gulf of Mexico

In June 2006, the Company acquired the remaining producing properties of BP plc (BP) on the Outer Continental Shelf of the Gulf of Mexico. The original purchase price was reduced from $1.3 billion for 18 producing fields to $845 million because other interest owners exercised their preferential rights to purchase five of the 18 fields. The purchase price consisted of $747 million of proved property, $42 million of unproved property and $56 million of facilities. The settlement price on the date of closing of $821 million was adjusted primarily for revenues and expenditures occurring between the April 1, 2006 effective date and the closing date of the acquisition. The acquired properties include 13 producing fields (nine of which are operated) with estimated proved reserves of 19.5 MMbbls of liquid hydrocarbons and 148 Bcf of natural gas. Apache financed the purchase with cash on hand and commercial paper.

Pending Acquisition U.S. Permian Basin

On January 18, 2007, the Company announced that it is acquiring controlling interest in 28 oil and gas fields in the Permian basin of West Texas from Anadarko Petroleum Corporation (Anadarko) for $1 billion. Apache estimates that these fields had proved reserves of 57 million barrels (MMbbls) of liquid hydrocarbons and 78 billion cubic feet (Bcf) of natural gas as of yearend 2006. The transaction will be effective the earlier of closing or March 31, 2007. Approximately 10 percent of the Permian basin properties are subject to third-party preferential purchase rights which, if exercised, would reduce the interests we purchase in those properties and the purchase price we would pay. The Company intends to fund the acquisition with debt. Apache and Anadarko are entering into a joint-venture arrangement to effect the transaction. In connection with the acquisition, the Company entered into cash flow hedges to protect against commodity price volatility. For the period of July 2007 through June 2010, the Company entered into hedges for a portion of both the oil and the natural gas with NYMEX based costless collars.

2006 Divestitures

On January 6, 2006, the Company completed the sale of its 55 percent interest in the deepwater section of Egypt s West Mediterranean Concession to Amerada Hess for $413 million. Apache did not have any proved reserves booked for these properties.

On August 8, 2006, the Company completed the sale of its 24.5 percent interest in the Zhao Dong block offshore, the People s Republic of China, to Australia-based ROC Oil Company Limited for $260 million, marking Apache s exit from China. The effective date of the transaction was July 1, 2006. The Company recorded a gain of $174 million in the third quarter of 2006.

2005 Acquisitions

In May 2005, Apache signed a farm-in agreement with Exxon Mobil Corporation (ExxonMobil) covering approximately 650,000 acres of undeveloped properties in the Western Canadian province of Alberta. Under the agreement, Apache is to drill and operate 145 new wells over a 36-month period with upside potential for further drilling. ExxonMobil will retain a royalty on fee lands and a convertible working interest on leasehold acreage. The agreement also allows Apache to test additional horizons on approximately 140,000 acres of property covered in a 2004 farm-in agreement with ExxonMobil.

Revenues

Our revenues are sensitive to changes in prices received for our products. A substantial portion of our production is sold at prevailing market prices which fluctuate in response to many factors that are outside of our control. Given the

current tightly balanced supply-demand market, small variations in either supply or demand, or both, can have dramatic effects on prices we receive for our oil and natural gas production. Political instability and availability of alternative fuels could impact worldwide supply, while other economic factors could impact demand.

Oil and Natural Gas Prices

While the market price received for crude oil and natural gas varies among geographic areas, crude oil trades in a worldwide market, whereas natural gas, which has a limited global transportation system, is subject to local supply and demand conditions. Consequently, price movements for all types and grades of crude oil generally move in the same direction, while natural gas price movements generally follow local market conditions.

Apache primarily sells its natural gas into four markets:

1) North America, which has a common market and where supply and demand are currently tightly balanced, creating a volatile pricing environment;

2) Australia, which has a local market with mostly fixed-price contracts;

3) Egypt, which has a local market where the price received for our production is indexed to a weighted-average Dated-Brent crude oil price; most of which is subject to a ceiling of $2.65 per MMBtu at oil-prices of $21 per barrel or above; and

4) Argentina, where the price we receive on a portion of our natural gas production is regulated by the government, at prices from $.38 to $1.40 per MMBtu. The volumes we are required to sell at regulated prices are set by the government and vary with seasonal factors. The remainder of the volumes are sold at market-driven prices, presently in excess of $2.00/MMBtu.

For specific marketing arrangements by segment, please refer to Item 1 and 2. Business and Properties of this Form 10-K.

Revenues

The table below presents oil and gas production revenues, production and average prices received from sales of natural gas, oil and natural gas liquids for the most recent three years.

	For the Year Ended December 31,		
	2006	**2005**	**2004**
Revenues (in thousands):			
Oil	$ 4,911,861	$ 4,413,934	$ 2,986,208
Natural gas	3,001,246	2,928,578	2,217,983
Natural gas liquids	161,146	114,779	103,826
Total	$ 8,074,253	$ 7,457,291	$ 5,308,017
Oil Volume Barrels per day:			
United States	66,832	66,268	67,872
Canada	20,715	22,499	25,305
Egypt	56,570	55,141	52,183
Australia	11,892	15,379	25,174
North Sea	58,544	65,488	52,836
Argentina	6,857	1,163	566
China	3,167	8,132	7,583
Total	224,577	234,070	231,519
Average Oil Price Per barrel:			
United States	$ 54.22	$ 47.97	$ 38.75
Canada	59.90	53.05	38.57
Egypt	63.60	53.69	37.35
Australia	68.25	57.61	41.96
North Sea	63.04	53.00	24.22
Argentina	42.79	37.54	32.89
China	62.73	44.24	32.88
Total	59.92	51.66	35.24
Natural Gas Volume Mcf per day:			
United States	666,965	597,481	646,619
Canada	404,325	371,917	326,965
Egypt	217,601	165,710	137,737
Australia	186,119	123,295	118,108
North Sea	2,061	2,306	1,871
Argentina	111,994	3,114	3,808
Total	1,589,065	1,263,823	1,235,108
Average Natural Gas Price Per Mcf:			
United States	$ 6.54	$ 7.22	$ 5.45
Canada	6.09	7.29	5.30

Egypt	4.42	4.59	4.35
Australia	1.65	1.72	1.65
North Sea	10.64	9.17	5.53
Argentina	.97	1.14	.65
Total	5.17	6.35	4.91
NGL Volume Barrels per day:			
United States	7,985	7,553	8,268
Canada	2,187	2,235	2,588
Argentina	1,537		
Total	11,709	9,788	10,856
Average NGL Price Per barrel:			
United States	$ 38.54	$ 32.44	$ 26.66
Canada	35.40	31.07	24.44
Argentina	36.64		
Total	37.70	32.13	26.13

Contributions to Oil and Natural Gas Revenues

As with production and reserves, a consequence of geographic diversification is a shifting geographic mix of our oil revenues and natural gas revenues. For the reasons discussed in the Oil and Natural Gas Prices section above, contributions to oil revenues and gas revenues should be viewed separately.

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

	Oil Revenues For the Year Ended December 31,			Gas Revenues For the Year Ended December 31,		
	2006	**2005**	**2004**	**2006**	**2005**	**2004**
United States	27%	26%	32%	53%	54%	58%
Canada	9%	10%	12%	30%	34%	29%
North America	36%	36%	44%	83%	88%	87%
Egypt	27%	25%	24%	12%	9%	10%
Australia	6%	7%	13%	4%	3%	3%
North Sea	27%	29%	16%			
Argentina	2%			1%		
Other International	2%	3%	3%			
Total	100%	100%	100%	100%	100%	100%

Crude Oil Contribution

In 2006, oil revenue contributions outside of North America were 64 percent of our total consolidated oil revenues, equal to 2005 contributions. Except for Australia, all core regions saw oil revenue growth in 2006 when compared to 2005. Egypt and the United States saw their contributions rise as their 2006 revenue gains, relative to 2005, outpaced gains in our other regions, benefiting from both higher relative oil prices and production. Argentina s contribution increase in 2006, compared to 2005, was virtually all attributable to the 2006 acquisitions discussed above, although the region also benefited from price improvement. The North Sea and Canada s 2006 contributions fell because higher prices were somewhat neutralized by lower relative production and higher oil revenue in other core areas.

In 2005, oil revenue contributions from outside the U.S. rose six percent to 74 percent of our total consolidated oil revenues. Production growth and significantly higher price realizations drove the North Sea s oil revenue contributions to 29 percent of consolidated oil revenues from 16 percent the prior year and were largely responsible for the growth of non-U.S. oil revenues. U.S. oil revenues made up 26 percent of 2005 oil revenues, down six percent from 2004, a consequence of the 2005 hurricane activity and the significant growth in North Sea production. Australia s contribution to 2005 consolidated oil revenues fell to seven percent from 13 percent on a 39 percent decrease in production compared to 2004.

Crude Oil Revenues

Crude oil revenues in 2006 increased $498 million from 2005 to $4.9 billion. Price gains across all regions, which averaged $8.26 more per barrel than 2005, generated an additional $706 million of revenues. These additional revenues were partially offset by the effect on revenues from a four percent decline in production. All segments reported a significant increase in realized crude oil price, with Argentina, Egypt, and the U.S. also benefiting from production growth compared to 2005.

Egypt generated an additional $233 million of crude oil revenue in 2006 when compared to 2005. An 18 percent increase in crude oil price realizations, generated $200 million of the additional revenues, with the remainder coming from a three percent increase in production. While Egypt experienced production growth in many areas, the predominate contributor was the Khalda Concession which benefited from a full year of associated condensate related to increased Qasr field gas production.

U.S. crude oil revenues for 2006 increased $162 million compared to 2005, with a 13 percent increase in crude oil price realizations contributing $151 million of the additional revenues. A small increase in 2006 oil production, relative to 2005, contributed the remaining $11 million. The third-quarter 2005 hurricanes reduced Apache s 2006 average annual daily crude oil production 13,100 barrels per day (b/d), compared to 10,813 b/d in 2005. Shut-in production reduced the Company s 2006 and 2005 crude oil revenues by approximately $297 million and $186 million, respectively. Central region production rose 18 percent, reflecting drilling and recompletion activity in the Permian basin and Southeast New Mexico, and the Amerada Hess acquired properties. Gulf Coast production was 10 percent below 2005 levels with downtime, hurricane production shut-ins and natural decline outpacing growth attributed to drilling and recompletion activity and the BP acquired properties. The Gulf Coast region s fourth-quarter 2006 production averaged 43,995 b/d compared to 23,487 b/d in the comparable 2005 quarter, a testament to the progress in returning hurricane damaged properties to production during 2006, as well as the benefit of the BP acquired properties.

Argentina s 2006 oil revenues increased $91 million over 2005 with $89 million of the increase associated with production growth, driven primarily by acquired properties and subsequent exploitation activities. Higher oil price realizations generated the other $2 million.

The North Sea s 2006 crude oil revenues were $80 million higher than 2005 with $240 million of additional revenues generated from a 19 percent increase in price realizations, partially offset by lower production, which was down 11 percent on a comparative basis. Production was lower in 2006 primarily because of production interruptions associated with commissioning of major infrastructure projects and temporary unplanned shutdown of the third-party Forties Pipeline System during the third quarter of 2006. The focus in 2006 on upgrades also displaced drilling operations necessary to mitigate natural decline.

Canada s 2006 oil revenues increased $17 million over 2005, with $56 million of additional revenues associated with higher price realizations, partially offset by lower production, which was down eight percent. Canada production was down in most areas as natural decline exceeded drilling and production enhancement activities.

Australia s 2006 crude oil revenues were $27 million less than 2005, reflecting a 23 percent decline in production and an 18 percent increase in realized price. The production decrease resulted from normal field decline which offset a full year of associated condensate production from the John Brookes field and other development activities, mainly in the Bambra, Zephyrus and Stag areas.

China s 2006 oil revenues were $59 million less than 2005, a consequence of the August 2006 divestiture.

Apache manages a small portion of its exposure to fluctuations in crude oil prices using financial derivatives. Approximately nine percent of our worldwide crude oil production was subject to financial derivative hedges in 2006, compared to six percent in 2005. (See Note 3, Hedging and Derivative Instruments, of this Form 10-K for a summary of the current derivative positions and terms.) These financial derivative instruments reduced our 2006 and 2005 worldwide realized prices $1.37 and $.68 per barrel, respectively.

Natural Gas Contribution

Our North American operations contributed 83 percent of 2006 consolidated natural gas revenues, down five percent from 2005. All core gas producing regions generated additional revenues in 2006 on production growth. However, these incremental production revenues were all but eliminated by the effect of lower prices, especially in our North American regions, where prices are typically higher, but more volatile, than our other regions. Revenues in the U.S. and Canada dropped in 2006 on a comparative basis, while all other core gas producing regions experienced an

increase in revenue. Egypt s contribution to 2006 consolidated gas revenues rose three percent in 2006, compared to 2005, while Australia s contribution increased one percent. Argentina contributed one percent of consolidated gas revenues.

In 2005, 88 percent of Apache s natural gas revenues came from North America, 54 percent from the U.S. and 34 percent from Canada. The U.S. contribution decreased four percent from 2004, primarily because of production declines, the impact Hurricanes Katrina and Rita had on U.S. Gulf of Mexico revenues, and the additional revenues generated by Canada and Egypt. Our U.S. Gulf Coast region, which contributed 63 percent of Apache s U.S. 2005

production, down six percent from 2004, is characterized by reservoirs which demonstrate high initial production rates followed by steep declines when compared to most other U.S. producing areas. Canada s contribution was up five percent from 2004 resulting from 14 percent production growth and higher price gains, relative to other areas. Egypt s contribution to total gas revenues decreased slightly to nine percent from 10 percent in 2004. Australia s contribution to 2005 natural gas revenues remained the same as 2004 at three percent.

Natural Gas Revenues

Our 2006 consolidated natural gas revenues increased $73 million from the prior year with $614 million of additional revenues generated from production growth mostly offset by the effect of a 19 percent decline in realized prices. All core gas producing regions generated additional revenues in 2006 from production growth; however they were mostly offset by lower relative natural gas prices.

Egypt contributed $73 million more to 2006 consolidated natural gas revenues compared to 2005 on a 31 percent increase in production and a four percent decrease in realized gas prices. The year-over-year production growth came primarily from the Khalda concession, mostly attributable to a full year of production from the Qasr field.

Argentina s 2006 natural gas revenues increased $38 million compared to 2005, with all of the additional revenues associated with production growth. As with oil, the production growth primarily came from acquired properties and subsequent exploitation activities.

Australia s 2006 natural gas revenues were $35 million higher than 2005. Natural gas production increases added $38 million to revenues, while lower gas price realizations reduced revenues $3 million. The additional production was attributed to a full year of production from the John Brookes field.

U.S. natural gas revenues were $17 million higher in 2006 than 2005. U.S. natural gas production, up 12 percent, contributed $166 million of additional revenues, while a nine percent price decline lowered revenues $149 million, when compared to 2005. The 2005 hurricanes reduced Apache s 2006 average annual daily natural gas production 37 MMcf/d compared to 59 MMcf/d in 2005. Shut-in production from the hurricanes reduced the Company s 2006 and 2005 natural gas revenues by approximately $95 million and $211 million, respectively. Central region production rose 16 percent from 2005, benefiting from drilling and recompletion activity, primarily in Central and Western Oklahoma, in East Texas, and from acquired properties. Gulf Coast region production was nine percent above year-ago levels on the BP acquired properties, hurricane restoration, and drilling and recompletion activity, principally in the Chauvin, Ship Shoal and South Timbalier fields.

Canada s 2006 natural gas revenues decreased $91 million from 2005. An additional $72 million of revenues generated from a nine percent increase in production were more than offset by the impact of a 16 percent decrease in realized natural gas prices. Canada s production growth was concentrated in the North and South Grant Lands and Kabob areas, with activity in other areas more than offset by natural decline.

Our 2005 natural gas revenues increased $711 million with a $1.44 per Mcf increase in our average natural gas price realizations generating an additional $652 million of revenues. Higher production added the remaining $59 million. While all of our operating segments reported an increase in natural gas price realizations, most of the additional revenues attributable to price came from the U.S. and Canada as prices skyrocketed following the Gulf of Mexico hurricanes. The additional revenues attributable to production were primarily generated in Egypt, where natural gas production increased 20 percent, reflecting the success of our drilling program. Canada and Australia also contributed to increased production revenues with production growth of 14 percent and four percent, respectively. Canada s increase was from new wells, while Australia s increase was driven by higher customer demand and new contractual sales. Partially offsetting these additional production revenues was an eight percent decrease in U.S. production,

primarily in the Gulf Coast region, related to the impact of the 2005 hurricanes and natural decline in mature fields.

The majority of our worldwide gas sales contracts are indexed to prevailing local market prices. As a result Apache uses a variety of strategies to manage its exposure to fluctuations in natural gas prices including fixed-price contracts and derivatives. In the U.S. and Canada most of our gas is sold on a monthly basis at either monthly or daily market prices; however, during 2006 and 2005, approximately eight percent and 10 percent of our U.S. natural

gas production, respectively, was subject to long-term, fixed-price physical contracts. These contracts provide a measure of protection to the Company in the event of decreasing natural gas prices. These fixed-price contracts reduced our 2006 and 2005 worldwide realized natural gas prices by $.10 per Mcf and $.19 per Mcf, respectively. In Australia, nearly all of our natural gas production is subject to long-term fixed-price contracts that are periodically adjusted for changes in Australia s consumer price index. The majority of Egypt s gas is sold to Egyptian General Petroleum Corporation (EGPC) under an Industry Pricing Formula tied to Dated Brent crude oil with a maximum price of $2.65 per MMbtu. However, in certain concessions Apache has retained a higher gas price formula until 2013 for up to 100 MMcf/d produced.

Approximately eight percent of our worldwide natural gas production was subject to financial derivative hedges for 2006 compared to nine percent in 2005. These financial derivative instruments reduced our 2006 and 2005 consolidated realized prices $.05 per Mcf and $.15 per Mcf, respectively. (See Note 3, Hedging and Derivative Instruments of Item 15 in this Form 10-K for a summary of current derivative positions and terms.)

Costs

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

	Year Ended December 31,			Year Ended December 31,		
	2006	2005	2004	2006	2005	2004
	(In millions)			(Per boe)		
Depreciation, depletion and amortization:						
Oil and gas property and equipment	$ 1,699	$ 1,325	$ 1,149	$ 9.29	$ 7.99	$ 7.01
Other assets	118	91	73	.64	.55	.44
Asset retirement obligation accretion	89	54	46	.48	.32	.28
Lease operating costs	1,362	1,041	864	7.45	6.27	5.27
Gathering and transportation costs	104	100	82	.57	.60	.50
Severance and other taxes	554	453	94	3.03	2.73	.57
General and administrative expenses	211	198	173	1.16	1.20	1.06
China litigation			71			.43
Financing costs, net	142	116	117	.78	.70	.71
Total	$ 4,279	$ 3,378	$ 2,669	$ 23.40	$ 20.36	$ 16.27

Depreciation, Depletion and Amortization

Apache s Depreciation, Depletion and Amortization (DD&A) of oil and gas properties is calculated using the Units of Production Method (UOP). The UOP calculation in simplest terms multiplies the percentage of estimated proved reserves produced each quarter times the costs of those reserves. The result is to recognize expense at the same pace that the reservoirs are actually depleting. The costs in the UOP calculation include both the net capitalized amounts on the balance sheet, and the estimated future costs to access and develop reserves needing additional facilities, equipment or downhole work in order to produce. Under the full-cost method of accounting, the DD&A calculation is prepared separately for each country in which Apache operates. Absolute DD&A determines the expense reported each period, while the cost per unit of production (DD&A rate) provides insight into the overall costs of the

Company s reserves growth. Current costs incurred to drill or acquire additional reserves that are higher than the historical cost level raises the overall DD&A rate. Conversely, if reserves are added in the current period at a rate per unit less than existing levels, they average down the Company s DD&A rate. Changes from period to period in absolute DD&A expense are determined by production levels, the mix of production (high cost country versus a low cost country) and the impact of recent spending (higher or lower DD&A rates).

Our 2006 full-cost DD&A expense totaled $1.7 billion, $374 million more than 2005. Our 2006 full-cost DD&A rate of $9.29 per boe was $1.30 per boe more than 2005, reflecting rising acquisition costs, higher

abandonment cost estimates, rising industry-wide drilling and finding costs, especially in the U.S. and Canada, and incremental future development costs associated with recent acquisitions and newly identified development projects. The increase in costs, including increased estimates of future development costs, is related to increased demand for drilling and associated services, a consequence of both higher oil and gas prices and additional demand resulting from the ongoing need to repair damage caused by hurricanes Katrina and Rita in 2005. The increase in 2006 DD&A, relative to 2005 was mitigated by a decline in Egypt resulting from the January 2006 sale of Egypt s deepwater acreage. Our 2006 full-cost DD&A expense was $73 million lower because of the production shut-in for hurricane damage.

Our 2005 full-cost DD&A expense totaled $1.3 billion, $176 million more than 2004. Our 2005 full-cost DD&A rate of $7.99 per boe was $.98 per boe more than 2004, driven by rising industry-wide drilling costs, especially in the U.S., Canada, the North Sea and Egypt. Higher commodity prices experienced throughout 2005, as well as the affect of the 2005 U.S. hurricanes, led to increased demand for drilling services and thus higher current drilling costs and higher estimated future development costs. The North Sea s impact on our consolidated rate reflects the continuation of facility upgrades undertaken during 2005 to improve the overall efficiency of platforms. Our 2005 full-cost DD&A expense was $57 million lower because of the production shut-in for hurricane damage.

Depreciation of other assets increased $27 million in 2006, reflecting ongoing development of infrastructure in Canada that began in 2005 to accommodate development on the acquired ExxonMobil acreage, and the Qasr field support facilities in Egypt, including completion of the Tarek gas plant inter-connect.

Depreciation of other assets increased $18 million in 2005, reflecting new infrastructure built in Canada to accommodate development on acreage acquired from ExxonMobil in 2004 and new Qasr natural gas facilities in Egypt.

Impairments

We assess all of our unproved properties for possible impairment on a quarterly basis based on geological trend analysis, dry holes or relinquishment of acreage. When impairment occurs, costs associated with these properties are generally transferred to our proved property base where they become subject to amortization. Impairments in international areas without proved reserves are charged to earnings upon determination that impairment has occurred.

Goodwill is subject to a periodic fair-value-based impairment assessment. Goodwill totaled $189 million on December 31, 2006, and no impairment was recorded in 2006, 2005 or 2004. For further discussion, see Note 1, Summary of Significant Accounting Policies of Item 15 in this Form 10-K.

Lease Operating Costs

Lease operating expenses (LOE) are comprised of several components: direct operating costs, repair and maintenance, workover costs and ad valorem taxes.

LOE rates are driven by the underlying commodity price levels, whether oil or gas is produced, level of workover activity and geographical location of the properties. Commodity prices have a significant impact on operating cost elements; both directly and indirectly. They directly impact costs such as power, fuel, chemicals and ad valorem taxes, which are commodity price based. The remaining elements, which include among other things, labor, services and equipment, are indirectly impacted by high price environments which drive up activity and demand and therefore, increase costs. All components of LOE have been rising throughout the industry for several years with historically strong oil and gas prices. Also, oil is inherently more expensive to produce than natural gas. Repair and maintenance costs are higher on offshore properties and in areas with remote plants and facilities. Workovers allow us to exploit

our existing reserve base by accelerating production, taking advantage of high prices. Fluctuations in exchange rates impact the Company s LOE, with a weakening U.S. dollar adding to per unit costs and a stronger U.S. dollar lowering per unit costs.

The Company reviews production costs in each of its core areas on a monthly basis and pursues alternatives to maintain efficient levels of costs. The following discussion will focus on per unit operating costs as management believes this is the most informative method of analyzing LOE trends.

Rising per unit cost remained a challenge in 2006 with LOE averaging $7.45 per boe, $1.18 per boe higher than 2005. The 2005 hurricanes increased our worldwide rate by $.44 and $.41 per boe in 2006 and 2005, respectively, a reflection of shut-in production and additional expenses in excess of our insurance coverage. The remainder of the increase was driven by industry-wide cost increases, as discussed above, workover activity, a weaker U.S. dollar relative to the Canadian dollar and British Pound and higher non-hurricane related repair costs in our U.S. Gulf Coast and Canadian regions.

Regionally, 2006 LOE was up from 2005 as follows:

U.S. The U.S. added $.63 per boe to the 2006 worldwide rate. The Central region added $.04 per boe, with production growth nearly outpacing increases in costs, while the Gulf Coast region added $.59 per boe. In addition to the impact of industry-wide cost increases, activity levels soared in the Gulf of Mexico as producers continue to repair and restore production following the 2005 hurricanes. This increase in demand on top of an already tight-supply market for boats, helicopters, divers, labor, equipment and parts to complete repairs, pushed costs even higher in the region. The region s fourth-quarter 2006 LOE included approximately $26 million for repairs in excess of insurance coverage. We will incur an estimated $60 million of additional LOE expenses to complete the repairs during the first half of 2007. The 2006 rate increase was also impacted by additional workover activity, higher insurance rates and more non-hurricane repair costs, relative to 2005.

Canada Canada added $.40 per boe to the 2006 worldwide rate. Higher costs added $.46 per boe, however, higher production offset $.06 of that increase. Twenty-two percent of the increase in Canada s rate was attributed to the strengthening Canadian dollar. The balance related to a higher level of workover activity, higher repair and maintenance costs, reclamation and restoration projects undertaken during 2006 and the general rise in costs, including increases in power rates, contract labor and fuel.

Egypt Egypt added $.02 to the 2006 worldwide rate as a $32 million increase in costs, including increased workover activity, was mostly offset by associated production growth.

Australia Australia reduced the 2006 worldwide rate $.11 per boe with production growth more than offsetting associated incremental operating costs.

North Sea The North Sea added $.37 per boe to the 2006 consolidated rate, with approximately two-thirds of the increase in rate related to lower relative production, the strengthening British Pound and an increase in pension liabilities. The balance of the increase in costs related to major 2006 turnaround activity, higher fuel rates and usage as major projects were commissioned, and higher maintenance and repair activity, relative to 2005.

Argentina Argentina reduced the 2006 consolidated rate $.19 per boe with production growth related to the 2006 acquisitions more than offsetting associated incremental operating costs.

On a per unit produced basis, 2005 LOE averaged $6.27 per boe, $1.00 per boe higher than 2004. Production shut-ins and additional insurance costs associated with the 2005 hurricanes added $.41 to the 2005 rate. The remaining increase reflects higher service costs associated with rising commodity prices and the associated increase in demand for services, an increase in workover activity, higher repair and maintenance costs and the impact a weaker U.S. dollar had on Canadian LOE. The slight strengthening against the Australian dollar and British pound had less impact on LOE.

Regionally, 2005 LOE was up as follows:

U.S. The U.S. added $.77 per boe to the 2005 consolidated rate with nearly one-third of the impact attributed to the additional insurance costs and production shut-ins caused by the 2005 hurricanes. Higher contract labor costs, workover activity, repair and maintenance, and various other commodity-price driven service costs accounted for the remaining impact. Gulf Coast region LOE included approximately $30 million for insurance deductibles and additional premiums assessed by OIL.

Australia Australia added $.15 per boe to the 2005 consolidated rate on a 20 percent drop in equivalent production. Australia also saw a rise in insurance cost. Lower production added $.13 per boe to the 2005 consolidated rate, while additional costs added $.02 per boe.

Canada Canada added $.21 per boe to the 2005 consolidated rate increase, with costs adding $.27 per boe, partially offset by the impact of higher volumes, which reduced the rate $.06 per boe. 2005 costs were up $44 million from 2004, with 42 percent attributable to the strengthening Canadian dollar. The balance related to various other costs associated with an increase in activity and the general rise in costs, including higher contract labor, power and fuel, repair and maintenance and workover costs.

Egypt Egypt s 2005 costs were $23 million higher than 2004 on higher diesel fuel costs, an increase in workover activity, higher labor costs and insurance costs. The diesel fuel costs were previously subsidized by the Egyptian government. Egypt added $.04 per boe to the consolidated rate increase, with higher costs adding $.14 per boe and increased volumes lowering the rate $.10 per boe.

North Sea The North Sea reduced the 2005 consolidated rate $.16 per boe on a 24 percent increase in production, partially offset by a two percent increase in costs. North Sea costs were up on increased repair and maintenance activity.

Gathering and Transportation Costs

Apache generally sells oil and natural gas under two types of agreements, typical in our industry. Both types of agreements include a transportation charge. One is a netback arrangement, under which Apache sells oil or natural gas at the wellhead and collects a price, net of transportation incurred by the purchaser. In this case, the Company records sales at the price received from the purchaser, which is net of transportation costs. Under the other arrangement, Apache sells oil or natural gas at a specific delivery point, pays transportation to a third-party carrier and receives from the purchaser a price with no transportation deduction. In this case, the Company records the transportation cost as gathering and transportation costs. The Company s treatment of transportation costs is pursuant to Emerging Issues Task Force Issue 00-10, Accounting for Shipping and Handling Fees and Costs and as a result a portion of our transporting costs is reflected in sales prices and a portion is reflected as Gathering and Transportation Costs rendering the separately identified transportation costs incomplete.

In both the U.S. and Canada, Apache sells oil and natural gas under both types of arrangements. In the North Sea, Apache pays transportation to a third-party carrier and receives a purchase price with no transportation deduction. In Australia, oil and natural gas are sold under netback arrangements. In Egypt, our oil and natural gas production has historically been sold to EGPC under netback arrangements. During 2005 and 2006, Apache exported a portion of its Egyptian crude oil under both types of arrangements. Future export cargoes may be sold at the loading port or Apache may arrange shipping and receive prices which include transportation. The following table presents gathering and transportation costs paid directly by Apache to third-party carriers for each of the periods presented.

	For the Year Ended December 31,		
	2006	2005	2004
	(In millions)		
U.S.	$ 32	$ 30	$ 28
Canada	34	33	31
North Sea	26	28	22
Egypt	11	8	
Argentina	1		
Other International		1	1

Total Gathering and Transportation	$ 104	$ 100	$ 82

These costs are primarily related to the transportation of natural gas in our North American operations, North Sea crude oil sales and Egyptian crude oil exports. The four percent increase in costs for 2006 was driven primarily by U.S. production growth and Egyptian crude exports.

Transportation costs in 2005 increased 22 percent from 2004 driven primarily by the North Sea s production growth and Egyptian crude exports. Apache began exporting Egyptian crude in the second half of 2004 and first incurred third-party transportation charges in early 2005.

Severance and Other Taxes

Severance and other taxes are primarily comprised of severance taxes on properties onshore and in state or provincial waters in the U.S. and Australia, and the United Kingdom (U.K.) Petroleum Revenue Tax (PRT). Severance taxes are generally based on a percentage of oil and gas production revenues, while the U.K. PRT is assessed on net receipts (revenues less qualifying operating costs and capital spending) from the Forties field in the U.K. North Sea. We are also subject to the Australian Petroleum Resources Rent Tax (PRRT), and various Canadian taxes including the Freehold Mineral Tax, Saskatchewan Capital Tax and Saskatchewan Resource Surtax. The Canadian Federal Large Corporation Tax was phased out in 2006. The table below presents a comparison of these expenses.

	For the Year Ended December 31,		
	2006	2005	2004
	(In millions)		
Severance taxes	$ 124	$ 139	$ 127
U.K. PRT	394	285	(61)
Canadian taxes	16	22	23
Other	20	7	5
Total Severance and Other Taxes	$ 554	$ 453	$ 94

Severance and other taxes totaled $554 million in 2006, $101 million greater than 2005. U.K. PRT increased $109 million in 2006 on a six percent increase in revenue and a 21 percent decrease in qualifying capital spending. Australia s severance taxes declined on lower revenues associated with lower oil production. Canada s severance taxes decreased $6 million with the phase out of the federal large corporation tax. Other taxes increased $13 million on additional U.S. franchise taxes, consistent with our growth and a $5 million special profits charge levied on petroleum revenues by the Chinese government.

In 2005, severance and other taxes increased $359 million. U.K. PRT increased $346 million in 2005 on significantly higher oil price realizations and higher production. U.S. severance taxes increased $36 million on higher oil and gas prices. Australia s taxes decreased $24 million reflecting lower excise tax on declining production from the Legendre field.

General and Administrative Expenses

General and administrative expenses (G&A) averaged $1.16 per boe for 2006, $.04 per boe less than 2005. Absolute costs increased $13 million to $211 million. The additional cost in 2006 was primarily associated with expansion of international operations in conjunction with acquisitions and increasing insurance costs.

G&A of $1.20 per boe in 2005 increased $.14 per boe over 2004. Absolute costs increased $25 million, or 14 percent. Nearly three-fourths of the increase in year-over-year costs related to the impact of Apache s stock-based

compensation programs. Stock-based compensation costs increased relative to the prior year because of new stock option grants issued in 2005, a new targeted stock plan approved by stockholders in May 2005, and the impact Apache s rising common stock price had on stock-based compensation expense. The balance of the G&A increase was primarily attributed to the increased cost of insurance, a consequence of the hurricanes, higher charitable contributions and higher Sarbanes-Oxley compliance audit fees.

Financing Costs, Net

The major components of financing costs, net, include interest expense and capitalized interest.

Net financing costs for 2006 were $26 million higher than in 2005. Gross interest expense increased $42 million in 2006 as a result of a higher average debt balance and higher short-term interest rates. Capitalized interest increased $4 million, a result of a higher average unproved property balance. Interest income rose $10 million compared to 2005 on higher cash balances. Our weighted-average cost of borrowing on December 31, 2006 was 6.3 percent compared to 6.7 percent on December 31, 2005.

Net financing costs in 2005 were slightly lower than 2004. Gross interest expense increased $7 million in 2005, on a higher average debt balance. This was mostly offset by a $6 million increase in the amount of interest capitalized as a result of a higher average unproved property balance. Our weighted-average cost of borrowing was 6.7 percent on December 31, 2005 and 6.1 percent on December 31, 2004.

Provision for Income Taxes

Income tax expense for 2006 totaled $1.5 billion, $125 million less than 2005. The effective tax rate for 2006 was 36.3 percent, down from 37.6 percent in 2005. The 2006 effective rate was impacted by a combination of federal and provincial tax rate reductions enacted by Canada during the second quarter of 2006, a 10 percent increase in the oil and gas company supplemental tax enacted by the U.K. during the third quarter of 2006 and the gain recognized on the sale of China, as discussed below. Currency fluctuations had a negligible impact on the 2006 effective tax rate.

The effective income tax rate for 2006 was impacted by the gain recognized in conjunction with divestment of operations in China. The Company intends to permanently reinvest earnings of its foreign subsidiaries and as such, has not recorded U.S. income tax expense on any undistributed foreign earnings, including the gain from the China sale.

Income tax expense in 2005 of $1.6 billion was $590 million or 20 percent higher than 2004. The higher taxes were driven by higher taxable income related to increased oil and gas revenues in 2005, compared to 2004. Our effective tax rate was 37.6 percent in 2005 compared to 37.3 percent in 2004. Currency fluctuations added $13 million of additional deferred tax expense to 2005 and $58 million to 2004. For a discussion of Apache s sensitivity to foreign currency fluctuations, please refer to Item 7A, Quantitative and Qualitative Disclosures about Market Risk, Foreign Currency Risk of this Form 10-K.

Capital Resources and Liquidity

Financial Indicators

	At December 31,		
Millions of dollars except as indicated	**2006**	**2005**	**2004**
Current ratio	.65	.99	1.05
Net cash provided by operating activities	$ 4,313	$ 4,332	$ 3,232
Total debt	3,822	2,192	2,588
Shareholders equity	13,191	10,541	8,204
Percent of total debt to capitalization	22%	17%	24%
Floating-rate debt/total debt	43%		15%

Overview

Apache s primary uses of cash are exploration, development and acquisition of oil and gas properties, costs and expenses necessary to maintain continued operations, repayment of principal and interest on outstanding debt and payment of dividends.

Our business, as with other extractive industries, is a depleting one in which each barrel produced must be replaced or the Company, and a critical source of our future liquidity, will shrink. Cash investments are continuously required to fund exploration and development projects and acquisitions which are necessary to offset the inherent declines in production and proven reserves. See Item 1 and 2, Business and Properties, Risks Factors, in this Form 10-K. Future success in maintaining and growing reserves and production will be highly dependent on having

adequate capital resources available, on our success in both exploration and development activities and on acquiring additional reserves.

Our 2006 yearend reserve life index indicates an average decline of 7.9 percent per year. This projection is based on prices at yearend 2006, except in those instances where future natural gas and oil sales are covered by physical contract terms providing for higher or lower prices, estimates of investments required to develop estimated proved undeveloped reserves, and costs and taxes reflected in our standardized measure in Note 13, Supplemental Oil and Gas Disclosures (Unaudited) of Item 15 in this Form 10-K.

The Company funds its exploration and development activities primarily through net cash provided by operating activities (cash flow) and budgets capital expenditures based on projected cash flow. Our cash flow, both in the short and long-term, is impacted by highly volatile oil and natural gas prices, production levels, industry trends impacting operating expenses and our ability to continue to acquire or find high-margin reserves at competitive prices. For these reasons, we only forecast, for internal use by management, an annual cash flow. Longer-term cash flow and capital spending projections are not used by management to operate our business. The annual cash flow forecasts are revised monthly in response to changing market conditions and production projections. Apache routinely adjusts capital expenditure budgets in response to the adjusted cash flow forecasts and market trends in drilling and acquisitions costs.

The Company has historically utilized internally generated cash flow, committed and uncommitted credit facilities and access to both debt and equity capital markets for all other liquidity and capital resources needs. Because of the liquidity and capital resources alternatives available to Apache, including internally generated cash flows, Apache s management believes that its short-term and long-term liquidity will be adequate to fund operations, including its capital spending program, repayment of debt maturities and any amounts that may ultimately be paid in connection with contingencies.

The Company s ratio of current assets to current liabilities was .65 on December 31, 2006 compared to .99 at the end of 2005. Current liabilities increased 74 percent ($1.6 billion) in 2006 versus a 15 percent ($328 million) increase in current assets. Changes in our current debt particularly impacted the ratio. The Company had $1.6 billion of commercial paper outstanding at the end of 2006 that was subsequently reduced with proceeds from $1.5 billion of long-term debt issued in January 2007. Also, another $173 million of debt is payable in 2007. The current ARO liability of $377 million, an increase of $283 million over 2005, reflects the cost expected to be incurred over the next 12 months to abandon the platforms damaged by Hurricanes Katrina and Rita. The increase in current liabilities was partially offset by overall decreases in our current derivative payable, the U.K. PRT liability, accrued income taxes, and accounts payable of $186 million, $175 million, $118 million and $70 million, respectively. Collectively, the increase in liabilities more than offset the higher current asset balances. The current derivative receivable increased $123 million, reflecting changes in oil and gas strip pricing. Current accounts receivables increased $207 million, or 14 percent, most of which was related to oil receivables impacted by higher oil prices. The remaining current asset categories, inventories, cash and drilling advances, decreased $45 million from 2005.

Net Cash Provided by Operating Activities

Apache s net cash provided by operating activities totaled $4.3 billion in both 2006 and 2005. For a detailed discussion of commodity prices, production, costs and expenses, please refer to the Results of Operations section of this Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations. For a detailed discussion of changes in current assets and current liabilities please refer to the discussion under the Overview of this Capital and Liquidity section.

Apache s net cash provided by operating activities during 2005 totaled $4.3 billion, up from $3.2 billion in 2004. The increase in 2005 cash flow was attributed primarily to the significant increase in commodity prices. The Company s average realized oil and natural gas prices increased 47 percent and 29 percent, respectively; a reflection of higher worldwide commodity prices. Higher production also added to our 2005 cash flow relative to 2004, albeit to a much less extent. These increases in cash flow were partially offset by higher production costs attributable to the effect of increased commodity prices, costs related to Hurricanes Katrina and Rita and an increase in exchange rates in Canada.

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.

Debt

We exited 2006 with a debt-to-capitalization ratio of approximately 22 percent, compared to 17 percent at the end of 2005. Yearend 2006 outstanding current and long-term debt totaled $3.8 billion, $1.6 billion higher than yearend 2005. The increase was associated with the issuance of commercial paper in conjunction with $2.4 billion of acquisitions. The Company s outstanding debt consisted of notes and debentures maturing in the years 2007 through 2096. Approximately $1.8 billion of our total debt is due in 2007. This debt consists of $1.6 billion of commercial paper, that was subsequently reduced with $1.5 billion of long-term debt issued in January 2007, and $170 million of Apache Finance Australia 6.5-percent notes and various money market lines of credit in Argentina and the U.S. The $1.6 billion of commercial paper is fully supported by available borrowing capacity under committed credit facilities which expire in 2011. An additional $100 million in debt matures in 2009 with the remaining $1.9 billion maturing thereafter.

On January 26, 2007, the Company issued $500 million principal amount, $499.5 million net of discount, of senior unsecured 5.625-percent notes maturing January 15, 2017. The Company also issued $1.0 billion principal amount, $993 million net of discount, of senior unsecured 6.0-percent notes maturing January 15, 2037. The notes are redeemable, as a whole or in part, at Apache s option, subject to a make-whole premium. The proceeds were used to repay a portion of the Company s outstanding commercial paper and for general corporate purposes. Please refer to Note 5 Debt, Subsequent Debt of Item 15 in this Form 10-K.

In May 2006, the Company amended its existing five-year revolving U.S. credit facility which was scheduled to mature on May 28, 2009. The amendment: (a) extended the maturity to May 28, 2011, (b) increased the size of the facility from $750 million to $1.5 billion, and (c) reduced the facility fees from .08 percent to .06 percent and reduced the margin over LIBOR on loans from .27 percent to .19 percent. The lenders also extended the maturity dates of the $150 million Canadian facility, the $150 million Australian facility and $385 million of the $450 million U.S. credit facility, for an additional year to May 12, 2011 from May 12, 2010. The Company also increased commercial paper availability to $1.95 billion from $1.20 billion.

By yearend 2006, the Company extended the maturity of another $50 million of commitments under the $450 million U.S. credit facility for an additional year. As a result, $435 million will mature on May 12, 2011, and $15 million will mature on May 12, 2010.

The financial covenants of the credit facilities require the Company to maintain a debt-to-capitalization ratio of not greater than 60 percent at the end of any fiscal quarter. The negative covenants include restrictions on the Company s ability to create liens and security interests on our assets, with exceptions for liens typically arising in the oil and gas industry, purchase money liens and liens arising as a matter of law, such as tax and mechanics liens. The Company may incur liens on assets located in the U.S., Canada and Australia of up to five percent of the Company s consolidated assets. There are no restrictions on incurring liens in countries other than the U.S., Canada and Australia. There are also restrictions on Apache s ability to merge with another entity, unless the Company is the surviving entity, and a restriction on our ability to guarantee debt of entities not within our consolidated group.

There are no clauses in the facilities that permit the lenders to accelerate payments or refuse to lend based on unspecified material adverse changes (MAC clauses). The credit facility agreements do not have drawdown

restrictions or prepayment obligations in the event of a decline in credit ratings. However, the agreements allow the lenders to accelerate payments and terminate lending commitments if Apache Corporation, or any of its U.S., Canadian and Australian subsidiaries, defaults on any direct payment obligation in excess of $100 million or has any unpaid, non-appealable judgment against it in excess of $100 million. The Company was in compliance with the terms of the credit facilities as of December 31, 2006.

Stock Transactions

On April 19, 2006, the Company announced that its Board of Directors authorized the purchase of up to 15 million shares of the Company s common stock representing a market value of approximately $1 billion on the date of announcement. The Company may buy shares from time to time on the open market, in privately negotiated transactions, or a combination of both. The timing and amounts of any purchases will be at the discretion of Apache s management. The Company initiated the purchase program on May 1, 2006, after the Company s first-quarter 2006 earnings information was disseminated in the market. Through December 31, 2006, the Company purchased 2,500,000 shares at an average price of $69.74 per share.

Oil and Gas Capital Expenditures

The Company funded its exploration and development (E&D) capital expenditures, gathering, transportation and marketing (GTM) investments, capitalized interest and asset retirement costs of $4.4 billion, $4.4 billion and $2.7 billion in 2006, 2005 and 2004, respectively, primarily with internally generated cash flow of $4.3 billion, $4.3 billion and $3.2 billion.

The Company uses a combination of internally generated cash flow, borrowings under the Company s lines of credit and commercial paper program and, from time to time, issues of public debt or common stock to fund its significant acquisitions. During 2005 and 2004, the Company primarily used internally generated cash flow or its lines of credit and commercial paper program, which were subsequently paid down with internally generated cash flow. In 2006, the Company primarily used its commercial paper program to fund its significant acquisitions. The commercial paper was subsequently repaid with the proceeds from the issuance of $1.5 billion of senior unsecured notes in January 2007.

The following table presents a summary of the Company s Capital Expenditures for each of our reportable segments for the past three years.

	Year Ended December 31,		
	2006	2005	2004
	(In thousands)		
Exploration and Development:			
United States	$ 1,532,959	$ 1,072,040	$ 755,056
Canada	1,056,614	1,188,096	756,912
Egypt	454,892	352,324	301,912
Australia	179,892	217,816	138,694
North Sea	329,498	489,072	362,054
Argentina	115,570	25,963	4,674
Other International	12,288	22,521	21,819
	$ 3,681,713	$ 3,367,832	$ 2,341,121
Capitalized Interest	$ 61,301	$ 56,988	$ 50,748
Gathering Transmission and Processing Facilities	$ 248,589	$ 392,872	$ 138,738
Asset Retirement Costs (ARC)	$ 228,384	$ 532,505	$ 37,758

ARC Acquired	$ 162,228	$ 14,164	$ 156,195
Acquisitions:			
Oil and gas properties	$ 2,310,853	$ 39,228	$ 1,063,851
Gas gathering, transmission and processing facilities	117,579		
	$ 2,428,432	$ 39,228	$ 1,063,851

Capital expenditures, excluding ARC, totaled $6.4 billion in 2006, up 66 percent or $2.6 billion from 2005 driven by an increase in acquisition activity. The Company invested $3.7 billion on exploration and development activities in 2006 up nine percent from 2005 including drilling 1,611 wells.

In the U.S., we invested $1.5 billion on exploration and development activities. Our Gulf Coast region invested approximately $1 billion on drilling, recompletions, and platform and production support facilities, including $50 million of associated hurricane redevelopment capital in excess of insurance coverage. The region drilled 60 wells in the Gulf of Mexico and 23 wells onshore, with a 78 percent success rate, despite ongoing hurricane repair activity. The Central region had its most active year ever investing $540 million including the drilling of 374 wells with a 97 percent success rate. The region added to its inventory of opportunities to grow production with the addition of Amerada Hess s Permian basin properties in Texas and New Mexico at the beginning of 2006 and will do so again with the close of the acquisition of additional Permian basin properties from Anadarko in the first quarter of 2007.

Canada s drilling program accounted for more than half of the Company s wells drilled. The region invested $1.1 billion in 2006 on exploration and development activities and drilled 874 wells with an 85 percent success rate. Twenty-five percent of those wells were on the undeveloped acreage Apache obtained through farm-in agreements with ExxonMobil.

We invested $329 million in the North Sea; $112 million of which was on facility upgrades intended to improve the operating efficiency and drilling capability in the Forties field. Four of the five exploration and development wells drilled during 2006 were productive. We completed the Forties power generation and gas ring in 2006, which reduced fuel oil generating costs and improved production reliability. We also started the upgrade of our produced water re-injection system, upgraded the primary gas-lift compression system and replaced instrumentation and control systems on several platforms. At the end of 2006, we were in the process of upgrading drilling equipment on all existing Forties platforms that will extend the reach of our drilling equipment, allowing us to determine if the bounds of the Forties field can be extended to the west. The latter project should be completed by the end of the first quarter of 2007.

Egypt had another active and successful exploration and development program investing $455 million and drilling 163 wells of which 86 percent were productive as we continued development of the Qasr field.

In Australia, we invested $180 million in exploration and development activities as we participated in drilling 23 wells; 18 exploration wells and five development wells. Four of the exploration wells and three of the development wells were productive for a success rate of 30 percent.

Our 2006 exploration and development activities in Argentina increased by $90 million over 2005 as we invested $116 million drilling 83 wells, 16 exploratory and 67 development, with a 89% success rate.

The Company invested $249 million in gathering, transmission and processing facilities in 2006 compared to $393 million in 2005. In Canada we invested $130 million in processing plants, $106 million of which was to construct five additional gas processing plants to support production from wells drilled on the acreage we earned from ExxonMobil. Egypt invested $108 million to complete the Tarek gas plant pipeline inter-connect and on expansion of gas processing facilities to alleviate the processing capacity bottleneck throttling deliverability.

In 2006 we also recorded $391 million in asset retirement costs. The Gulf Coast region recorded an additional $232 million to reflect the estimated abandonment costs to be incurred resulting from the hurricane activity, in addition to the approximately $492 million recorded in 2005. This cost to abandon the 11 operated and 12 non-operated platforms lost or severely damaged during the 2005 storms is expected to be incurred by the end of 2009 (See Note 4, Asset Retirement Obligations of Item 15 in this Form 10-K). We also recorded $162 million in asset

retirement costs associated with our 2006 acquisition activity.

On the acquisition front we invested a record $2.4 billion in 2006, closing four significant transactions; one in the Gulf of Mexico, one in West Texas and two in Argentina. Acquisition activity fluctuates from year-to-year based on the availability of acquisition opportunities that fit the Company s strategy.

In 2005, the Company had its most active drilling year ever, drilling 2,383 wells investing $3.4 billion on exploration and development activities, a 44 percent increase from 2004. Approximately two-thirds of our 2005

exploration and development expenditures were invested in Canada and the U.S., where nearly 69 percent of Apache s 2005 year-end estimated proved reserves were located. Exploration and development expenditures in 2005 for Canada and the U.S. increased 57 percent and 42 percent, respectively, over 2004. Canada was our most active region, drilling 1,674 wells, 82 percent of which were shallow development wells. Canada was also very active in the undeveloped acreage Apache obtained through two farm-in agreements with ExxonMobil. The Central region was the second most active region, drilling 364 wells, with a 97 percent success rate. In the Gulf Coast region, despite the disruptions caused by the Gulf of Mexico hurricanes, we drilled 114 wells, including 66 offshore. Seventy-seven percent of our Gulf Coast wells were productive. In the North Sea, we drilled a total of 23 wells, including 18 Forties field wells, and invested approximately $198 million of maintenance capital to continue to improve the operating efficiency of the Forties field. In Egypt, we drilled 121 wells of which 86 percent were productive. We continued development of the Qasr field, where gross production averaged 128 MMcf/d in December 2005. In Australia, we participated in drilling 36 wells; 26 exploration wells and 10 development wells. China s capital expenditures were flat compared to 2004 as they continued their development drilling program.

In 2005 Apache also invested $393 million in gathering, transmission and processing facilities investing $180 million constructing 11 gas processing plants in Canada, six of which were completed by yearend, $182 million in Egypt developing Qasr field facilities and $31 million on facility upgrades in Australia.

We incurred $547 million in asset retirement costs in 2005, most of which was attributed to the hurricane activity in the Gulf of Mexico escalating our abandonment obligations.

The Company spent $39 million on acquisitions in 2005 compared to $1.1 billion in 2004, as the high-price commodity market in 2005 limited the number of attractive acquisition opportunities. Those that were pursued closed in the first quarter of 2006. Acquisition expenditures typically vary year-to-year based on the availability of opportunities that fit Apache s overall strategy.

For 2007, we plan another active year of drilling. Because we revise our estimates of exploration and development capital expenditures frequently throughout the year based on industry conditions, year-to-year results and the relative levels of commodity prices and service costs, accurately projecting future expenditures is difficult at best. At the end of 2006 we had a fairly active drilling program underway; however, if commodity prices soften and service costs do not decline accordingly, Apache will not hesitate to reduce activity until margins are back in line. Our 2007 preliminary estimate of exploration and development capital and oil and gas processing facilities and pipelines is approximately $4.5 billion. We generally do not project estimates for acquisitions because their timing is unpredictable. We continually look for properties in which we believe we can add value and earn adequate rates of return and will take advantage of those opportunities as they arise.

Cash Dividend Payments

The Company has paid cash dividends on its common stock for 42 consecutive years through 2006. Future dividend payments will depend on the Company s level of earnings, financial requirements and other relevant factors. Common dividends paid during 2006 rose 33 percent to $148 million, reflecting the increase in common shares outstanding and the higher common stock dividend rate. The Company increased its quarterly cash dividend 50 percent, to 15 cents per share from 10 cents per share, effective with the November 2006 dividend payment.

During 2006 and 2005, Apache paid a total of $6 million in dividends each year on its Series B Preferred Stock issued in August 1998. See Note 8, Capital Stock of Item 15 in this Form 10-K. Common dividends paid during 2005 rose 32 percent to $112 million, reflecting the increase in common shares outstanding and the higher common stock dividend rate.

Contractual Obligations

We are subject to various financial obligations and commitments in the normal course of operations. These contractual obligations represent known future cash payments that we are required to make and relate primarily to long-term debt, operating leases, pipeline transportation commitments and international commitments. The Company expects to fund these contractual obligations with cash generated from operating activities. The following

table summarizes the Company s contractual obligations as of December 31, 2006. See Note 10, Commitments and Contingencies of Item 15 in this Form 10-K for further information regarding these obligations.

ntractual Obligations	Note Reference	Total	2007	2008	2009	2010	2011	Thereafte
				(In thousands)				
bt	Note 5	$ 3,821,925	$ 1,802,094	$ 353	$ 99,809	$	$	$ 1,919,66
erating leases and other mmitments	Note 10	815,685	384,651	127,037	46,536	36,787	32,844	187,83
ernational lease mmitments	Note 10	239,556	104,987	59,884	48,328	26,357		
her International rchase commitments	Note 10	389,744	310,944	78,800				
erating costs associated h pre-existing umetric production yments on acquired perties	Note 2	32,330	24,088	8,242				
tal Contractual ligations(a)(b)		$ 5,299,240	$ 2,626,764	$ 274,316	$ 194,673	$ 63,144	$ 32,844	$ 2,107,49

(a) This table does not include the estimated liability for dismantlement, abandonment and restoration costs of oil and gas properties of $1.7 billion. The Company records a separate liability for the fair value of this asset retirement obligation. See Note 4, Asset Retirement Obligation of Item 15 in this Form 10-K for further discussion.

(b) This table does not include the Company s pension or postretirement benefit obligations. See Note 10, Commitments and Contingencies of Item 15 in this Form 10-K for further discussion.

Apache is also subject to various contingent obligations that become payable only if certain events or rulings were to occur. The inherent uncertainty surrounding the timing of and monetary impact associated with these events or rulings prevents any meaningful accurate measurement, which is necessary to assess any impact on future liquidity. Such obligations include environmental contingencies and potential settlements resulting from litigation. Apache s management feels that it has adequately reserved for its contingent obligations including approximately $17 million for environmental remediation and approximately $7 million for various legal liabilities, in addition to the $71 million, plus interest, we accrued for the Texaco China B.V. litigation. See Note 10, Commitments and Contingencies of Item 15 in this Form 10-K for a detailed discussion of the Company s environmental and legal contingencies.

The Company accrued approximately $34 million as of December 31, 2006, for an insurance contingency because of our involvement with Oil Insurance Limited (OIL). Apache is a member of this insurance pool which insures specific property, pollution liability and other catastrophic risks of the Company. As part of its membership, the Company is contractually committed to pay termination fees were we to elect to withdraw from OIL. Apache does not anticipate

withdrawal from the insurance pool; however, the potential termination fee is calculated annually based on past losses and the liability reflecting this potential charge has been accrued as required.

As discussed under Note 2, Acquisitions and Divestitures of Item 15 in this Form 10-K, Apache assumed obligations for pre-existing volumetric production payments (VPPs) in the 2004 acquisition of properties from Anadarko and the 2003 acquisition of properties from Shell. Under the terms of the VPP agreements, Apache is scheduled to deliver a total of 4.7 MMboe in 2007 and 1.6 MMboe in 2008 to Morgan Stanley as owner of the VPP interests. Morgan Stanley is entitled to the first production and may demand up to 90 percent of the production from the assets encumbered by each VPP in any given month to satisfy the VPP interests. However, they have no right to look to other assets or production of Apache beyond that encumbered in the acquisition. Apache does not record the reserves and production volumes attributable to the VPPs. As of December 31, 2006, Apache has booked a total of 87.4 MMboe of reserves attributable to the Anadarko and Shell transactions. The VPPs are non-operating interests,

free of costs incurred for operations and production. Apache provided a liability for these costs as reflected in the preceding table.

Upon closing of our 2003 acquisition of the North Sea properties, Apache assumed BP s abandonment obligation for those properties and such costs were considered in determining the purchase price. The purchase of the properties, however, did not relieve BP of its liabilities if Apache fails to satisfy the abandonment obligation. Although not currently required, to ensure Apache s payment of these costs, Apache agreed to deliver a letter of credit to BP if the rating of our senior unsecured debt is lowered by both Moody s and Standard and Poor s from the Company s current ratings of A3 and A-, respectively. Any such letter of credit would be in an amount equal to the net present value of future abandonment costs of the North Sea properties as of the date of any such ratings change. If Apache is required to provide a letter of credit, it will expire if either rating agency restores its rating to the present level. The letter of credit amount would be 134 million British pounds, an amount that represents the letter of credit requirement through March 2008, and will be negotiated annually based on Apache s future abandonment obligation estimates.

The Company s future liquidity could be impacted by a significant downgrade of its credit ratings by Standard and Poor s and Moody s. The Company s credit facilities do not require the Company to maintain a minimum credit rating. The negative covenants associated with our debt are outlined in greater detail under Capital Resources and Liquidity, Debt in this section of this Form 10-K. In addition, generally under our commodity hedge agreements, Apache may be required to post margin or terminate outstanding positions if the Company s credit ratings decline significantly.

Off-Balance Sheet Arrangements

Apache does not currently utilize any off-balance sheet arrangements with unconsolidated entities to enhance liquidity and capital resource positions. Apache entered into a partnership with ExxonMobil to obtain additional interests in specific West Texas and New Mexico oil and gas properties acquired from ExxonMobil in September 2004. Apache concluded that they were not the primary beneficiary of the partnership and, therefore, proportionately consolidated only the Company s portion of the oil and gas properties.

Critical Accounting Policies and Estimates

Full-Cost Method of Accounting for Oil and Gas Operations

The accounting for our business is subject to special accounting rules that are unique to the oil and gas industry. There are two allowable methods of accounting for oil and gas business activities: the successful-efforts method and the full-cost method. There are several significant differences between these methods. Under the successful-efforts method, costs such as geological and geophysical (G&G), exploratory dry holes and delay rentals are expensed as incurred, where under the full-cost method these types of charges would be capitalized to their respective full-cost pool. In the measurement of impairment of oil and gas properties, the successful-efforts method of accounting follows the guidance provided in Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, where the first measurement for impairment is to compare the net book value of the related asset to its undiscounted future cash flows using commodity prices consistent with management expectations. Under the full-cost method, the net book value (full-cost pool) is compared to the future net cash flows discounted at 10 percent using commodity prices in effect on the last day of the reporting period (ceiling limitation). If the full-cost pool is in excess of the ceiling limitation, the excess amount is charged through income.

We have elected to use the full-cost method to account for our investment in oil and gas properties. Under this method, the Company capitalizes all acquisition, exploration and development costs for the purpose of finding oil and gas reserves, including salaries, benefits and other internal costs directly attributable to these finding activities. Although some of these costs will ultimately result in no additional reserves, we expect the benefits of successful

wells to more than offset the costs of any unsuccessful ones. In addition, gains or losses on the sale or other disposition of oil and gas properties are not recognized unless the gain or loss would significantly alter the relationship between capitalized costs and proved reserves of oil and natural gas attributable to a country. As a result, we believe that the full-cost method of accounting better reflects the true economics of exploring for and

developing oil and gas reserves. Our financial position and results of operations would have been significantly different had we used the successful-efforts method of accounting for our oil and gas investments. Generally, the application of the full-cost method of accounting for oil and gas property results in higher capitalized costs and higher DD&A rates compared to similar companies applying the successful efforts methods of accounting.

Reserve Estimates

Our estimate of proved reserves is based on the quantities of oil and gas which geological and engineering data demonstrate, with reasonable certainty, to be recoverable in future years from known reservoirs under existing economic and operating conditions. The Company reports all estimated proved reserves held under production sharing arrangements utilizing the economic interest method, which excludes the host country s share of reserves. The accuracy of any reserve estimate is a function of the quality of available data, engineering and geological interpretation, and judgment. For example, we must estimate the amount and timing of future operating costs, severance taxes, development costs, and workover costs, all of which may in fact vary considerably from actual results. In addition, as prices and cost levels change from year to year, the estimate of proved reserves also changes. Any significant variance in these assumptions could materially affect the estimated quantity and value of our reserves. As such, our reserve engineers review and revise the Company s reserve estimates at least annually.

Despite the inherent imprecision in these engineering estimates, our reserves are used throughout our financial statements. For example, since we use the units-of-production method to amortize our oil and gas properties, the quantity of reserves could significantly impact our DD&A expense. Our oil and gas properties are also subject to a ceiling limitation based in part on the quantity of our proved reserves. Finally, these reserves are the basis for our supplemental oil and gas disclosures.

We engage an independent petroleum engineering firm to review our estimates of proved hydrocarbon liquid and gas reserves. During 2006, 2005 and 2004, their review covered 75, 74 and 79 percent of the reserve value, respectively.

Costs Excluded

Under the full-cost method of accounting, oil and gas properties include costs that are excluded from capitalized costs being amortized. These amounts represent investments in unproved properties and major development projects. Apache excludes these costs on a country-by-country basis until proved reserves are found or until it is determined that the costs are impaired. All costs excluded are reviewed at least quarterly by the Company s accounting, exploration and engineering staffs to determine if impairment has occurred. Nonproducing leases are evaluated based on the progress of the Company s exploration program to date. Exploration costs are transferred to the DD&A pool upon completion of drilling individual wells. If geological and geophysical (G&G) costs cannot be associated with specific properties, they are included in the amortization base as incurred. The amount of any impairment is transferred to the capitalized costs being amortized (the DD&A pool) or a charge is made against earnings for those international operations where a proved reserve base has not yet been established. Impairments transferred to the DD&A pool increase the DD&A rate for that country. For international operations where a reserve base has not yet been established, all costs associated with a prospect or play would be considered quarterly for impairment upon full evaluation of such prospect or play. This evaluation considers among other factors, seismic data, requirements to relinquish acreage, drilling results, remaining time in the commitment period, remaining capital plans, and political, economic, and market conditions.

Allowance for Doubtful Accounts

We routinely assess the recoverability of all material trade and other receivables to determine their collectibility. Many of our receivables are from joint interest owners on properties we operate. Thus, we may have the ability to

withhold future revenue disbursements to recover any non-payment of joint interest billings. Our crude oil and natural gas receivables are typically collected within two months. We accrue a reserve on a receivable when, based on the judgment of management, it is probable that a receivable will not be collected and the amount of any reserve may be reasonably estimated.

Beginning in 2001, we experienced a gradual decline in the timeliness of receipts from EGPC for our Egyptian oil and gas sales. Deteriorating economic conditions in Egypt lessened the availability of U.S. dollars, resulting in a one to two month delay in receipts from EGPC. During 2006, we experienced wide variability in the timing of cash receipts. We have not established a reserve for these Egyptian receivables because we continue to get paid, albeit late, and have no indication that we will not be able to collect our receivable.

Asset Retirement Obligation

The Company has significant obligations to remove tangible equipment and restore land or seabed at the end of oil and gas production operations. Apache s removal and restoration obligations are primarily associated with plugging and abandoning wells and removing and disposing of offshore oil and gas platforms. Estimating the future restoration and removal costs is difficult and requires management to make estimates and judgments because most of the removal obligations are many years in the future and contracts and regulations often have vague descriptions of what constitutes removal. Asset removal technologies and costs are constantly changing, as are regulatory, political, environmental, safety and public relations considerations.

Inherent in the present value calculation are numerous assumptions and judgments including the ultimate settlement amounts, inflation factors, credit adjusted discount rates, timing of settlement, and changes in the legal, regulatory, environmental and political environments. To the extent future revisions to these assumptions impact the present value of the existing Asset Retirement Obligation liability, a corresponding adjustment is made to the oil and gas property balance.

Income Taxes

Our oil and gas exploration and production operations are currently located in six countries. As a result, we are subject to taxation on our income in numerous jurisdictions. We record deferred tax assets and liabilities to account for the expected future tax consequences of events that have been recognized in our financial statements and our tax returns. We routinely assess the realizability of our deferred tax assets. If we conclude that it is more likely than not that some portion or all of the deferred tax assets will not be realized under accounting standards, the tax asset would be reduced by a valuation allowance. We consider future taxable income in making such assessments. Numerous judgments and assumptions are inherent in the determination of future taxable income, including factors such as future operating conditions (particularly as related to prevailing oil and gas prices).

The Company regularly assesses and, if required, establishes accruals for tax contingencies that could result from assessments of additional tax by taxing jurisdictions in countries where the Company operates. Tax reserves have been established, and include any related interest, despite the belief by the Company that certain tax positions have been fully documented in the Company s tax returns. These reserves are subject to a significant amount of judgment and are reviewed and adjusted on a periodic basis in light of changing facts and circumstances considering the progress of ongoing tax audits, case law and any new legislation. The Company believes that the reserves established are adequate in relation to the potential for any additional tax assessments.

Derivatives

Apache uses derivative contracts on a limited basis to manage its exposure to oil and gas price volatility and foreign currency volatility. The Company accounts for the contracts in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. The estimated fair values of Apache s derivative contracts within the scope of this statement are carried on the Company s consolidated balance sheet. For oil and gas derivative contracts designated and qualifying as cash flow hedges, realized gains and losses are recognized in oil and gas production

revenues when the forecasted transaction occurs. For foreign currency forward contracts designated and qualifying as cash flow hedges, realized gains and losses are generally recognized in lease operating expense when the forecasted transaction occurs. SFAS No. 133 requires that gains and losses from the change in fair value of derivative instruments that do not qualify for hedge accounting be marked-to-market and reported in current period income, rather than in the period in which the hedged transaction is settled. Realized gains and losses on derivative contracts not qualifying as cash flow hedges are reported in Other under Revenues and Other of the Statement of Consolidated Operations.

The fair value estimate of Apache s derivative contracts requires judgment; however, the Company s derivative contracts are either exchange traded or valued by reference to commodities and currencies that are traded in highly liquid markets. As such, the ultimate fair value is determined by references to readily available public data. Option valuations are verified against independent third-party quotations. See Item 7A, Quantitative and Qualitative Disclosures about Market Risk, Commodity Risk in this Form 10-K for commodity price sensitivity information and the Company s policies related to the use of derivatives.

Stock-Based Compensation

Consistent with the Company s desire to reflect the ultimate cost of stock-based compensation on the income statement, Apache early adopted the provisions of SFAS No. 123-R Share-Based Payment upon the FASB s issuance of the revised statement in the fourth quarter 2004. Stock-based compensation awards that vest during the year are reflected in the Company s net income. Awards granted in future periods will be valued on the date of grant and expensed using a straight-line basis over the required service period.

The Company chose to adopt the statement under the Modified Retrospective approach as prescribed under SFAS No. 123-R. Under this approach, the Company is required to expense all options and stock-based compensation that vested during the year of adoption based on the fair value of the stock compensation determined on the date of grant. Had the Company not early adopted SFAS No. 123-R under this transition approach, 2004 net income would have been lower by $89 million ($56 million after tax) or $.17 per diluted share. Normally, net income would be negatively impacted by adopting SFAS No. 123-R under this transition method. However, the Company s 2000 Share Appreciation Plan, which triggered in 2004, has a fair market value-based expense recorded under the provisions of SFAS No. 123-R that is substantially less than the intrinsic value cost that would have been recorded under the provisions of APB Opinion No. 25. Please refer to Note 8, Capital Stock of Item 15 of this Form 10-K for a detailed description of the 2000 Share Appreciation Plan and costs associated with our stock compensation plans.

Also, inherent in expensing stock options and other stock-based compensation under SFAS No. 123-R are several judgments and estimates that must be made. These include determining the underlying valuation methodology for stock compensation awards and the related inputs utilized in each valuation, such as the Company s expected stock price volatility, expected term of the employee option, expected dividend yield, the expected risk-free interest rate, the underlying stock price and the exercise price of the option. Changes to these assumptions could result in different valuations for individual share awards and will be carefully scrutinized for each material grant. For option valuations, Apache utilizes the Black-Scholes option pricing model. For valuing the Share Appreciation Plan awards, the Company utilizes a Monte Carlo simulation model developed by a third party.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Commodity Risk

The major market risk exposure is in the pricing applicable to our oil and gas production. Realized pricing is primarily driven by the prevailing worldwide price for crude oil and spot prices applicable to our United States and Canadian natural gas production. Prices received for oil and gas production have been and remain volatile and unpredictable. Monthly average oil price realizations, including the impact of fixed-price contracts and hedges, ranged from a low of $52.64 per barrel to a high of $68.59 per barrel during 2006. Average gas price realizations, including the impact of fixed-price contracts and hedges, ranged from a monthly low of $3.85 per Mcf to a monthly high of $8.05 per Mcf during the same period. Based on the Company s 2006 worldwide oil and gas production levels, a $1.00 per barrel change in the weighted-average realized price of oil would increase or decrease revenues by $82 million and a $.10 per Mcf change in the weighted-average realized price of gas would increase or decrease revenues by

$55 million.

If oil and gas prices decline significantly, even if only for a short period of time, it is possible that non-cash write-downs of our oil and gas properties could occur under the full-cost accounting method allowed by the Securities Exchange Commission (SEC). Under these rules, we review the carrying value of our proved oil and gas properties each quarter on a country-by-country basis to ensure that capitalized costs of proved oil and gas properties, net of accumulated depreciation, depletion and amortization, and deferred income taxes do not exceed

the ceiling. This ceiling is the present value of estimated future net cash flows from proved oil and gas reserves, discounted at 10 percent, plus the lower of cost or fair value of unproved properties included in the costs being amortized, net of related tax effects. If capitalized costs exceed this ceiling, the excess is charged to additional DD&A expense. The calculation of estimated future net cash flows is based on the prices for crude oil and natural gas in effect on the last day of each fiscal quarter except for volumes sold under long-term contracts. Write-downs required by these rules do not impact cash flow from operating activities; however, as discussed above, sustained low prices would have a material adverse effect on future cash flows.

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 recognized in oil and gas production revenues when the associated production occurs. Apache does not generally hold or issue derivative instruments for trading purposes.

Apache has historically only hedged long-term oil and gas prices related to a portion of its expected production associated with acquisitions; however, in 2006, the Company s Board of Directors authorized management to hedge a portion of production generated from the Company s drilling program. In 2006, financial derivative hedges represented approximately eight percent of the total worldwide natural gas and nine percent of the total worldwide crude oil production. At year end, hedges in place were primarily related to North America production and represent approximately 12 percent of worldwide production for natural gas and crude oil.

On December 31, 2006, the Company had open natural gas derivative positions with a fair value of $87 million. A 10 percent increase in natural gas prices would reduce the fair value by approximately $58 million, while a 10 percent decrease in prices would increase the fair value by approximately $60 million. The Company also had open crude oil derivative positions with a fair value of $40 million. A 10 percent increase in oil prices would reduce the fair value by approximately $104 million, while a 10 percent decrease in prices would increase the fair value by approximately $107 million. These fair value changes assume volatility based on prevailing market parameters at December 31, 2006. See Note 3, Hedging and Derivative Instruments of Item 15 in this Form 10-K for notional volumes and terms associated with the Company s derivative contracts.

Apache conducts its risk management activities for its commodities under the controls and governance of its risk management policy. The Risk Management Committee, comprising the Chief Financial Officer, Controller, Treasurer and other key members of Apache s management, approve and oversee these controls, which have been implemented by designated members of the treasury department. The treasury and accounting departments also provide separate checks and reviews on the results of hedging activities. Controls for our commodity risk management activities include limits on credit, limits on volume, segregation of duties, delegation of authority and a number of other policy and procedural controls.

Governmental Risk

Apache s U.S. and international operations have been, and at times in the future may be, affected by political developments and by federal, state and local laws and regulations impacting production levels, taxes, environmental requirements and other assessments including a potential Windfall Profits Tax.

Weather and Climate Risk

Demand for oil and natural gas are, to a significant degree, dependent on weather and climate, which impacts the price we receive for the commodities we produce. In addition, our exploration and development activities and equipment

can be adversely affected by severe weather, such as hurricanes in the Gulf of Mexico, which may cause a loss of production from temporary cessation of activity or lost or damaged equipment. While our planning for normal climatic variation, insurance program, and emergency recovery plans mitigate the effects of the weather, not all such effects can be predicted, eliminated or insured against.

In response to large underwriting losses caused by Hurricanes Katrina and Rita, the insurance industry has reduced capacity for windstorm damage and substantially increased premium rates. As a result, there is no

assurance that Apache will be able to arrange insurance to cover fully its Gulf of Mexico exposures at a reasonable cost when the current policies expire.

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 gas production is sold under fixed-price Australian dollar contracts. Over half the costs incurred for Australian operations are paid in Australian 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 British pounds. In contrast, all oil and gas production in Egypt is sold for U.S. dollars and the majority of the costs incurred are denominated in U.S. dollars. Argentina revenues and expenditures are largely denominated in U.S. dollars but translated into pesos at the then current exchange rate. Revenue and disbursement transactions denominated in Australian dollars, Canadian dollars, British pounds, Egyptian pounds or Argentine pesos are converted to U.S. dollar equivalents based on the exchange rate as of the transaction date.

Foreign currency gains and losses also come about when monetary assets and liabilities denominated in foreign currencies are translated at the end of each month. A 10 percent strengthening or weakening of the Australian dollar, Canadian dollar, British pound, Egyptian pound, or Argentine peso as of December 31, 2006, would result in a foreign currency net loss or gain of approximately $112 million.

Interest Rate Risk

On December 31, 2006, the Company s debt with fixed interest rates represented approximately 57 percent of total debt. As a result, the interest expense on approximately 43 percent of Apache s debt will fluctuate based on short-term interest rates. A 10 percent change in floating interest rates on year-end floating debt balances would change annual interest expense by approximately $9.2 million.

Forward-Looking Statements and Risk

Certain statements in this report, 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, capital expenditure projections, 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 reserve 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 makes use of futures contracts, swaps, options and fixed-price physical contracts to mitigate risk, fluctuations in oil and gas prices, or a prolonged continuation of low prices may substantially adversely affect the Company s financial position, results of operations and cash flows.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary financial information required to be filed under this item are presented on pages F-1 through F-57 of this Form 10-K, and are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

The financial statements for the fiscal years ended December 31, 2006, 2005 and 2004, included in this report, have been audited by Ernst & Young LLP, independent public auditors, as stated in their audit report appearing herein.

ITEM 9A. 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 December 31, 2006, 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 were effective, providing effective means to insure that information we are required to disclose under applicable laws and regulations is recorded, processed, summarized, and reported in a timely manner. We also made no changes in internal controls over financial reporting during the quarter ending December 31, 2006 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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.

Management s Report on Internal Control Over Financial Reporting

The management report called for by Item 308(a) of Regulation S-K is incorporated herein by reference to Report of Management on Internal Control Over Financial Reporting, included on Page F-1 in Item 15 of this report.

The independent auditors attestation report called for by Item 308(b) of Regulation S-K is incorporated by reference to Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting, included on Page F-3 in Item 15 of this report.

Changes in Internal Control Over Financial Reporting

There was no change in our internal controls over financial reporting during the quarter ending December 31, 2006, that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information set forth under the captions Nominees for Election as Directors, Continuing Directors, Executive Officers of the Company, and Securities Ownership and Principal Holders in the proxy statement relating to the Company s 2007 annual meeting of stockholders (the Proxy Statement) is incorporated herein by reference.

Code of Business Conduct

Pursuant to Rule 303A.10 of the NYSE and Rule 4350(n) of the NASDAQ, we are required to adopt a code of business conduct and ethics for our directors, officers and employees. In February 2004, the Board of Directors adopted the Code of Business Conduct (Code of Conduct), which also meets the requirements of a code of ethics under Item 406 of Regulation S-K. You can access the Company s Code of Conduct on the Investor Relations page of the Company s website at http://www.apachecorp.com. Any stockholder who so requests may obtain a printed copy of the Code of Conduct by submitting a request to the Company s Corporate Secretary. Changes in and waivers to the Code of Conduct for the Company s Directors, Chief Executive Officer and certain senior financial officers will be posted on the Company s website within five business days and maintained for at least 12 months.

ITEM 11. EXECUTIVE COMPENSATION

The information set forth under the captions Summary Compensation Table, Grants of Plan Based Awards, Outstanding Equity Awards at Fiscal Year-End, Option Exercises and Stock Vested, Non-Qualified Deferred Compensation, Employment Contracts and Termination of Employment and Change-in-Control Arrangements and Director Compensation in the Proxy Statement is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information set forth under the captions Securities Ownership and Principal Holders and Equity Compensation Plan Information in the Proxy Statement is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information set forth under the caption Certain Business Relationships and Transactions in the Proxy Statement is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information set forth under the caption Independent Public Accountants in the Proxy Statement is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Documents included in this report:

1. Financial Statements

Report of management	F-1
Report of independent registered public accounting firm	F-2
Report of independent registered public accounting firm	F-3
Statement of consolidated operations for each of the three years in the period ended December 31, 2006	F-4
Statement of consolidated cash flows for each of the three years in the period ended December 31, 2006	F-5
Consolidated balance sheet as of December 31, 2006 and 2005	F-6

Statement of consolidated shareholders equity for each of the three years in the period ended December 31, 2006 F-7
Notes to consolidated financial statements F-8

2. Financial Statement Schedules

Financial statement schedules have been omitted because they are either not required, not applicable or the information required to be presented is included in the Company s financial statements and related notes.

3. Exhibits

Exhibit No.	Description
2.1	Agreement and Plan of Merger among Registrant, YPY Acquisitions, Inc. and The Phoenix Resource Companies, Inc., dated March 27, 1996 (incorporated by reference to Exhibit 2.1 to Registrant s Registration Statement on Form S-4, Registration No. 333-02305, filed April 5, 1996).
2.2	Purchase and Sale Agreement by and between BP Exploration & Production Inc., as seller, and Registrant, as buyer, dated January 11, 2003 (incorporated by reference to Exhibit 2.1 to Registrant s Current Report on Form 8-K, dated and filed January 13, 2003, SEC File No. 001-4300).
2.3	Sale and Purchase Agreement by and between BP Exploration Operating Company Limited, as seller, and Apache North Sea Limited, as buyer, dated January 11, 2003 (incorporated by reference to Exhibit 2.2 to Registrant s Current Report on Form 8-K, dated and filed January 13, 2003, SEC File No. 001-4300).
3.1	Restated Certificate of Incorporation of Registrant, dated February 11, 2004, as filed with the Secretary of State of Delaware on February 12, 2004 (incorporated by reference to Exhibit 3.1 to Registrant s Annual Report on Form 10-K for year ended December 31, 2003, SEC File No. 001-4300).
*3.2	Bylaws of Registrant, as amended December 14, 2006.
4.1	Form of Certificate for Registrant s Common Stock (incorporated by reference to Exhibit 4.1 to Registrant s Quarterly Report on Form 10-Q for the quarter ended March 31, 2004, SEC File No. 001-4300).
4.2	Form of Certificate for Registrant s 5.68% Cumulative Preferred Stock, Series B (incorporated by reference to Exhibit 4.2 to Amendment No. 2 on Form 8-K/A to Registrant s Current Report on Form 8-K, dated and filed April 18, 1998, SEC File No. 001-4300).
4.3	Rights Agreement, dated January 31, 1996, between Registrant and Norwest Bank Minnesota, N.A., rights agent, relating to the declaration of a rights dividend to Registrant s common shareholders of record on January 31, 1996 (incorporated by reference to Exhibit(a) to Registrant s Registration Statement on Form 8-A, dated January 24, 1996, SEC File No. 001-4300).
4.4	Amendment No. 1, dated as of January 31, 2006, to the Rights Agreement dated as of December 31, 1996, between Apache Corporation, a Delaware corporation, and Wells Fargo Bank, N.A. (successor to Norwest Bank Minnesota, N.A.) (incorporated by reference to Exhibit 4.4 to Registrant s Amendment No. 1 to Registration Statement on Form 8-A, dated January 31, 2006, SEC File No. 001-4300).
4.5	Senior Indenture, dated February 15, 1996, between Registrant and JPMorgan Chase Bank, formerly known as The Chase Manhattan Bank, as trustee, governing the senior debt securities and guarantees (incorporated by reference to Exhibit 4.6 to Registrant s Registration Statement on Form S-3, dated May 23, 2003, Reg. No. 333-105536).
4.6	First Supplemental Indenture to the Senior Indenture, dated as of November 5, 1996, between Registrant and JPMorgan Chase Bank, formerly known as The Chase Manhattan Bank, as trustee, governing the senior debt securities and guarantees (incorporated by reference to Exhibit 4.7 to Registrant s Registration Statement on Form S-3, dated May 23, 2003, Reg. No. 333-105536).

4.7	Form of Indenture among Apache Finance Pty Ltd, Registrant and The Chase Manhattan Bank, as trustee, governing the debt securities and guarantees (incorporated by reference to Exhibit 4.1 to Registrant s Registration Statement on Form S-3, dated November 12, 1997, Reg. No. 333-339973).
4.8	Form of Indenture among Registrant, Apache Finance Canada Corporation and The Chase Manhattan Bank, as trustee, governing the debt securities and guarantees (incorporated by reference to Exhibit 4.1 to Amendment No. 1 to Registrant s Registration Statement on Form S-3, dated November 12, 1999, Reg. No. 333-90147).

Exhibit No.	Description
*10.1	Form of Amended and Restated Credit Agreement, dated as of May 9, 2006, among Registrant, the Lenders named therein, JPMorgan Chase Bank, as Administrative Agent, Citibank, N.A. and Bank of America, N.A., as Co-Syndication Agents, and BNP Paribas and UBS Loan Finance LLC, as Co-Documentation Agents.
10.2	Form of Credit Agreement, dated as of May 12, 2005, among Registrant, the Lenders named therein, JPMorgan Chase Bank, N.A., as Global Administrative Agent, J.P. Morgan Securities Inc. and Banc of America Securities, LLC, as Co-Lead Arrangers and Joint Bookrunners, Bank of America, N.A. and Citibank, N.A., as U.S. Co-Syndication Agents, and Calyon New York Branch and Société Générale, as U.S. Co-Documentation Agents (excluding exhibits and schedules) (incorporated by reference to Exhibit 10.01 to Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005, SEC File No. 001-4300).
10.3	Form of Credit Agreement, dated as of May 12, 2005, among Apache Canada Ltd, a wholly-owned subsidiary of Registrant, the Lenders named therein, JPMorgan Chase Bank, N.A., as Global Administrative Agent, RBC Capital Markets and BMO Nesbitt Burns, as Co-Lead Arrangers and Joint Bookrunners, Royal Bank of Canada, as Canadian Administrative Agent, Bank of Montreal and Union Bank of California, N.A., Canada Branch, as Canadian Co-Syndication Agents, and The Toronto-Dominion Bank and BNP Paribas (Canada), as Canadian Co-Documentation Agents (excluding exhibits and schedules) (incorporated by reference to Exhibit 10.02 to Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005, SEC File No. 001-4300).
10.4	Form of Credit Agreement, dated as of May 12, 2005, among Apache Energy Limited, a wholly-owned subsidiary of Registrant, the Lenders named therein, JPMorgan Chase Bank, N.A., as Global Administrative Agent, Citigroup Global Markets Inc. and Deutsche Bank Securities Inc., as Co-Lead Arrangers and Joint Bookrunners, Citisecurities Limited, as Australian Administrative Agent, Deutsche Bank AG, Sydney Branch, and JPMorgan Chase Bank, as Australian Co-Syndication Agents, and Bank of America, N.A., Sydney Branch, and UBS AG, Australia Branch, as Australian Co-Documentation Agents (excluding exhibits and schedules) (incorporated by reference to Exhibit 10.03 to Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005, SEC File No. 001-4300).
10.5	Form of Five-Year Credit Agreement, dated May 28, 2004, among Registrant, the Lenders named therein, JPMorgan Chase Bank, as Administrative Agent, Citibank N.A. and Bank of America, N.A., as Co-Syndication Agents, and Barclays Bank PLC and UBS Loan Finance LLC. as Co-Documentation Agents (excluding exhibits and schedules) (incorporated by reference to Exhibit 10.1 to Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2004, SEC File No. 001-4300).
10.6	Form of First Amendment to Combined Credit Agreements, dated May 28, 2004, among Registrant, Apache Energy Limited, Apache Canada Ltd., the Lenders named therein, JP Morgan Chase Bank, as Global Administrative Agent, Bank of America, N.A., as Global Syndication Agent, and Citibank, N.A., as Global Documentation Agent (excluding exhibits and schedules) (incorporated by reference to Exhibit 10.2 to Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2004, SEC File No. 001-4300).
10.7	Concession Agreement for Petroleum Exploration and Exploitation in the Khalda Area in Western Desert of Egypt by and among Arab Republic of Egypt, the Egyptian General Petroleum Corporation and Phoenix Resources Company of Egypt, dated April 6, 1981 (incorporated by reference to Exhibit 19(g) to Phoenix s Annual Report on Form 10-K for year ended December 31, 1984, SEC File No. 1-547).

10.8	Amendment, dated July 10, 1989, to Concession Agreement for Petroleum Exploration and Exploitation in the Khalda Area in Western Desert of Egypt by and among Arab Republic of Egypt, the Egyptian General Petroleum Corporation and Phoenix Resources Company of Egypt incorporated by reference to Exhibit 10(d)(4) to Phoenix s Quarterly Report on Form 10-Q for quarter ended June 30, 1989, SEC File No. 1-547).

Exhibit No.	Description
10.9	Farmout Agreement, dated September 13, 1985 and relating to the Khalda Area Concession, by and between Phoenix Resources Company of Egypt and Conoco Khalda Inc. (incorporated by reference to Exhibit 10.1 to Phoenix s Registration Statement on Form S-1, Registration No. 33-1069, filed October 23, 1985).
10.10	Amendment, dated March 30, 1989, to Farmout Agreement relating to the Khalda Area Concession, by and between Phoenix Resources Company of Egypt and Conoco Khalda Inc. (incorporated by reference to Exhibit 10(d)(5) to Phoenix s Quarterly Report on Form 10-Q for quarter ended June 30, 1989, SEC File No. 1-547).
10.11	Amendment, dated May 21, 1995, to Concession Agreement for Petroleum Exploration and Exploitation in the Khalda Area in Western Desert of Egypt between Arab Republic of Egypt, the Egyptian General Petroleum Corporation, Repsol Exploration Egypt S.A., Phoenix Resources Company of Egypt and Samsung Corporation (incorporated by reference to Exhibit 10.12 to Registrant s Annual Report on Form 10-K for year ended December 31, 1997, SEC File No. 001-4300).
10.12	Concession Agreement for Petroleum Exploration and Exploitation in the Qarun Area in Western Desert of Egypt, between Arab Republic of Egypt, the Egyptian General Petroleum Corporation, Phoenix Resources Company of Qarun and Apache Oil Egypt, Inc., dated May 17, 1993 (incorporated by reference to Exhibit 10(b) to Phoenix s Annual Report on Form 10-K for year ended December 31, 1993, SEC File No. 1-547).
10.13	Agreement for Amending the Gas Pricing Provisions under the Concession Agreement for Petroleum Exploration and Exploitation in the Qarun Area, effective June 16, 1994 (incorporated by reference to Exhibit 10.18 to Registrant s Annual Report on Form 10-K for year ended December 31, 1996, SEC File No. 001-4300).
10.14	Apache Corporation Corporate Incentive Compensation Plan A (Senior Officers Plan), dated July 16, 1998 (incorporated by reference to Exhibit 10.13 to Registrant s Annual Report on Form 10-K for year ended December 31, 1998, SEC File No. 001-4300).
10.15	Apache Corporation Corporate Incentive Compensation Plan B (Strategic Objectives Format), dated July 16, 1998 (incorporated by reference to Exhibit 10.14 to Registrant s Annual Report on Form 10-K for year ended December 31, 1998, SEC File No. 001-4300).
* 10.16	Apache Corporation 401(k) Savings Plan, dated January 1, 2007.
* 10.17	Apache Corporation Money Purchase Retirement Plan, dated January 1, 2007.
* 10.18	Non-Qualified Retirement/Savings Plan of Apache Corporation, amended and restated as of January 1, 2005.
10.19	Apache Corporation 1990 Stock Incentive Plan, as amended and restated September 13, 2001 (incorporated by reference to Exhibit 10.01 to Registrant s Quarterly Report on Form 10-Q, as amended by Form 10-Q/A, for the quarter ended September 30, 2001, SEC File No. 001-4300).
10.20	Apache Corporation 1995 Stock Option Plan, as amended and restated September 15, 2005, effective as of January 1, 2005 (incorporated by reference to Exhibit 10.1 to Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, SEC File No. 001-4300).
10.21	Apache Corporation 2000 Share Appreciation Plan, as amended and restated September 15, 2005, effective as of January 1, 2005 (incorporated by reference to Exhibit 10.4 to Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, SEC File No. 001-4300).
10.22	Apache Corporation 1996 Performance Stock Option Plan, as amended and restated September 13, 2001 (incorporated by reference to Exhibit 10.03 to Registrant s Quarterly Report on Form 10-Q, as amended by Form 10-Q/A, for the quarter ended September 30, 2001, SEC File No. 001-4300).

10.23	Apache Corporation 1998 Stock Option Plan, as amended and restated September 15, 2005, effective as of January 1, 2005 (incorporated by reference to Exhibit 10.2 to Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, SEC File No. 001-4300).
10.24	Apache Corporation 2000 Stock Option Plan, as amended and restated September 15, 2005, effective as of January 1, 2005 (incorporated by reference to Exhibit 10.3 to Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, SEC File No. 001-4300).

Exhibit No.	Description
10.25	Apache Corporation 2003 Stock Appreciation Rights Plan, dated and effective May 1, 2003 (incorporated by reference to Exhibit 10.31 to Registrant s Annual Report on Form 10-K for year ended December 31, 2003, SEC File No. 001-4300).
10.26	Apache Corporation 2005 Stock Option Plan, dated February 3, 2005 (incorporated by reference to Appendix B to the Proxy Statement relating to Apache s 2005 annual meeting of stockholders, as filed with the Commission on March 28, 2005, Commission File No. 001-4300).
10.27	Apache Corporation 2005 Share Appreciation Plan, dated February 3, 2005 (incorporated by reference to Appendix C to the Proxy Statement relating to Apache s 2005 annual meeting of stockholders, as filed with the Commission on March 28, 2005, Commission File No. 001-4300).
10.28	1990 Employee Stock Option Plan of The Phoenix Resource Companies, Inc., as amended through September 29, 1995, effective April 9, 1990 (incorporated by reference to Exhibit 10.33 to Registrant s Annual Report on Form 10-K for year ended December 31, 1996, SEC File No. 001-4300).
10.29	Apache Corporation Income Continuance Plan, as amended and restated May 3, 2001 (incorporated by reference to Exhibit 10.30 to Registrant s Annual Report on Form 10-K for the year ended December 31, 2001, SEC File No. 001-4300).
10.30	Apache Corporation Deferred Delivery Plan, as amended and restated September 15, 2005, effective as of January 1, 2005 (incorporated by reference to Exhibit 10.5 to Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, SEC File No. 001-4300).
10.31	Apache Corporation Executive Restricted Stock Plan, as amended and restated December 14, 2005, effective January 1, 2005 (incorporated by reference to Exhibit 10.36 to Registrant s Annual Report on Form 10-K for year ended December 31, 2005, SEC File No. 001-4300).
10.32	Apache Corporation Non-Employee Directors Compensation Plan, as amended and restated September 15, 2005, effective as of January 1, 2005 (incorporated by reference to Exhibit 10.7 to Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, SEC File No. 001-4300).
10.33	Apache Corporation Outside Directors Retirement Plan, as amended and restated May 4, 2006, effective as of January 1, 2006 (incorporated by reference to Exhibit 10.1 to Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2006, SEC File No. 001-4300).
10.34	Apache Corporation Equity Compensation Plan for Non-Employee Directors, as amended and restated February 5, 2004 (incorporated by reference to Exhibit 10.38 to Registrant s Annual Report on Form 10-K for year ended December 31, 2003, SEC File No. 001-4300).
10.35	Amended and Restated Employment Agreement, dated December 5, 1990, between Registrant and Raymond Plank (incorporated by reference to Exhibit 10.39 to Registrant s Annual Report on Form 10-K for year ended December 31, 1996, SEC File No. 001-4300).
10.36	First Amendment, dated April 4, 1996, to Restated Employment Agreement between Registrant and Raymond Plank (incorporated by reference to Exhibit 10.40 to Registrant s Annual Report on Form 10-K for year ended December 31, 1996, SEC File No. 001-4300).
10.37	Amended and Restated Employment Agreement, dated December 20, 1990, between Registrant and John A. Kocur (incorporated by reference to Exhibit 10.10 to Registrant s Annual Report on Form 10-K for year ended December 31, 1990, SEC File No. 001-4300).
10.38	Employment Agreement, dated June 6, 1988, between Registrant and G. Steven Farris (incorporated by reference to Exhibit 10.6 to Registrant s Annual Report on Form 10-K for year ended December 31, 1989, SEC File No. 001-4300).
10.39	

	Amended and Restated Conditional Stock Grant Agreement, dated September 15, 2005, effective January 1, 2005, between Registrant and G. Steven Farris (incorporated by reference to Exhibit 10.06 to Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, SEC File No. 001-4300).
10.40	Amended and Restated Gas Purchase Agreement, effective July 1, 1998, by and among Registrant and MW Petroleum Corporation, as seller, and Producers Energy Marketing, LLC, as buyer (incorporated by reference to Exhibit 10.1 to Registrant s Current Report on Form 8-K, dated June 18, 1998, filed June 23, 1998, SEC File No. 001-4300).

Exhibit No.	Description
10.41	Deed of Guaranty and Indemnity, dated January 11, 2003, made by Registrant in favor of BP Exploration Operating Company Limited (incorporated by reference to Registrant s Current Report on Form 8-K, dated and filed January 13, 2003, SEC File No. 001-4300).
*12.1	Statement of Computation of Ratios of Earnings to Fixed Charges and Combined Fixed Charges and Preferred Stock Dividends.
14.1	Code of Business Conduct (incorporated by reference to Exhibit 14.1 to Registrant s Annual Report on Form 10-K for year ended December 31, 2003, SEC File No. 001-4300).
*21.1	Subsidiaries of Registrant
*23.1	Consent of Ernst & Young LLP
*23.2	Consent of Ryder Scott Company L.P., Petroleum Consultants
*24.1	Power of Attorney (included as a part of the signature pages to this report)
*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

* Filed herewith.

Management contracts or compensatory plans or arrangements required to be filed herewith pursuant to Item 15 hereof.

NOTE: Debt instruments of the Registrant defining the rights of long-term debt holders in principal amounts not exceeding 10 percent of the Registrant s consolidated assets have been omitted and will be provided to the Commission upon request.

(b) See (a) 3. above.

(c) See (a) 2. above.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

APACHE CORPORATION

/s/ G. STEVEN FARRIS

G. Steven Farris
President, Chief Executive Officer and
Chief Operating Officer

Dated: February 28, 2007

POWER OF ATTORNEY

The officers and directors of Apache Corporation, whose signatures appear below, hereby constitute and appoint G. Steven Farris, Roger B. Plank, P. Anthony Lannie, Rebecca A. Hoyt, and Jeffrey B. King, and each of them (with full power to each of them to act alone), the true and lawful attorney-in-fact to sign and execute, on behalf of the undersigned, any amendment(s) to this report and each of the undersigned does hereby ratify and confirm all that said attorneys shall do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ G. STEVEN FARRIS G. Steven Farris	Director, President, Chief Executive Officer and Chief Operating Officer (Principal Executive Officer)	February 28, 2007
/s/ ROGER B. PLANK Roger B. Plank	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 28, 2007
/s/ REBECCA A. HOYT Rebecca A. Hoyt	Vice President and Controller (Principal Accounting Officer)	February 28, 2007
/s/ RAYMOND PLANK Raymond Plank	Chairman of the Board	February 28, 2007
/s/ FREDERICK M. BOHEN Frederick M. Bohen	Director	February 28, 2007
/s/ RANDOLPH M. FERLIC	Director	February 28, 2007

Randolph M. Ferlic		
/s/ EUGENE C. FIEDOREK	Director	February 28, 2007
Eugene C. Fiedorek		
/s/ A. D. FRAZIER, JR	Director	February 28, 2007
A. D. Frazier, Jr.		
/s/ PATRICIA ALBJERG GRAHAM	Director	February 28, 2007
Patricia Albjerg Graham		

Name	Title	Date
/s/ JOHN A. KOCUR John A. Kocur	Director	February 28, 2007
/s/ GEORGE D. LAWRENCE George D. Lawrence	Director	February 28, 2007
/s/ F. H. MERELLI F. H. Merelli	Director	February 28, 2007
/s/ RODMAN D. PATTON Rodman D. Patton	Director	February 28, 2007
/s/ CHARLES J. PITMAN Charles J. Pitman	Director	February 28, 2007
/s/ JAY A. PRECOURT Jay A. Precourt	Director	February 28, 2007

REPORT OF MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the Company is responsible for the preparation and integrity of the consolidated financial statements appearing in this annual report on Form 10-K. The financial statements were prepared in conformity with accounting principles generally accepted in the United States and include amounts that are based on management s best estimates and judgments.

Management of the Company is responsible for establishing and maintaining effective internal control over financial reporting as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934 (Exchange Act). The Company s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements. Our internal control over financial reporting is supported by a program of internal audits and appropriate reviews by management, written policies and guidelines, careful selection and training of qualified personnel and a written code of business conduct adopted by our Company s Board of Directors, applicable to all Company Directors and all officers and employees of our Company and subsidiaries.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements and even when determined to be effective, can only provide reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2006. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control Integrated Framework.* Based on our assessment, management believes that the Company maintained effective internal control over financial reporting as of December 31, 2006.

The Company s independent auditors, Ernst & Young LLP, a registered public accounting firm, are appointed by the Audit Committee of the Company s Board of Directors. Ernst & Young LLP have audited and reported on the consolidated financial statements of Apache Corporation and subsidiaries, management s assessment of the effectiveness of the Company s internal control over financial reporting and the effectiveness of the Company s internal control over financial reporting. The reports of the independent auditors follow this report on pages F-2 and F-3.

G. Steven Farris
President, Chief Executive Officer
and Chief Operating Officer

Roger B. Plank
Executive Vice President and Chief Financial Officer

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

Houston, Texas
February 28, 2007

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Apache Corporation:

We have audited the accompanying consolidated balance sheets of Apache Corporation and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of operations, shareholders equity, and cash flows for each of the three years in the period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Apache Corporation and subsidiaries as of December 31, 2006 and 2005 and the consolidated results of their operations and their cash flows for each of the three years ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As described in Note 1 and Note 8 to the consolidated financial statements, during 2004, the Company adopted the modified prospective provisions of Statement of Financial Accounting Standards (SFAS) No. 123(revised), Share-Based Payment. In addition, as described in Note 1 and Note 10 to the Consolidated Financial Statements, the Company adopted the provisions of SFAS No. 158, Employees Accounting for Defined Benefit Plans and Other Postretirement Plans.

We also have audited in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Apache Corporation and subsidiaries internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2007 expressed an unqualified opinion thereon.

ERNST & YOUNG LLP

Houston, Texas
February 28, 2007

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Apache Corporation:

We have audited management s assessment, included in the accompanying Report of Management on Internal Control over Financial Reporting, that Apache Corporation and subsidiaries maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Apache Corporation s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management s assessment that Apache Corporation and subsidiaries maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Apache Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Apache Corporation and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of operations, shareholders equity, and cash flows for each of the three years in the period ended December 31, 2006 and our report dated February 28, 2007 expressed an unqualified opinion thereon.

ERNST & YOUNG LLP

Houston, Texas
February 28, 2007

APACHE CORPORATION AND SUBSIDIARIES

STATEMENT OF CONSOLIDATED OPERATIONS

	For the Year Ended December 31,		
	2006	**2005**	**2004**
	(In thousands, except per common share data)		
REVENUES AND OTHER:			
Oil and gas production revenues	$ 8,074,253	$ 7,457,291	$ 5,308,017
Gain on China divestiture	173,545		
Other	40,981	126,953	24,560
	8,288,779	7,584,244	5,332,577
OPERATING EXPENSES:			
Depreciation, depletion and amortization	1,816,359	1,415,682	1,222,152
Asset retirement obligation accretion	88,931	53,720	46,060
Lease operating costs	1,362,374	1,040,475	864,378
Gathering and transportation costs	104,322	100,260	82,261
Severance and other taxes	553,978	453,258	93,748
General and administrative	211,334	198,272	173,194
China litigation provision			71,216
Financing costs:			
Interest expense	217,454	175,419	168,090
Amortization of deferred loan costs	2,048	3,748	2,471
Capitalized interest	(61,301)	(56,988)	(50,748)
Interest income	(16,315)	(5,856)	(3,328)
	4,279,184	3,377,990	2,669,494
INCOME BEFORE INCOME TAXES	4,009,595	4,206,254	2,663,083
Provision for income taxes	1,457,144	1,582,524	993,012
INCOME BEFORE CHANGE IN ACCOUNTING PRINCIPLE	2,552,451	2,623,730	1,670,071
Cumulative effect of change in accounting principle, net of income tax			(1,317)
NET INCOME	2,552,451	2,623,730	1,668,754
Preferred stock dividends	5,680	5,680	5,680
INCOME ATTRIBUTABLE TO COMMON STOCK	$ 2,546,771	$ 2,618,050	$ 1,663,074
BASIC NET INCOME PER COMMON SHARE:			
Before change in accounting principle	$ 7.72	$ 7.96	$ 5.10

Cumulative effect of change in accounting principle			
	$ 7.72	$ 7.96	$ 5.10
DILUTED NET INCOME PER COMMON SHARE:			
Before change in accounting principle	$ 7.64	$ 7.84	$ 5.04
Cumulative effect of change in accounting principle			(.01)
	$ 7.64	$ 7.84	$ 5.03

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

APACHE CORPORATION AND SUBSIDIARIES

STATEMENT OF CONSOLIDATED CASH FLOWS

	For the Year Ended December 31,		
	2006	**2005**	**2004**
		(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 2,552,451	$ 2,623,730	$ 1,668,754
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortization	1,816,359	1,415,682	1,222,152
Provision for deferred income taxes	751,457	598,927	444,906
Asset retirement obligation accretion	88,931	53,720	46,060
Gain on sale of China operations	(173,545)		
Other	32,380	52,274	43,482
Changes in operating assets and liabilities, net of effects of acquisitions:			
(Increase) decrease in receivables	(153,616)	(504,038)	(296,383)
(Increase) decrease in inventories	10,238	11,295	(659)
(Increase) decrease in drilling advances and other	66,323	(144,154)	(35,761)
(Increase) decrease in deferred charges and other	(126,869)	(26,454)	(35,328)
Increase (decrease) in accounts payable	(136,663)	97,447	182,454
Increase (decrease) in accrued expenses	(475,021)	214,491	28,431
Increase (decrease) in advances from gas purchasers	(25,601)	(22,108)	(18,331)
Increase (decrease) in deferred credits and noncurrent liabilities	86,082	(38,542)	(18,258)
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,312,906	4,332,270	3,231,519
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to property and equipment	(3,891,639)	(3,715,856)	(2,456,488)
Acquisition of BP plc properties	(833,820)		
Acquisition of Pioneer s Argentine operations	(704,809)		
Acquisition of Amerada Hess properties	(229,134)		
Acquisition of Pan American properties	(396,056)		
Acquisition of ExxonMobil properties			(348,173)
Acquisition of Anadarko properties			(531,963)
Proceeds from China divestiture	264,081		
Proceeds from sale of Egypt properties	409,203		
Additions to gas gathering, transmission and processing facilities	(248,589)		
Proceeds from sales of oil and gas properties	4,740	79,663	4,042
Other, net	(149,559)	(95,649)	(78,431)
NET CASH USED IN INVESTING ACTIVITIES	(5,775,582)	(3,731,842)	(3,411,013)

CASH FLOWS FROM FINANCING ACTIVITIES:			
Debt borrowings	1,779,963	153,368	544,824
Payments on debt	(150,266)	(549,530)	(283,400)
Dividends paid	(154,143)	(117,395)	(90,369)
Common stock activity	31,963	18,864	21,595
Treasury stock activity, net	(166,907)	6,620	12,472
Cost of debt and equity transactions	(2,061)	(861)	(2,303)
Other	35,791	6,273	54,265
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	1,374,340	(482,661)	257,084
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(88,336)	117,767	77,590
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	228,860	111,093	33,503
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 140,524	$ 228,860	$ 111,093

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

APACHE CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

	December 31, 2006	2005
	(In thousands)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 140,524	$ 228,860
Receivables, net of allowance	1,651,664	1,444,545
Inventories	320,386	209,670
Drilling advances	78,838	146,047
Derivative instruments	139,756	16,319
Prepaid assets and other	159,103	116,636
	2,490,271	2,162,077
PROPERTY AND EQUIPMENT:		
Oil and gas, on the basis of full cost accounting:		
Proved properties	29,107,921	23,836,789
Unproved properties and properties under development, not being amortized	1,284,743	795,706
Gas gathering, transmission and processing facilities	1,725,619	1,359,477
Other	358,605	312,970
	32,476,888	26,304,942
Less: Accumulated depreciation, depletion and amortization	(11,130,636)	(9,513,602)
	21,346,252	16,791,340
OTHER ASSETS:		
Goodwill, net	189,252	189,252
Deferred charges and other	282,400	129,127
	$ 24,308,175	$ 19,271,796
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 644,889	$ 714,598
Accrued operating expense	70,551	66,609
Accrued exploration and development	534,924	460,203
Accrued compensation and benefits	127,779	125,022
Accrued interest	30,878	32,564
Accrued income taxes	2,133	120,153

Current debt	1,802,094	274
Asset retirement obligation	376,713	93,557
Derivative instruments	70,128	256,115
United Kingdom Petroleum Revenue Tax		174,491
Other	151,523	142,978
	3,811,612	2,186,564
LONG-TERM DEBT	2,019,831	2,191,954
DEFERRED CREDITS AND OTHER NONCURRENT LIABILITIES:		
Income taxes	3,618,989	2,580,629
Advances from gas purchasers	43,167	68,768
Asset retirement obligation	1,370,853	1,362,358
Derivative instruments		152,430
Other	252,670	187,878
	5,285,679	4,352,063
COMMITMENTS AND CONTINGENCIES (Note 10) SHAREHOLDERS EQUITY:		
Preferred stock, no par value, 5,000,000 shares authorized Series B, 5.68% Cumulative Preferred Stock, 100,000 shares issued and outstanding	98,387	98,387
Common stock, $0.625 par, 430,000,000 shares authorized, 339,783,392 and 336,997,053 shares issued, respectively	212,365	210,623
Paid-in capital	4,269,795	4,170,714
Retained earnings	8,898,577	6,516,863
Treasury stock, at cost, 9,045,967 and 6,875,823 shares, respectively	(256,739)	(89,764)
Accumulated other comprehensive loss	(31,332)	(365,608)
	13,191,053	10,541,215
	$ 24,308,175	$ 19,271,796

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

APACHE CORPORATION AND SUBSIDIARIES

STATEMENT OF CONSOLIDATED SHAREHOLDERS EQUITY

	Comprehensive Income	Series B Preferred Stock	Common Stock	Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Tota Shareho Equit
				(In thousands)				
NCE AT MBER 31, 2003		$ 98,387	$ 207,818	$ 4,038,007	$ 2,445,698	$ (105,169)	$ (151,943)	$ 6,532
rehensive income								
come	$ 1,668,754				1,668,754			1,668
odity hedges, net me tax expense ,742	22,461						22,461	22
rehensive income	$ 1,691,215							
ividends: red					(5,680)			(5
on ($.28 per					(91,433)			(91
ercent common lividend								
on shares issued			1,502	25,030				26
ry shares issued,				8,312		7,844		16
ensation expense				34,462				34
				371				
NCE AT MBER 31, 2004		98,387	209,320	4,106,182	4,017,339	(97,325)	(129,482)	8,204
rehensive income								
come	$ 2,623,730				2,623,730			2,623
odity hedges, net me tax benefit of 90	(236,126)						(236,126)	(236
rehensive income	$ 2,387,604							
ividends: red					(5,680)			(5

on ($.36 per								
					(118,526)			(118
on shares issued			1,303	21,125				22
ry shares issued,								
				2,736		7,561		10
ensation expense				40,528				40
				143				
NCE AT								
MBER 31, 2005		98,387	210,623	4,170,714	6,516,863	(89,764)	(365,608)	10,541
rehensive income								
come	$ 2,552,451				2,552,451			2,552
tirement, net of								
e tax benefit of								
	(6,116)						(6,116)	(6
odity hedges, net								
me tax expense								
7,162	340,392						340,392	340
rehensive income	$ 2,886,727							
ividends:								
ed					(5,680)			(5
on ($.50 per								
					(165,059)			(165
on shares issued			1,742	54,917				56
ry shares								
sed, net				1,968		(166,967)		(164
ensation expense				42,085				42
				111	2	(8)		
NCE AT								
MBER 31, 2006		$ 98,387	$ 212,365	$ 4,269,795	$ 8,898,577	$ (256,739)	$ (31,332)	$ 13,191

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

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations Apache Corporation (Apache or the Company) is an independent energy company that explores for, develops and produces natural gas, crude oil and natural gas liquids. The Company s North American exploration and production activities are divided into two U.S. operating regions (Central and Gulf Coast) and a Canadian region. Approximately 66 percent of the Company s proved reserves are located in North America. Outside of North America, Apache has exploration and production interests in Egypt, offshore Western Australia, offshore the United Kingdom in the North Sea (North Sea) and Argentina.

The Company s future financial condition and results of operations will depend upon prices received for its oil and natural gas production and the costs of finding, acquiring, developing and producing reserves. The vast majority of the Company s production is sold under market-sensitive contracts. Prices for oil and natural gas are subject to fluctuations in response to changes in supply, market uncertainty and a variety of other factors beyond the Company s control. These factors include worldwide political instability (especially in the Middle East), the foreign supply of oil and natural gas, the price of foreign imports, the level of consumer demand, and the price and availability of alternative fuels.

Principles of Consolidation The accompanying consolidated financial statements include the accounts of Apache and its subsidiaries after elimination of intercompany balances and transactions. The Company consolidates all investments in which the Company, either through direct or indirect ownership, has more than a 50 percent voting interest. In addition, Apache consolidates all variable interest entities where it is the primary beneficiary. The Company s interests in oil and gas exploration and production ventures and partnerships are proportionately consolidated.

Cash Equivalents The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. These investments are carried at cost, which approximates fair value.

Allowance for Doubtful Accounts The Company routinely assesses the recoverability of all material trade and other receivables to determine their collectibility. Many of Apache s receivables are from joint interest owners on properties Apache operates. Thus, Apache may have the ability to withhold future revenue disbursements to recover any non-payment of joint interest billings. Generally, the Company s crude oil and natural gas receivables are collected within two months. Beginning in 2001, however, the Company experienced a gradual decline in the timeliness of receipts from the Egyptian General Petroleum Corporation (EGPC). Deteriorating economic conditions in Egypt lessened the availability of U.S. dollars, resulting in an additional one to two month delay in receipts from EGPC. During 2006, we experienced wide variability in the timing of cash receipts from EGPC. We have not established a reserve for these Egyptian receivables because we continue to get paid, albeit late, and we have no indication that we will not be able to collect our receivable.

The Company accrues a reserve on a receivable when, based on the judgment of management, it is probable that a receivable will not be collected and the amount of any reserve may be reasonably estimated. As of December 31, 2006 and 2005, the Company had an allowance for doubtful accounts of $23 million and $22 million, respectively.

Marketable Securities The Company accounts for investments in debt and equity securities in accordance with Statement of Financial Accounting Standards (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities. Investments in debt securities classified as held to maturity are recorded at amortized cost.

Investments in debt and equity securities classified as available for sale are recorded at fair value with unrealized gains and losses recognized in other comprehensive income, net of income taxes. The Company utilizes the average-cost method in computing realized gains and losses, which are included in Revenues and Other in the statements of consolidated operations.

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Inventories Inventories consist principally of tubular goods and production equipment, stated at the lower of weighted-average cost or market, and oil produced but not sold, stated at the lower of cost (a combination of production costs and depreciation, depletion and amortization (DD&A) expense) or market.

Property and Equipment The Company uses the full-cost method of accounting for its investment in oil and gas properties. Under this method, the Company capitalizes all acquisition, exploration and development costs incurred for the purpose of finding oil and gas reserves, including salaries, benefits and other internal costs directly attributable to these activities. Historically, total capitalized internal costs in any given year have not been material to total oil and gas costs capitalized in such year. Apache capitalized $146 million, $141 million and $107 million of these internal costs in 2006, 2005 and 2004, respectively. Costs associated with production and general corporate activities, however, are expensed in the period incurred. Interest costs related to unproved properties and properties under development are also capitalized to oil and gas properties. The Company also includes the present value of its dismantlement, restoration and abandonment costs within the capitalized oil and gas property balance (see Note 4, Asset Retirement Obligation). Unless a significant portion of the Company s proved reserve quantities in a particular country are sold (greater than 25 percent), proceeds from the sale of oil and gas properties are accounted for as a reduction to capitalized costs, and gains and losses are not recognized.

Apache computes the DD&A expense of oil and gas properties on a quarterly basis using the unit-of-production method based upon production and estimates of proved reserve quantities. The costs to be amortized include estimated future expenditures to be incurred in developing proved reserves as well as estimated dismantlement and abandonment costs, net of salvage value, that have not yet been capitalized as asset retirement costs. Unproved properties are excluded from the amortizable base until evaluated. The cost of exploratory dry wells is transferred to proved properties and thus subject to amortization immediately upon determination that a well is dry in those countries where proved reserves exist. If geological and geophysical (G&G) costs cannot be associated with specific properties, they are included in the amortization base as incurred.

In performing its quarterly ceiling test, the Company limits, on a country-by-country basis, the capitalized costs of proved oil and gas properties, net of accumulated DD&A and deferred income taxes, to the estimated future net cash flows from proved oil and gas reserves discounted at 10 percent, net of related tax effects, plus the lower of cost or fair value of unproved properties included in the costs being amortized. If capitalized costs exceed this limit, the excess is charged as additional DD&A expense. The Company calculates future net cash flows by applying end-of-the-period prices except in those instances where future natural gas or oil sales are covered by physical contract terms or by derivative contracts that qualify, and are accounted for, as cash flow hedges. Prior to 2007, Canadian provincial tax credits were included in the estimated future net cash flows. Effective January 1, 2007, the Alberta government eliminated the Royalty Tax program. The future cash flows associated with settling asset retirement obligations that have been accrued on the balance sheet are excluded from estimated future net cash flows. See Note 14, Supplemental Oil and Gas Disclosures (Unaudited) Future Net Cash Flows for a discussion on calculation of estimated future net cash flows.

Given the volatility of oil and gas prices, it is reasonably possible that the Company s estimate of discounted future net cash flows from proved oil and gas reserves could change in the near term. If oil and gas prices decline significantly, even if only for a short period of time, it is possible that write-downs of oil and gas properties could occur.

Unproved properties are assessed quarterly for possible impairments or reductions in value. If a reduction in value has occurred, the impairment is transferred to proved properties.

Buildings, equipment and gas gathering, transmission and processing facilities are depreciated on a straight-line basis over the estimated useful lives of the assets, which range from three to 20 years. Accumulated depreciation for these assets totaled $582 million and $467 million at December 31, 2006 and 2005, respectively.

Goodwill Goodwill totaled $189 million at December 31, 2006 and 2005, with approximately $103 million and $86 million recorded to the Canadian and Egyptian reporting units, respectively. Each geographic area was

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

assessed as a reporting unit. Goodwill of each reporting unit is tested for impairment on an annual basis, or more frequently if an event occurs or circumstances change that would reduce the fair value of the reporting unit below its carrying amount. No impairment of goodwill was recognized during 2006, 2005 or 2004.

Accounts Payable Included in accounts payable at December 31, 2006 and 2005, are liabilities of approximately $204 million and $125 million, respectively, representing the amount by which checks issued, but not presented to the Company s banks for collection, exceeded balances in applicable bank accounts.

Revenue Recognition Oil and gas revenues are recognized when production is sold to a purchaser at a fixed or determinable price, when delivery has occurred and title has transferred, and if collectibility of the revenue is probable. Cash received relating to future revenues is deferred and recognized when all revenue recognition criteria are met.

Apache uses the sales method of accounting for gas production imbalances. The volumes of gas sold may differ from the volumes to which Apache is entitled based on its interests in the properties. These differences create imbalances that are recognized as a liability only when the properties estimated remaining reserves net to Apache will not be sufficient to enable the underproduced owner to recoup its entitled share through production. The Company s recorded liability is reflected in other non-current liabilities. No receivables are recorded for those wells where Apache has taken less than its share of production. Gas imbalances are reflected as adjustments to proved gas reserves and future cash flows in the unaudited supplemental oil and gas disclosures.

The Company s Egyptian operations are conducted pursuant to production sharing contracts under which contractor partners pay all operating and capital costs for exploring and developing the concessions. A percentage of the production, usually up to 40 percent, is available to the contractor partners to recover all operating and capital costs. The balance of the production is split among the contractor partners and EGPC on a contractually defined basis.

Apache markets its own U.S. natural gas production. As the Company s production fluctuates because of operational issues, it is occasionally necessary for the Company to purchase gas (third-party gas) to fulfill its sales obligations and commitments. Both the costs and sales proceeds of this third-party gas are reported on a net basis in oil and gas production revenues. The costs of third-party gas netted against the related sales proceeds totaled $160 million, $158 million and $107 million, for 2006, 2005 and 2004, respectively.

Derivative Instruments and Hedging Activities Apache periodically enters into derivative contracts to manage its exposure to foreign currency risk and commodity price risk. These derivative contracts, which are generally placed with major financial institutions that the Company believes are minimal credit risks, may take the form of forward contracts, futures contracts, swaps or options. The oil and gas reference prices, upon which the commodity derivative contracts are based, reflect various market indices that have a high degree of historical correlation with actual prices received by the Company for its oil and gas production.

Apache accounts for its derivative instruments in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended. SFAS No. 133 establishes accounting and reporting standards requiring that all derivative instruments, other than those that meet the normal purchases and sales exception, be recorded on the balance sheet as either an asset or liability measured at fair value (which is generally based on information obtained from independent parties). SFAS No. 133 also requires that changes in fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Hedge accounting treatment allows unrealized

gains and losses on cash flow hedges to be deferred in other comprehensive income. Realized gains and losses from the Company s oil and gas cash flow hedges, including terminated contracts, are generally recognized in oil and gas production revenues when the forecasted transaction occurs. Realized gains and losses on foreign currency cash flow hedges are generally recognized in lease operating expense when the forecasted transaction occurs. Gains and losses from the change in fair value of derivative instruments that do not qualify for hedge accounting are reported in current period income as Other under Revenue and Other in the Statement of Consolidated Operations. If at any time the likelihood of occurrence of a hedged forecasted transaction ceases to be

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

probable, hedge accounting under SFAS No. 133 will cease on a prospective basis and all future changes in the fair value of the derivative will be recognized directly in earnings. Amounts recorded in other comprehensive income prior to the change in the likelihood of occurrence of the forecasted transaction will remain in other comprehensive income until such time as the forecasted transaction impacts earnings. If it becomes probable that the original forecasted production will not occur, then the derivative gain or loss would be reclassified from accumulated other comprehensive income into earnings immediately. Hedge effectiveness is measured at least quarterly based on the relative changes in fair value between the derivative contract and the hedged item over time, and any ineffectiveness is immediately reported under Revenues and Other in the statement of consolidated operations.

Income Taxes We record deferred tax assets and liabilities to account for the expected future tax consequences of events that have been recognized in our financial statements and our tax returns. We routinely assess the realizability of our deferred tax assets. If we conclude that it is more likely than not that some portion or all of the deferred tax assets will not be realized under accounting standards, the tax asset is reduced by a valuation allowance. We consider future taxable income in making such assessments. Numerous judgments and assumptions are inherent in the determination of future taxable income, including factors such as future operating conditions (particularly as related to prevailing oil and gas prices.)

Earnings from Apache s international operations are permanently reinvested; therefore, the Company does not recognize U.S. deferred taxes on the unremitted earnings of its international subsidiaries. If it becomes apparent that some or all of the unremitted earnings will be remitted, the Company would then reflect taxes on those earnings.

Foreign Currency Translation The U.S. dollar has been determined to be the functional currency for each of Apache s international operations. The functional currency is determined country-by-country based on relevant facts and circumstances of the cash flows, commodity pricing environment, and financing arrangements in each country.

The Company accounts for foreign currency gains and losses in accordance with SFAS No. 52 Foreign Currency Translation. Foreign currency translation gains and losses related to deferred taxes are recorded as a component of its provision for income taxes. The Company recorded a deferred tax benefit of $5 million in 2006 and $13 million and $58 million of additional deferred tax expense in 2005 and 2004, respectively (see Note 6, Income Taxes). All other foreign currency gains and losses are reflected included in Other under Revenues and Other in the Statement of Consolidated Operations. The Company s other foreign currency gains and losses as Other under Revenues and Other in the Statement of Consolidated Operations, netted to a loss of $15 million in 2006, a gain of $11 million in 2005 and a loss of $5 million in 2004.

Prior to October 1, 2002, the Company s Canadian subsidiaries functional currency was the Canadian dollar. Translation adjustments resulting from translating the Canadian subsidiaries financial statements into U.S. dollar equivalents were reported separately and accumulated in other comprehensive income. Currency translation adjustments held in other comprehensive income on the balance sheet will remain there indefinitely unless there is a substantially complete liquidation of the Company s Canadian operations.

Insurance Coverage The Company currently carries $400 million of property damage and business interruption coverage for windstorm losses in the Gulf of Mexico. Of this amount, $250 million is provided through Oil Insurance Limited (OIL) and is available on a per occurrence basis, but is subject to being prorated if total member claims for a single event exceed $500 million. The company also carries an additional $150 million of coverage for windstorm damage through the commercial market.

During the 2005 hurricane season, the Company utilized OIL to write physical damage insurance of $250 million per insurable event with a $7.5 million deductible. The available coverage was prorated for all members of the mutual, if the total claims for any one event exceeded $1 billion. Claims for damage caused by Hurricane Katrina exceeded the $1 billion limit, and the Company expects recoveries to be reduced by approximately 50 percent. Claims for damage caused by Hurricane Rita also exceeded the limitation, and the Company

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

expects recoveries to be reduced approximately 30 percent. The Company also carried a supplementary $100 million of physical damage insurance for which it is expecting full recovery. The Company also carried a $150 million of business interruption insurance through its commercial policy to cover deferred and lost oil and natural gas production revenues.

The Company collected $150 million of business interruption proceeds for Hurricanes Katrina and Rita through the end of 2006 and recorded $375 million for physical damage and removal of wreckage insurance claims, $42 million of which has been collected.

The Company recognizes an insurance receivable when collection of the receivable is deemed probable. Any recognition of an insurance receivable is recorded by crediting and offsetting the original charge. Any differential arising between insurance recoveries and insurance receivables is recorded as a capitalized cost or as an expense, consistent with its original treatment.

Net Income Per Common Share The Company s basic earnings per share (EPS) amounts have been computed based on the average number of shares of common stock outstanding for the period. Diluted EPS reflects the potential dilution, using the treasury stock method that could occur if options were exercised and if restricted stock were fully vested.

Diluted EPS also includes the impact of unvested Share Appreciation Plans. For awards in which the share price goals have already been achieved, shares are included in diluted EPS using the treasury stock method. For those awards in which the share price goals have not been achieved, the number of contingently issuable shares included in the diluted EPS is based on the number of shares, if any, using the treasury stock method, that would be issuable if the market price of the Company s stock at the end of the reporting period exceeded the share price goals under the terms of the plan.

Stock-Based Compensation On December 31, 2006, the Company had several stock-based employee compensation plans, which include Stock Option Plans, the Performance Plan, Share Appreciation Plans and restricted stock. These plans are defined and described more fully in Note 8, Capital Stock. The Company accounts for these plans under the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation, as amended and revised. Stock compensation awards granted are valued on the date of grant and are expensed on a straight-line basis over the required service period.

During the fourth quarter of 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123-R, a revision to SFAS No. 123, which requires all companies to expense stock-based compensation. The rule was effective for the first fiscal year that began after June 15, 2005. Apache early adopted this statement in 2004 electing to transition under the Modified Retrospective Approach as allowed under SFAS No. 123-R. Under this approach, the Company is required to expense all options and stock-based compensation that vested in the year of adoption based on the fair value of the stock compensation determined at the date of grant. Stock vesting in years prior to 2004 was expensed in accordance with the rules applied by the Company during such period. Had the Company not early adopted SFAS No. 123-R, 2004 net income would have been lower by $89 million ($56 million after tax), or $.17 per share on both a basic and diluted per share basis. Normally, net income would be negatively impacted by adopting SFAS No. 123-R. However, the Company s 2000 Share Appreciation Plan, which certain awards were triggered in 2004, has a fair-market-value-based expense recorded under the provisions of SFAS No. 123-R that is substantially less than the intrinsic-value base cost of approximately $175 million that would have been recorded under the

accounting rules of APB No. 25.

In addition to the expensing provisions discussed above, SFAS No. 123-R requires the Company to begin estimating expected future forfeitures under each stock compensation plan and to start valuing the Company s liability-based compensation plan (Stock Appreciation Rights) under a fair value approach instead of the previously applied intrinsic valuation. The effects of changing the forfeiture estimates on existing stock plans and the valuation methodology for the Company s liability plans resulted in Apache recording a Cumulative Effect of Change in Accounting Principle in 2004 totaling $2.1 million ($1.3 million after tax). SFAS No. 123-R also requires the

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow rather than as an operating cash flow, as historically reported. The Company classified $49 million, $27 million and $32 million as financing cash inflows in 2006, 2005 and 2004, respectively, that would have been classified as operating cash inflows had the Company not adopted the Statement.

Use of Estimates Preparation of financial statements in conformity with accounting principles generally accepted in the U.S., requires management to make estimates and assumptions that affect; the reported amounts of assets and liabilities, related disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Certain accounting policies involve judgments and uncertainties to such an extent that there is reasonable likelihood that materially different amounts could have been reported under different conditions, or if different assumptions had been used. Apache evaluates its estimates and assumptions on a regular basis. The Company bases its estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates and assumptions used in preparation of its financial statements. Significant estimates with regard to these financial statements include the estimate of proved oil and gas reserve quantities and the related present value of estimated future net cash flows therefrom. See Note 13 Supplemental Oil and Gas Disclosure (Unaudited).

Treasury Stock The Company follows the weighted-average-cost method of accounting for treasury stock transactions.

Impact of Recently Issued Accounting Standards In July 2006, the FASB issued FASB Interpretation No. 48 (FIN No. 48). FIN No. 48 clarifies the accounting for income taxes, by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN No. 48 also provides guidance on derecognizing, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. The Company will adopt FIN No. 48 as of January 1, 2007, as required. The cumulative effect of adopting FIN No. 48 will be recorded as a change to opening retained earnings in the first quarter of 2007. Management currently estimates that, upon adoption, a cumulative adjustment of less than $50 million will be charged to retained earnings to increase reserves for uncertain tax positions. This estimate is subject to revision as management completes its analysis.

In September 2006, the FASB issued SFAS No. 157 Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is continuing to assess the potential impacts this statement might have on Apache s Consolidated Financial Statements and related footnotes.

Also in September 2006, the FASB issued SFAS No. 158 Employers Accounting for Defined Benefit Plans and Other Postretirement Plans. The statement requires employers to recognize any over-funded or under-funded status of a defined benefit postretirement plan as an asset or liability in their Consolidated Financial Statements. Unrealized components of net periodic benefit costs are reflected in other comprehensive income, net of tax. SFAS No. 158 requires recognition of the funded status and related disclosures as of the end of the fiscal year ending after December 15, 2006. At yearend, the Company recorded an adjustment to accumulated other comprehensive income in Shareholders Equity of $10.6 million ($6.1 million after tax). The adjustment reflects the recognition of the Company s

unfunded status for both the Company s pension plan and post retirement benefit plan. Refer to Note 10, Commitments and Contingencies for additional disclosures.

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

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. ACQUISITIONS AND DIVESTITURES

2006 Acquisitions

U.S. Permian Basin

On January 5, 2006, the Company purchased Amerada Hess s interest in eight fields located in the Permian basin of West Texas and New Mexico. The original purchase price was reduced from $404 million to $269 million because other interest owners exercised their preferential rights on a number of the properties. The settlement price on the date of closing of $239 million was adjusted primarily for revenues and expenditures occurring between the closing date and the effective date of the acquisition. Apache estimates that these fields had proved reserves of 27 MMbbls of liquid hydrocarbons and 27 Bcf of natural gas as of yearend 2005.

Argentina

On April 25, 2006, the Company acquired the operations of Pioneer National Resources (Pioneer) in Argentina for $675 million. The settlement price at closing, of $703 million, was adjusted for revenues and expenditures occurring between the effective date and closing date of the acquisition. The properties are located in the Neuquén, San Jorge and Austral basins of Argentina and had estimated net proved reserves of approximately 22 MMbbls of liquid hydrocarbons and 297 Bcf of natural gas as of December 31, 2005. Eight gas processing plants (five operated and three non-operated), 112 miles of operated pipelines in the Neuquén basin and 2,200 square miles of three-dimensional (3-D) seismic data are also included in the transaction. Apache financed the purchase with cash on hand and commercial paper.

The purchase price was allocated to the assets acquired and liabilities assumed based upon the estimated fair values as of the date of acquisition, as follows (in thousands):

Proved property	$ 501,938
Unproved property	189,500
Gas Plants	51,200
Working capital acquired, net	11,256
Asset retirement obligation	(13,635)
Deferred income tax liability	(37,630)
Cash consideration	$ 702,629

On September 19, 2006, Apache acquired additional interests in (and now operates) seven concessions in the Tierra del Fuego Province from Pan American Fueguina S.R.L. (Pan American) for total consideration of $429 million. The settlement price at closing of $396 million was adjusted for normal closing items, including revenues and expenses between the effective date and the closing date of the acquisition. Apache financed the purchase with cash on hand and commercial paper.

The total cash consideration allocated below includes working capital balances purchased, asset retirement obligations assumed and an obligation to deliver specific gas volumes in the future. The purchase price was

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

allocated to the assets acquired and liabilities assumed based upon the estimated fair values as of the date of acquisition, as follows (in thousands):

Proved property	$ 289,916
Unproved property	132,000
Gas plants	12,722
Working capital acquired, net	8,929
Asset retirement obligation	(1,511)
Assumed obligation	(46,000)
Cash consideration	$ 396,056

Offshore Gulf of Mexico

On June 21, 2006, the Company completed its acquisition of the remaining producing properties of BP plc (BP) on the Outer Continental Shelf of the Gulf of Mexico. The original purchase price was reduced from $1.3 billion to $845 million because other interest owners exercised their preferential rights to purchase five of the original 18 producing fields. The settlement price on the date of closing of $821 million was adjusted primarily for revenues and expenditures occurring between the closing date and the effective date of the acquisition. The effective date of the purchase was April 1, 2006. The properties include 13 producing fields (nine of which are operated) with estimated proved reserves of 19.5 MMbbls of liquid hydrocarbons and 148 Bcf of natural gas. Apache financed the purchase with cash on hand and commercial paper.

Pending Acquisition U.S. Permian Basin

On January 18, 2007, the Company announced that it is acquiring controlling interest in 28 oil and gas fields in the Permian basin of West Texas from Anadarko Petroleum Corporation (Anadarko) for $1 billion. Apache estimates that these fields had proved reserves of 57 million barrels (MMbbls) of liquid hydrocarbons and 78 billion cubic feet (Bcf) of natural gas as of yearend 2006. The transaction will be effective the earlier of closing or March 31, 2007. Approximately 10 percent of the Permian basin properties are subject to third-party preferential purchase rights which, if exercised, would reduce the interests we purchase in those properties and the purchase price we would pay. The Company intends to fund the acquisition with debt. Apache and Anadarko are entering into a joint-venture arrangement to effect the transaction. In connection with the acquisition, the Company entered into cash flow hedges to protect against commodity price volatility. For the period of July 2007 through June 2010, the Company entered into hedges for a portion of both the oil and the natural gas with NYMEX based costless collars.

2005 Acquisitions

In May, 2005, Apache signed a farm-in agreement with Exxon Mobil Corporation (ExxonMobil) covering approximately 650,000 acres of undeveloped properties in the Western Canadian province of Alberta. Under the agreement, Apache has the right to earn acreage sections by drilling an initial well on each such section. ExxonMobil will retain a royalty on fee lands and a working interest on leasehold acreage. The agreement also allows Apache to

test additional horizons on approximately 140,000 acres of property covered in a 2004 farm-in agreement with ExxonMobil.

2004 Acquisitions

During the third quarter of 2004, Apache entered into separate arrangements with ExxonMobil that provided for property transfers and joint operating and exploration activity across a broad range of prospective and mature

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

properties in (1) Western Canada, (2) West Texas and New Mexico, and (3) onshore Louisiana and the Gulf of Mexico-Outer Continental Shelf. Apache s participation included cash payments of approximately $347 million, subject to normal post closing adjustments. The following details these transactions:

Western Canada. In August 2004, Apache signed a farm-in agreement with ExxonMobil covering approximately 380,000 gross acres of undeveloped properties in the Western Canadian Province of Alberta. Under the agreement, Apache has the right to earn acreage sections by drilling an initial well on each such section. By drilling at least 250 wells during the initial two-year earning period under the agreement, Apache received a one-year extension in which to earn additional sections. As to any sections earned by Apache, ExxonMobil will retain a royalty on fee lands and a working interest on leasehold acreage, both of which will vary dependent on activity levels. The agreement also allows Apache to test additional horizons on approximately 140,000 acres of property covered in a 2004 farm-in agreement with ExxonMobil. In addition, during the term of this agreement, Apache is required to carry ExxonMobil s retained working interest with respect to certain drilling, capping, completion, equipping and tie-in costs associated with wells drilled on leasehold acreage.

West Texas and New Mexico. In September 2004, Apache acquired interests from ExxonMobil in 23 mature producing oil and gas fields in West Texas and New Mexico for $318 million. Apache separately contributed approximately $29 million into a partnership to obtain additional interests in the properties. ExxonMobil will retain interests in the properties through the partnership, including the right to receive, on certain fields, 60 percent of the oil proceeds above $30 per barrel in 2004, $29 per barrel in 2005 and $28 per barrel during the period from 2006 thru 2009.

The partnership is subject to the provisions of FASB Interpretation No. 46 variable interest entities (FIN No. 46). Apache has concluded that it is not the primary beneficiary of the partnership as defined in that interpretation and will proportionately consolidate its partnership portion of the oil and gas properties. Under the partnership agreement, the Company s subsidiaries are also subject to environmental and legal claims that could arise in the ordinary course of business. Apache is operating the oil and gas properties under contract for the partnership.

Louisiana and Gulf of Mexico-Outer Continental Shelf. In September 2004, Apache and ExxonMobil entered into joint exploration agreements to explore Apache s acreage in South Louisiana and the Gulf of Mexico-Outer Continental Shelf. The agreements provide for an initial term of five years, with the potential for an additional five years based on expenditures by ExxonMobil. Pursuant to the agreement covering South Louisiana, Apache leased 50 percent of its interests below certain producing or productive formations in the acreage to ExxonMobil, subject to retention of a 20 percent royalty interest. Pursuant to the agreement covering the Gulf of Mexico-Outer Continental Shelf, no assignments will be made until a prospect has been proposed and the initial well has been drilled. Apache will retain all rights in each prospect above certain producing or productive formations and further will retain a three percent overriding royalty interest in any property assigned to ExxonMobil.

Gulf of Mexico Outer Continental Shelf. On August 20, 2004, Apache signed a definitive agreement to acquire all of Anadarko s Gulf of Mexico-Outer Continental Shelf properties (excluding certain deepwater properties) for $537 million, subject to normal post-closing adjustments, including preferential rights. The transaction was effective as of October 1, 2004, and included interests in 74 fields covering 232 offshore blocks (approximately 664,000 acres) and 104 platforms. Eighty-nine of the blocks were undeveloped at the time of the acquisition. Apache operates 49 of the fields with approximately 70 percent of the production.

Prior to Apache s purchase from Anadarko, Morgan Stanley Capital Group, Inc. (Morgan Stanley) paid Anadarko $646 million to acquire an overriding royalty interest in these properties. Anadarko s sale of an overriding royalty interest to Morgan Stanley is commonly known in the industry as a volumetric production payment (VPP), the obligations of which Apache assumed along with its purchase. Under the terms of the VPP, Morgan Stanley is to receive a fixed volume of oil and natural gas production (20 MMboe) over four years beginning in October 2004. The VPP represents a non-operating interest that is free of costs incurred for operations

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

and production. Morgan Stanley is entitled to first production and may receive up to 90 percent of the production from the assets encumbered by the VPP, but Morgan Stanley may look only to the acquired properties for delivery of the scheduled volumes. The VPP is scheduled to terminate on August 31, 2008, but may be extended if all scheduled VPP volumes have not been delivered to Morgan Stanley and the properties are still producing. The VPP includes restrictions on the Company s ability to sell the properties subject to the VPP or resign as operator of VPP properties it currently operates. Upon termination of the VPP, all rights, titles and interests revert back to Apache. The Company does not record the reserves and production volumes attributable to the VPP.

The $537 million purchase price agreed to in the definitive agreement was subsequently adjusted for the exercise of preferential rights by third parties and other normal post-closing adjustments. After adjusting for these items, Apache paid $532 million for the properties and recorded estimated proved reserves of 60 MMboe, of which 50 percent was natural gas. In addition, an $84 million liability for the future cost to produce and deliver the VPP volumes was recorded by the Company. This liability will be settled through a reduction of lease operating expenses as the volumes are produced and delivered to Morgan Stanley. Apache also recorded abandonment obligations for the properties of approximately $134 million and other obligations assumed from Anadarko in the amount of $27 million. Apache allocated $122 million of the purchase price to unproved property. The purchase price was funded by borrowings under the Company s lines of credit and commercial paper program.

Divestitures

On August 8, 2006, the Company completed the sale of its 24.5 percent interest in the Zhao Dong block offshore, the People s Republic of China, to Australia-based ROC Oil Company Limited for $260 million, marking Apache s exit from China. The effective date of the transaction was July 1, 2006, and the Company booked a gain of $174 million in the third quarter.

On January 6, 2006, the Company completed the sale of its 55 percent interest in the deepwater section of Egypt s West Mediterranean Concession to Amerada Hess for $413 million. Proceeds from the sale were accounted for as a reduction of capitalized costs. Apache did not have any proved reserves booked for these properties.

3. HEDGING AND DERIVATIVE INSTRUMENTS

Apache uses a variety of strategies to manage its exposure to fluctuations in crude oil and natural gas commodity prices. The Company s hedging policy allows management to enter into hedges in connection with investments such as acquisitions. The success of an acquisition is significantly influenced by the Company s ability to achieve targeted production at forecasted prices and commodity hedges effectively reduce price risk on a portion of the acquired production. During the third quarter of 2006, the Company s Board of Directors authorized management to enter into derivative contracts on a portion of production generated from the 2006 drilling program. Hedge positions entered into for the drilling program were designed to protect the underlying investment economics of the program.

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of December 31, 2006, the total outstanding positions of Apache s natural gas and crude oil cash flow hedges were as follows:

Costless Collars Production Period	Instrument Type	Total Volumes (MMBtu/Bbl/GJ)		Floor Price Range		Ceiling Price Range		Weighted Average Floor/Ceiling	Fair Value Asset/(Liabilit (In thousands)
007	Gas Collars (NYMEX)	53,770,000	MMBtu	$ 5.25	8.65	$ 5.85	11.00	$ 6.96 / 8.69	$ 30,588
	Gas Collars (PEPL)	23,725,000	MMBtu	$ 6.85	7.00	$ 9.52	10.15	$ 6.88 / 9.67	$ 26,929
	Gas Collars (AECO)	3,650,000	GJ	$ 6.24	6.24	$ 8.15	8.15	$ 6.24 / 8.15	$ 3,004
	Oil Collars (NYMEX)	6,473,500	Bbl	$ 33.00	75.00	$ 39.25	85.00	$ 59.78 / 70.62	$ (12,102)
008	Gas Collars (NYMEX)	25,620,000	MMBtu	$ 7.50	8.15	$ 10.47	10.80	$ 7.96 / 10.56	$ 14,236
	Gas Collars (PEPL)	23,790,000	MMbtu	$ 6.90	7.00	$ 9.55	10.05	$ 6.91 / 9.74	$ 13,251
	Gas Collars (AECO)	3,660,000	GJ	$ 6.24	6.24	$ 8.13	8.13	$ 6.24 / 8.13	$ 674
	Oil Collars (NYMEX)	4,575,000	Bbl	$ 69.00	69.00	$ 79.65	81.50	$ 69.00 / 80.39	$ 22,213

Fixed Price Swaps Production Period	Instrument Type	Total Volumes (MMBtu/Bbl)	Fixed Price Range		Average Fixed Price	Fair Value Asset/(Liability) (In thousands)
2007	Gas Fixed Price Swap	1,761,000	$ 5.46	5.71	$ 5.57	$ (1,722)
	Oil Fixed Price Swap	4,458,000	$ 36.78	73.26	$ 70.29	$ 22,931
2008	Oil Fixed Price Swap	4,392,000	$ 66.85	70.90	$ 69.21	$ 7,131

U.S. natural gas and crude oil prices in the above table are settled against the NYMEX index, except for 23,725,000 MMBtu and 23,790,000 MMBtu of gas collars in 2007 and 2008, respectively, which are settled against

the Panhandle Eastern Pipe-Line index. These hedges are valued using actively quoted prices and quotes obtained from reputable third-party financial institutions. The above prices represent a weighted average of several contracts entered into on a per million British thermal units (MMBtu), per gigajoule (GJ) or per barrel (Bbl) basis for gas and oil derivatives.

The Canadian natural gas prices shown in the above table are converted to U.S. dollars utilizing December 31, 2006 exchange rates. They are settled against the AECO Index, and valued using actively quoted prices and quotes obtained from reputable third-party financial institutions.

A reconciliation of the components of accumulated other comprehensive income (loss) in the Statement of Consolidated Shareholders Equity related to Apache s commodity derivative activity is presented in the table below:

	Gross	After Tax
	(In thousands)	
Unrealized gain (loss) on derivatives at December 31, 2005	$ (398,229)	$ (256,858)
Net losses realized into earnings	133,653	86,206
Net change in derivative fair value	393,901	254,186
Unrealized gain (loss) on derivatives at December 31, 2006	$ 129,325	$ 83,534

Differences between the fair values and the unrealized loss on derivatives before income taxes recognized in accumulated other comprehensive income (loss) are primarily related to premiums, recognition of unrealized gains and losses on certain derivatives that did not qualify for hedge accounting and hedge ineffectiveness. Based on applicable market prices as of yearend 2006, the Company recorded an unrealized gain in other comprehensive income (loss) of $129 million ($84 million after tax), representing oil and gas derivative hedges. Any gain or loss will be realized in future earnings contemporaneously with the related sales of natural gas and crude oil production applicable to specific hedges. Approximately $72 million ($46 million after tax) of the $129 million unrealized as of December 31, 2006, applies to the next 12 months. However, these amounts are likely to vary materially as a

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

result of changes in market conditions. The contracts designated as hedges qualified and continue to qualify for hedge accounting in accordance with SFAS No. 133, as amended.

4. ASSET RETIREMENT OBLIGATION

Asset retirement obligations (ARO), associated with retiring tangible long-lived assets, are recognized as a liability in the period in which a legal obligation is incurred and becomes determinable. This liability is offset by a corresponding increase in the carrying amount of the underlying asset. The cost of the tangible asset, including the initially recognized ARO, is depleted such that the cost of the ARO is recognized over the useful life of the asset. The ARO is recorded at fair value, and accretion expense is recognized over time as the discounted liability is accreted to its expected settlement value. The fair value of ARO is measured using expected future cash outflows discounted at the company s credit-adjusted risk-free interest rate.

Inherent in the fair value calculation of ARO are numerous assumptions and judgments including the ultimate settlement amounts, inflation factors, credit adjusted discount rates, timing of settlement, and changes in legal, regulatory, environmental and political environments. To the extent future revisions to these assumptions impact the fair value of the existing ARO liability, a corresponding adjustment is made to the asset balance.

The following table is a reconciliation of the asset retirement obligation liability:

	2006	2005
	(In thousands)	
Asset retirement obligation at beginning of period	$ 1,455,915	$ 932,004
Liabilities incurred	298,899	87,794
Liabilities settled	(306,945)	(84,445)
Accretion expense	88,931	53,720
Revisions in estimated liabilities	210,766	466,842
Asset retirement obligation as of December 31,	$ 1,747,566	$ 1,455,915

The majority of Apache s asset retirement obligations relate to plugging and abandonment of oil and gas properties. The Company records an abandonment liability associated with its oil and gas wells, facilities and platforms when those assets are placed in service or acquired, which for 2006 and 2005 is reflected above in liabilities incurred. Liabilities settled relate to individual properties plugged and abandoned or sold during the period.

Revisions to the estimated liability normally result from annual reassessments of the expected cash outflows and assumptions inherent in the ARO calculation. However, during the third quarter of 2005, nine of the Company s offshore platforms in the Gulf of Mexico were toppled, two platforms were severely damaged and 12 non-operated structures were destroyed by Hurricanes Katrina and Rita. Upon completing an assessment of hurricane related costs during the fourth quarter 2005, the Company increased its discounted ARO liability on the affected properties to $492 million. The revision reflects increased costs and acceleration in expected timing to abandon the platforms.

During 2006, the Company increased its estimate another $232 million for hurricane related abandonment. The ultimate costs to abandon the affected platforms and properties will continue to be revised as more complete information surrounding the damage, timing and cost estimates is obtained from third parties and from actual costs incurred.

As of December 31, 2006, approximately $377 million of the estimated abandonment costs was classified as a current liability.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. DEBT

	December 31,	
	2006	**2005**
	(In thousands)	
Apache:		
Money market lines of credit	$ 10,500	$
Commercial paper	1,560,000	
6.25-percent debentures due 2012, net of discount	398,270	398,006
7-percent notes due 2018, net of discount	148,713	148,639
7.625-percent notes due 2019, net of discount	149,256	149,222
7.7-percent notes due 2026, net of discount	99,684	99,678
7.95-percent notes due 2026, net of discount	178,710	178,683
7.375-percent debentures due 2047, net of discount	148,035	148,028
7.625-percent debentures due 2096, net of discount	149,176	149,175
	2,842,344	1,271,431
Subsidiary and other obligations:		
Argentina money market lines of credit	58,757	
Fletcher notes	4,252	4,526
Apache Finance Australia 6.5-percent notes due 2007, net of discount	169,837	169,678
Apache Finance Australia 7-percent notes due 2009, net of discount	99,809	99,733
Apache Finance Canada 4.375-percent notes due 2015, net of discount	349,756	349,732
Apache Finance Canada 7.75-percent notes due 2029, net of discount	297,170	297,128
	979,581	920,797
Total debt	3,821,925	2,192,228
Less: current maturities	(1,802,094)	(274)
Long-term debt	$ 2,019,831	$ 2,191,954

In May 2006, the Company amended its existing five-year revolving U.S. credit facility which was scheduled to mature on May 28, 2009. The amendment: (a) extended the maturity to May 28, 2011, (b) increased the size of the facility from $750 million to $1.5 billion, and (c) reduced the facility fees from .08 percent to .06 percent and reduced the margin over LIBOR on loans from .27 percent to .19 percent. The lenders also extended the maturity dates of the $150 million Canadian facility, the $150 million Australian facility and $385 million of the $450 million U.S. credit facility, for an additional year to May 12, 2011 from May 12, 2010. The Company also increased commercial paper availability to $1.95 billion from $1.20 billion.

By year end 2006, the Company extended the maturity of another $50 million of commitments under the $450 million U.S. credit facility for an additional year. As a result, $435 million will mature on May 12, 2011, and $15 million will mature on May 12, 2010.

As detailed above, the Company currently has $2.25 billion of syndicated bank credit facilities. The financial covenants of the credit facilities require the Company to maintain a debt-to-capitalization ratio of not greater than 60 percent at the end of any fiscal quarter. The negative covenants include restrictions on the Company s ability to create liens and security interests on our assets, with exceptions for liens typically arising in the oil and gas industry, purchase money liens and liens arising as a matter of law, such as tax and mechanics liens. The Company may incur

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

liens on assets located in the U.S., Canada and Australia of up to five percent of the Company s consolidated assets, which approximated $1.2 billion as of December 31, 2006. There are no restrictions on incurring liens in countries other than the U.S., Canada and Australia. There are also restrictions on Apache s ability to merge with another entity, unless the Company is the surviving entity, and a restriction on our ability to guarantee debt of entities not within our consolidated group.

There are no clauses in the facilities that permit the lenders to accelerate payments or refuse to lend based on unspecified material adverse changes (MAC clauses). The credit facility agreements do not have drawdown restrictions or prepayment obligations in the event of a decline in credit ratings. However, the agreements allow the lenders to accelerate payments and terminate lending commitments if Apache Corporation, or any of its U.S., Canadian and Australian subsidiaries, defaults on any direct payment obligation in excess of $100 million or has any unpaid, non-appealable judgment against it in excess of $100 million. The Company was in compliance with the terms of the credit facilities as of December 31, 2006. The Company s debt-to-capitalization ratio as of December 31, 2006 was 22 percent.

At the Company s option, the interest rate for the facilities is based on (i) the greater of (a) The JP Morgan Chase Bank prime rate or (b) the federal funds rate plus one-half of one percent or (ii) the London Inter-bank Offered Rate (LIBOR) plus a margin determined by the Company s senior long-term debt rating. The $1.5 billion and the $450 million credit facilities (U.S. credit facilities) also allow the Company to borrow under competitive auctions.

At December 31, 2006, the margin over LIBOR for committed loans was .19 percent on the $1.5 billion facility and .23 percent on the other three facilities. If the total amount of the loans borrowed under the $1.5 billion facility equals or exceeds 50 percent of the total facility commitments, then an additional .05 percent will be added to the margins over LIBOR. If the total amount of the loans borrowed under all of the other three facilities equals or exceeds 50 percent of the total facility commitments, then an additional .10 percent will be added to the margins over LIBOR. The Company also pays quarterly facility fees of .06 percent on the total amount of the $1.5 billion facility and .07 percent on the total amount of the other three facilities. The facility fees vary based upon the Company s senior long-term debt rating. The U.S. credit facilities are used to support Apache s commercial paper program. The available borrowing capacity under the credit facilities at December 31, 2006 was $690 million.

The Company has certain uncommitted money market lines of credit which are used from time to time for working capital purposes. As of December 31, 2006, $58.8 million was drawn on facilities in Argentina and $10.5 million was drawn on these facilities.

The Company has a $1.95 billion commercial paper program which enables Apache to borrow funds for up to 270 days at competitive interest rates. As of December 31, 2006, the Company has issued $1.56 billion in commercial paper. The weighted-average interest rate for commercial paper was 5.15 percent in 2006 and 3.03 percent in 2005.

On May 15, 2003, Apache Finance Canada Corporation (Apache Finance Canada) issued $350 million of 4.375 percent, 12-year, senior unsecured notes in a private placement. On March 4, 2004, the Company completed an exchange offer with the holders of the notes, issuing publicly traded, registered notes of the same principal amount and with the same interest rates, payment terms and maturity. The notes are irrevocably and unconditionally guaranteed by Apache and are redeemable, as a whole or in part, at Apache Finance Canada s option, subject to a make-whole premium. Interest is payable semi-annually on May 15 and November 15 of each year, commencing on November 15, 2003. The proceeds of the original note offering were used to reduce bank debt and outstanding

commercial paper and for general corporate purposes.

The Company does not have the right to redeem any of its notes or debentures (other than the Apache Corporation 6.25-percent notes due April 15, 2012, the Apache Finance Australia 6.5-percent notes due 2007 and the Apache Finance Canada 4.375-percent notes due 2015) prior to maturity. Under certain conditions, the

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Company has the right to advance maturity on the 7.7-percent notes, 7.95-percent notes, 7.375-percent debentures and 7.625-percent debentures.

The notes issued by Apache Finance Pty Ltd (Apache Finance Australia) and Apache Finance Canada are irrevocably and unconditionally guaranteed by Apache and, in the case of Apache Finance Australia, by Apache North America, Inc., an indirect wholly-owned subsidiary of the Company. Under certain conditions related to changes in relevant tax laws, Apache Finance Australia and Apache Finance Canada have the right to redeem the notes prior to maturity. The Apache Finance Australia 6.5-percent notes and the Apache Finance Canada 4.375-percent notes may be redeemed at the Company s option subject to a make-whole premium (see Note 15 Supplemental Guarantor Information).

The $12 million of discounts on the Company s debt as of December 31, 2006, is amortized over the life of the debt issuances as additional interest expense.

As of December 31, 2006 and 2005, the Company had approximately $21 million and $18 million, respectively, of unamortized deferred loan costs associated with its various debt obligations. These costs are included in deferred charges and other in the accompanying consolidated balance sheet and are being amortized to expense over the life of the related debt.

The indentures for the notes described above place certain restrictions on the Company, including limits on Apache s ability to incur debt secured by certain liens and its ability to enter into certain sale and leaseback transactions. Upon certain change in control, all of these debt instruments would be subject to mandatory repurchase, at the option of the holders.

Aggregate Maturities of Debt

	(In thousands)
2007	$ 1,802,094
2008	353
2009	99,809
2010	
2011	
Thereafter	1,919,669
	$ 3,821,925

The debt maturing in 2007 consists of $1.6 billion of commercial paper that was subsequently reduced with $1.5 million of long-term debt issued in January 2007, and $170 million of Apache Finance Australia 6.5-percent notes and various money market lines of credit in Argentina and the U.S. The $1.6 billion of commercial paper is fully supported by available borrowing capacity under U.S. committed credit facilities which expire in 2011.

The Company made cash payments for interest, net of amounts capitalized totaling $150 million in 2006 and $107 million in both 2005 and 2004.

Subsequent Debt

On January 26, 2007, the Company issued $500 million principal amount, $499.5 million net of discount, of senior unsecured 5.625-percent notes maturing January 15, 2017. The Company also issued $1.0 billion principal amount, $993 million net of discount, of senior unsecured 6.0-percent notes maturing January 15, 2037. The notes are redeemable, as a whole or in part, at Apache s option, subject to a make-whole premium. The proceeds were used to repay a portion of the Company s outstanding commercial paper and for general corporate purposes.

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. INCOME TAXES

Income before income taxes is composed of the following:

	For the Year Ended December 31,		
	2006	2005	2004
	(In thousands)		
United States	$ 1,265,915	$ 1,502,467	$ 1,120,906
Foreign	2,743,680	2,703,787	1,542,177
Total	$ 4,009,595	$ 4,206,254	$ 2,663,083

The total provision for income taxes consists of the following:

	For the Year Ended December 31,		
	2006	2005	2004
	(In thousands)		
Current taxes:			
Federal	$ 65,068	$ 291,604	$ 145,164
State	7,106	(2,424)	4,330
Foreign	633,513	694,417	398,612
Deferred taxes	751,457	598,927	444,906
Total	$ 1,457,144	$ 1,582,524	$ 993,012

A reconciliation of the U.S. federal statutory income tax amounts to the effective amounts is shown below:

	For the Year Ended December 31,		
	2006	2005	2004
	(In thousands)		
Statutory income tax	$ 1,403,358	$ 1,472,189	$ 932,079
State income tax, less federal benefit	24,191	12,579	28,023
Taxes related to foreign operations	131,370	147,059	86,263
Realized tax basis in investment	(4,387)	(9,282)	(16,923)
Canadian tax rate reduction	(161,073)	(28,611)	(31,350)

United Kingdom tax rate increase	63,395		
Current and deferred taxes related to currency fluctuations	(4,891)	13,332	58,049
Domestic benefit from tax law change	(2,644)	(9,853)	
Australian consolidation benefit from tax law change		(9,649)	(50,713)
Benefit of previously unrecognized Canadian losses			(18,226)
All other, net	7,825	(5,240)	5,810
	$ 1,457,144	$ 1,582,524	$ 993,012

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The net deferred tax liability is comprised of the following:

	December 31,	
	2006	2005
	(In thousands)	
Deferred tax assets:		
Deferred income	$ (5,578)	$ (5,968)
State net operating loss carryforwards	(9,475)	(13,439)
Foreign net operating loss carryforwards	(27,818)	(6,154)
Tax credits	(18,828)	
Accrued expenses and liabilities	(31,644)	(5,773)
Other	(1,528)	(9,492)
Total deferred tax assets	(94,871)	(40,826)
Valuation allowance		
Net deferred tax assets	(94,871)	(40,826)
Deferred tax liabilities:		
Other deferred tax liabilities	9,419	
Depreciation, depletion and amortization	3,618,989	2,621,455
Total deferred tax liabilities	3,628,408	2,621,455
Net deferred income tax liability	$ 3,533,537	$ 2,580,629

Approximately $32 million of the net deferred tax assets is classified as current. The December 31, 2006, $9 million of Other deferred tax liabilities is classified as current.

The Company has not recorded deferred income taxes on the undistributed earnings of its foreign subsidiaries as management intends to permanently reinvest such earnings. As of December 31, 2006, the undistributed earnings of the foreign subsidiaries amounted to approximately $10.2 billion. Upon distribution of these earnings in the form of dividends or otherwise, the Company may be subject to U.S. income taxes and foreign withholding taxes. It is not practical, however, to estimate the amount of taxes that may be payable on the eventual remittance of these earnings after consideration of available foreign tax credits. Presently, limited foreign tax credits are available to reduce the U.S. taxes on such amounts if repatriated.

At December 31, 2006, the Company had state net operating loss carryforwards of $192 million and foreign net operating loss carryforwards of $6 million in Canada and $28 million in Argentina. The Company also had $41 million of corporate income tax net operating loss carryforwards and $19 million of supplemental tax net operating loss carryforwards in the U.K. The state net operating losses will expire over the next 20 years, if they are

not otherwise utilized. The foreign net operating loss in Canada has a seven-year carryover period, while the Argentina net operating loss has a five-year carryover period. The net operating losses in the U.K. have an indefinite carryover period.

The Company s tax return filings are subject to review by various taxing authorities in the jurisdictions in which the Company operates. Currently, the Company is under audit by the U.S. Internal Revenue Service (IRS) for the 2002 through 2005 income tax years. The Company is in administrative appeals with the IRS regarding the 2002 and 2003 tax years and is in the process of responding to normal requests for information in respect of the Federal income tax returns for 2004 and 2005. The Company believes that it has adequately provided for income taxes and any related interest which may become payable in future years. However, the resolution of unagreed tax issues in the Company s open tax years cannot be predicted with absolute certainty and differences may occur.

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table provides information related to cash payments for income taxes, net of refunds.

	For the Year Ended December 31,		
	2006	2005	2004
	(In thousands)		
Cash payments for income taxes, net of refunds	$ 828,000	$ 977,000	$ 466,000

For the year ended December 31, 2006, approximately 99 percent of the cash payments for income taxes was related to the 2006 tax year, while for the year ended December 31, 2005, approximately 92 percent was related to the 2005 tax year and for the year ended December 31, 2004, 99 percent was related to the 2004 tax year.

7. ADVANCES FROM GAS PURCHASERS

Advances from gas purchasers represent cash received by Apache prior to 2000 for future natural gas deliveries. It also includes cash received in 2001 upon the termination of gas price swaps related to these future deliveries. These proceeds will be recognized in monthly sales based on the portion of the proceeds applicable to each production month over the remaining life of the contracts. On December 31, 2006 and 2005, advances of $43 million and $69 million, respectively, were outstanding.

8. CAPITAL STOCK

Common Stock Outstanding

	2006	2005	2004
Balance, beginning of year	330,121,230	327,457,503	324,497,176
Treasury shares issued (acquired), net	(2,170,144)	579,179	66,080
Shares issued for:			
Stock-based compensation plans	2,786,339	2,084,548	2,897,327
Fractional shares repurchased			(3,080)
Balance, end of year	330,737,425	330,121,230	327,457,503

On April 19, 2006, the Company announced that its Board of Directors authorized the purchase of up to 15 million shares of the Company s common stock representing a market value of approximately $1 billion on the date of the announcement. The Company may buy shares from time to time on the open market, in privately negotiated transactions, or a combination of both. The timing and amounts of any purchases will be at the discretion of Apache s management. The Company initiated the purchase program on May 1, 2006, after the Company s first-quarter 2006 earnings information was disseminated in the market. Through December 31, 2006, the Company purchased

2,500,000 shares at an average price of $69.74 per share.

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Net Income Per Common Share

A reconciliation of the components of basic and diluted net income per common share for the years ended December 31, 2006, 2005 and 2004 is presented in the table below:

	2006			2005			2004		
	Income	Shares	Per Share	Income	Shares	Per Share	Income	Shares	Per Share
	(In thousands, except per share amounts)								
Basic:									
Income attributable to common stock	$ 2,546,771	330,083	$ 7.72	$ 2,618,050	328,929	$ 7.96	$ 1,663,074	326,046	$ 5.10
Effect of Dilutive Securities:									
Stock options and other	$	3,128	$	$	4,820	$	$	4,431	$
Diluted:									
Income attributable to common stock, including assumed conversions	$ 2,546,771	333,211	$ 7.64	$ 2,618,050	333,749	$ 7.84	$ 1,663,074	330,477	$ 5.03

Stock Compensation Plans

As of December 31, 2006, the Company had several stock-based compensation plans, which include stock options, stock appreciation rights, restricted stock, and performance-based share appreciation plans. A description of the Company s stock-based compensation plans and related costs follows. For 2006, 2005 and 2004, stock-based compensation expensed was $35 million, $61 million and $43 million ($23 million, $40 million and $27 million after-tax), respectively. Costs related to the plans are capitalized or expensed based on the nature of the employee s activities.

	2006	2005	2004

	(In millions)		
Stock-based compensation expensed:			
General and administrative	$ 22	$ 40	$ 25
Lease operating costs	13	21	18
Stock-based compensation capitalized	14	29	19
	$ 49	$ 90	$ 62

Stock Options

As of December 31, 2006, officers and employees held options to purchase shares of the Company s common stock under one or more of the employee stock option plans adopted in 1995, 1998, 2000 and 2005 (collectively, the Stock Option Plans). New shares of company stock will be issued for employee option exercises; however, under the 2000 Stock Option Plan, shares of treasury stock are used for employee option exercises. Under the Stock Option Plans, the exercise price of each option equals the market price of Apache s common stock on the date of grant. Options generally become exercisable ratably over a four-year period and expire after 10 years. The Stock Option Plans allow for accelerated vesting if there is a change in control (as defined in each plan). All of the stock option plans, except for the 2000 Stock Option Plan, were submitted to and approved by the Company s stockholders.

On October 31, 1996, the Company also established the 1996 Performance Stock Option Plan (the Performance Plan) for substantially all full-time employees, excluding officers and certain key employees. Under the Performance Plan, the exercise price of each option equals the market price of Apache common stock on the date of grant. All options become exercisable after nine and one-half years and expire 10 years from the date of grant. Under the terms of the Performance Plan, no grants were made after December 31, 1998.

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A summary of the status of the Stock Option Plans and the Performance Plan is presented in the table and narrative below as of December 31, 2006, 2005 and 2004 (shares in thousands):

	2006		2005		2004	
	Shares Under Option	Weighted Average Exercise Price	Shares Under Option	Weighted Average Exercise Price	Shares Under Option	Weighted Average Exercise Price
Outstanding, beginning of year	7,480	$ 30.55	7,342	$ 21.33	9,141	$ 20.59
Granted	1,805	71.63	2,066	56.27	290	44.73
Exercised	(2,021)	18.99	(1,804)	21.38	(1,913)	20.35
Forfeited or expired	(293)	57.56	(124)	44.99	(176)	25.39
Outstanding, end of year(1)	6,971	43.41	7,480	30.55	7,342	21.33
Expected to vest(1)	3,024	59.50	3,613	36.21	2,783	25.19
Exercisable, end of year(1)	3,612	28.41	3,465	24.00	4,250	20.36
Available for grant, end of year	1,705		3,275		2,819	
Weighted average fair value of options granted during the year	$ 24.38		$ 19.32		$ 14.45	

(1) As of December 31, 2006, the remaining contractual life for options outstanding, expected to vest, and exercisable is 6.3 years, 6.3 years and 4.5 years, respectively. The aggregate intrinsic value of options outstanding, expected to vest and exercisable at yearend was $161 million, $21 million and $138 million, respectively.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model. Assumptions used in the valuation are disclosed in the following table. Expected volatilities are based on implied volatilities of traded options on the Company s stock, historical volatility of the Company s stock, and other factors. The expected dividend yield is based on historical yields on the date of grant. The expected term of options granted represents the period of time that the options are expected to be outstanding and is derived from historical exercise behavior, current trends and values derived from lattice-based models. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant.

	2006	2005	2004

Expected volatility	27.79%	33.60%	36.10%
Expected dividend yields	.57%	.56%	.55%
Expected term (in years)	5.5	5.5	4.5
Risk-free rate	4.98%	3.82%	3.65%

The intrinsic value of options exercised during 2006 was approximately $101 million and the Company realized an additional tax benefit of approximately $32 million for the amount of intrinsic value in excess of compensation cost recognized. As of December 31, 2006, the total compensation cost related to non-vested options not yet recognized was $62 million, which will be recognized over the remaining vesting period of the options.

Stock Appreciation Rights

During 2003 and 2004, the Company issued a total of 1,802,210 and 1,328,400, respectively, of stock appreciation rights (SARs) to non-executive employees in lieu of stock options. None were issued in 2005 or 2006. The SARs vest ratably over four years and will be settled in cash upon exercise throughout their 10-year life. The weighted-average exercise price of the SARs was $42.68 and $28.78 for those issued in 2004 and 2003,

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

respectively. The number of SARs outstanding as of December 31, 2006 was 2,057,581, of which 1,147,473 were exercisable. Because the SARs are cash settled, the Company records compensation expense on the vested SARs outstanding based on the fair value of the SARs at the end of each period. As of yearend, the weighted-average fair value of SARs outstanding was $36.01 based on the Black-Scholes valuation methodology using assumptions comparable to those discussed above. During 2006, 282,570 SARs were exercised and approximately 85,000 were forfeited. The aggregate of cash payments made to settle SARs exercised in 2006 was not material.

Restricted Stock

On May 5, 2002, Apache s Board of Directors approved an executive restricted stock plan for all executive officers and certain key employees. At the time of grant, participants in the executive restricted stock plan may elect to defer income from restricted stock vesting into the Deferred Delivery Plan. The Company awarded 149,500, 155,300 and 87,500 restricted shares at a per share market price of $71.52, $55.90 and $42.68 in 2006, 2005 and 2004, respectively. The value of the stock issued was established by the market price on the date of grant and will be recorded as compensation expense ratably over the four-year vesting terms. During 2006, 2005 and 2004, $6.1 million, $4.3 million and $2.8 million, respectively, was charged to expense as shares vested. As of December 31, 2006, there was $14 million of total unrecognized compensation cost related to approximately 318,175 unvested shares. The weighted-average remaining life of unvested shares is approximately 3.5 years.

Restricted Stock	Shares	Weighted-Average Grant-Date Fair Value
Non-vested at January 1, 2006	319,943	$ 44.51
Granted	149,500	71.52
Vested	(133,323)	38.51
Forfeited	(17,945)	54.66
Non-vested at December 31, 2006	318,175	59.14

In December 1998, the Company granted a conditional stock award to an executive of the Company for a total of 100,000 shares (230,992 shares after adjustment for subsequent stock dividends and a stock split) of the Company s common stock. The award was composed of five annual installments, commencing on January 1, 1999 and each successive January through January 1, 2003. Vesting occurs on the fifth anniversary following each installment. Under the terms of the award, forty percent of the conditional grants are paid in cash at the market value of the Company s stock on the date of payment and the balance is issued in Apache common stock. The first three periodic installments vested on January 1, 2004, January 1, 2005 and January 1, 2006. The latter two annual installments will vest on January 1, 2007 and 2008, respectively.

2005 Share Appreciation Plan

On May 5, 2005, the Company s stockholders approved the 2005 Share Appreciation Plan that provides 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 must close at or above the stated threshold for 10 days out of any 30 consecutive trading days by the end of the stated period. Under the plan, if the first threshold is achieved, approximately 1.4 million shares would be awarded for an intrinsic cost of $113 million. Achieving the second threshold would result in approximately 2.1 million shares awarded for an intrinsic cost of $230 million. Shares ultimately issued would be reduced for any minimum tax withholding requirements. Under the terms of this targeted stock plan, awards are payable in four equal installments, beginning with the date the trigger stock price is met and on each succeeding anniversary date.

Current accounting practices dictate that, regardless of whether these thresholds are ultimately achieved, the Company will recognize the fair value cost at the grant date based on numerous assumptions, including an estimate

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 $81 million over the expected service life of the plan. For 2006 and 2005, $12.1 million ($7.8 million after tax) and $6.6 million ($4.3 million after tax) was expensed, respectively. In 2006 and 2005, $6.2 million and $3.4 million was capitalized, respectively. No material forfeitures occurred during 2006.

A summary of the number of shares contingently issuable as of December 31, 2006 and 2005 is presented in the table below:

	Shares Subject to Conditional Grants	
	2006	2005
	(In thousands)	
Outstanding, beginning of year	3,438	
Granted	447	3,580
Issued		
Forfeited or cancelled	(356)	(142)
Outstanding, end of year(1)	3,529	3,438
Weighted-average fair value of conditional grants Share Price Goals(2)	$ 26.20	$ 25.11

(1) Represents shares issuable upon attainment of $81 and $108 per share price goals of 1,395,030 shares and 2,134,100 shares, respectively, in 2006 and 1,374,060 shares and 2,063,890 shares, respectively, in 2005.

(2) The fair value of each Share Price Goal conditional grant is estimated as of the date of grant using a Monte Carlo simulation with the following weighted-average assumptions used for grants in 2006 and 2005, respectively: (i) risk-free interest rate of 3.93 and 3.81 percent; (ii) expected volatility of 28.17 and 28.30 percent; and (iii) expected dividend yield of .56 and .56 percent.

2000 Share Appreciation Plan

In October 2000, the Company adopted the 2000 Share Appreciation Plan under which grants were made to substantially all full-time employees, including officers. The 2000 Share Appreciation Plan provided for issuance of up to an aggregate of 8.08 million shares of Apache common stock, based on attainment of one or more of three share price goals (Share Price Goals) and/or a separate production goal (Production Goal). Generally, shares are issued in three installments over 24 months after achievement of each goal. The shares of Apache common stock contingently issuable under the 2000 Share Appreciation Plan were excluded from the computation of income per common share until the stated goals were met as described below.

The Share Price Goals were based on achieving a closing price of $43.29, $51.95 and $77.92 per share on any 10 days out of any 30 consecutive trading days prior to January 1, 2005. Apache s share price exceeded the first threshold ($43.29) under this plan on April 28, 2004. As such, the Company issued 913,000 shares of its common stock, after minimum tax withholding requirements, which were distributed in three annual installments in May 2004, 2005 and 2006, respectively. Also, on October 26, 2004, Apache s share price exceeded the second threshold of $51.95. Accordingly, Apache issued 2.3 million additional shares of its common stock, after minimum tax withholding requirements, in three equal installments in November 2004, 2005 and 2006, respectively. The third share-price threshold ($77.92) did not trigger and the related grants were cancelled as of December 31, 2004. A

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

summary of the number of shares contingently issued under the Share Price Goals as of December 31, 2006, 2005 and 2004 is presented in the table below:

	Shares Subject to Conditional Grants		
	2006	2005	2004
	(In thousands)		
Outstanding, beginning of year	1,442	3,008	6,324
Granted			15
Issued	(1,398)	(1,483)	(1,531)
Forfeited or cancelled	(44)	(83)	(1,800)
Outstanding, end of year(1)		1,442	3,008
Weighted-average fair value of conditional grants Share Price Goals(2)	$ N/A	$ N/A	$ 19.74

(1) The outstanding shares at the end of 2005 and 2004 represent those shares remaining to be issued as a result of attainment of the $43.29 and $51.95 per share price goals. The remaining shares were issued net of minimum tax withholding as employees fulfilled the one-year remaining service period requirement in 2006.

(2) The fair value of each Share Price Goal conditional grant is estimated as of the date of grant using a Monte Carlo simulation with the following weighted-average assumptions used for grants in 2004: (i) risk-free interest rate of 3.04 percent; (ii) expected volatility of 35.97 percent; and (iii) expected dividend yield of .96 percent.

Timing of expense recognition under the 2000 Share Appreciation Plan was based on the accounting policies in place for each year the plan was outstanding and vesting (See Note 1, Summary of Significant Accounting Policies). The shares were initially granted in 2000 and were not expensed under APB Opinion No. 25. In 2004, Apache adopted SFAS No. 123-R retrospectively, to January 1, 2004, and expensed stock based compensation vesting during the year. Under SFAS No. 123-R expense amounts are determined based on the fair value of the plan on the date of grant and for 2006, 2005 and 2004, respectively, the Company recorded $1.1 million ($.7 million after-tax), $6.3 million ($4.1 million after-tax) and $13.1 million ($8.2 million after-tax) of expense, net of capitalized amounts for this plan of $.6 million, $3.5 million and $6.5 million.

The Production Goal was not attained prior to January 1, 2005 and, therefore, no shares were issued under that goal and the related grants were cancelled as of December 31, 2004.

Preferred Stock

The Company has five million shares of no par preferred stock authorized, of which 25,000 shares have been designated as Series A Junior Participating Preferred Stock (the Series A Preferred Stock) and 100,000 shares have

been designated as the 5.68 percent Series B Cumulative Preferred Stock (the Series B Preferred Stock).

Rights to Purchase Series A Preferred Stock

In December 1995, the Company declared a dividend of one right (a Right) for each 2.31 shares (adjusted for subsequent stock dividends and a two-for-one stock split) of Apache common stock outstanding on January 31, 1996. Each full Right entitles the registered holder to purchase from the Company one ten-thousandth (1/10,000) of a share of Series A Preferred Stock at a price of $100 per one ten-thousandth of a share, subject to adjustment. The Rights are exercisable 10 calendar days following a public announcement that certain persons or groups have acquired 20 percent or more of the outstanding shares of Apache common stock or 10 business days following commencement of an offer for 30 percent or more of the outstanding shares of Apache common stock. In addition, if a person or group becomes the beneficial owner of 20 percent or more of Apache s outstanding common stock (flip in event); each Right will become exercisable for shares of Apache s common stock at 50 percent of the then

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

market price of the common stock. If a 20 percent shareholder of Apache acquires Apache, by merger or otherwise, in a transaction where Apache does not survive or in which Apache s common stock is changed or exchanged (flip over event), the Rights become exercisable for shares of the common stock of the company acquiring Apache at 50 percent of the then market price for Apache common stock. Any Rights that are or were beneficially owned by a person who has acquired 20 percent or more of the outstanding shares of Apache common stock and who engages in certain transactions or realizes the benefits of certain transactions with the Company will become void. If an offer to acquire all of the Company s outstanding shares of common stock is determined to be fair by Apache s board of directors, the transaction will not trigger a flip in event or a flip over event. The Company may also redeem the Rights at $.01 per Right at any time until 10 business days after public announcement of a flip in event. These rights were originally scheduled to expire on January 31, 2006. Effective as of that date, the rights were reset to one right per share of common stock and the expiration was extended to January 31, 2016. Unless the Rights have been previously redeemed, all shares of Apache common stock issued by the Company after January 31, 1996 will include Rights. Unless and until the Rights become exercisable, they will be transferred with and only with the shares of Apache common stock.

Series B Preferred Stock

In August 1998, Apache issued 100,000 shares ($100 million) of Series B Preferred Stock in the form of one million depositary shares, each representing one-tenth (1/10) of a share of Series B Preferred Stock, for net proceeds of $98 million. The Series B Preferred Stock has no stated maturity, is not subject to a sinking fund and is not convertible into Apache common stock or any other securities of the Company. Apache has the option to redeem the Series B Preferred Stock at $1,000 per preferred share on or after August 25, 2008. Holders of the shares are entitled to receive cumulative cash dividends at an annual rate of $5.68 per depositary share when, and if, declared by Apache s board of directors.

Comprehensive Income

Components of accumulated other comprehensive income (loss) consists of the following:

	For the Year Ended December 31,		
	2006	2005	2004
	(In thousands)		
Currency translation adjustments	$ (108,750)	$ (108,750)	$ (108,750)
Unrealized gain (loss) on derivatives (Note 3)	83,534	(256,858)	(20,732)
Unfunded pension and post retirement benefit plan	(6,116)		
Accumulated other comprehensive loss	$ (31,332)	$ (365,608)	$ (129,482)

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and estimated fair values of the Company s financial instruments at December 31, 2006 and 2005. See Note 3, Hedging and Derivative Instruments for a discussion of the Company s derivative instruments.

	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
Long-term debt:				
Apache				
Money market lines of credit	$ 10,500	$ 10,500	$	$
Commercial paper	1,560,000	1,560,000		
6.25-percent debentures	398,270	415,304	398,006	430,120
7-percent notes	148,713	167,021	148,639	168,750
7.625-percent notes	149,256	175,374	149,222	176,775
7.7-percent notes	99,684	119,036	99,678	126,490
7.95-percent notes	178,710	218,254	178,683	234,828
7.375-percent debentures	148,035	173,271	148,028	188,700
7.625-percent debentures	149,176	172,943	149,175	193,680
Subsidiary and other obligations				
Argentina money market lines of credit	58,757	58,757		
Fletcher notes	4,252	4,252	4,526	4,652
Apache Finance Australia 6.5-percent notes	169,837	171,411	169,678	175,151
Apache Finance Australia 7-percent notes	99,809	103,329	99,733	106,160
Apache Finance Canada 4.375-percent notes	349,756	322,959	349,732	336,805
Apache Finance Canada 7.75-percent notes	297,170	363,519	297,128	390,540

The fair value of the notes and debentures is based upon an estimate provided to the Company by an independent investment banking firm. The carrying amount of the commercial paper and money market lines of credit approximated fair value because the interest rates are variable and reflective of market rates. The Company s trade receivables and trade payables are by their very nature short-term. The carrying values included in the accompanying consolidated balance sheet approximate fair value at December 31, 2006 and 2005.

10. COMMITMENTS AND CONTINGENCIES

Litigation

Texaco China B.V.

Apache recorded a reserve in the second quarter of 2004 to fully reflect a pre-tax $71 million international arbitration award to Texaco China B.V. (Texaco China). The arbitration award was subject to interest at nine percent until May 6, 2005, the date following the federal district court ruling discussed below. On May 6, 2005, the interest rate dropped to 3.33 percent. Apache accrued $3.2 million of interest expense in 2004, $3.8 million in 2005 and $593,000 in the first quarter of 2006. In September 2001, Texaco China initiated an arbitration proceeding against Apache China Corporation LDC (Apache China), later adding Apache Bohai Corporation LDC (Apache Bohai) to the arbitration. In the arbitration Texaco China claimed damages, plus interest, arising from Apache Bohai s alleged failure to drill three wells, prior to re-assignment of the interest to Texaco China. Apache believes that the finding of the arbitrator is unsupported by the facts and the law, and Apache filed an application to vacate the award in federal court. Texaco China filed an application to confirm the award in the same court. On May 5, 2005, the federal district court ruled in favor of Texaco China. The Company appealed that decision to the circuit court of appeals. In January 2005, while awaiting the decision of the U.S. federal courts, Texaco China also filed a proceeding against Apache

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

China and Apache Bohai in the People s Republic of China to recognize the award, apparently seeking the same relief as sought in U.S. federal court. The parties subsequently agreed to stay enforcement of the arbitration award in China and elsewhere pending the final, determinative outcome of all possible appeals in the U.S. federal courts. On February 27, 2007, the Fifth Circuit Court of Appeals affirmed the trial court s decision in favor of Texaco China. Apache is considering its remaining appeal options.

Predator

In December 2000, certain subsidiaries of the Company and Murphy Oil Corporation (Murphy) filed a lawsuit in Canada charging The Predator Corporation Ltd. (Predator) and others with misappropriation and misuse of confidential well data to obtain acreage offsetting a significant natural gas discovery in the Ladyfern area of northeast British Columbia made by Apache Canada Ltd. (Apache Canada) and Murphy during 2000. In February 2001, Predator filed a counterclaim seeking more than C$6 billion and later reduced this amount to approximately C$3.6 billion. In September 2004, the Canadian court granted Apache Canada s motion for summary judgment on the counterclaim, dismissing more than C$3 billion of Predator s claims against Apache Canada and Murphy, and dismissing all claims against both Murphy s president and Apache Canada s president. Predator appealed the summary judgment. On February 28, 2006, the Court of Appeal of Alberta dismissed Predator s appeal. Predator did not seek review by the Supreme Court of Canada. The trial court also granted Apache Canada s request for costs and disbursements in the approximate amount of C$700,000, which Predator paid. In September 2006 the trial court rendered a judgment (the Judgment) in favor of Murphy and Apache s claim against Predator and dismissed Predator s C$365 million remaining counterclaim against Murphy and Apache. The parties entered into a settlement agreement not to appeal the judgment, thereby making the judgment final. As a result, Apache recognized approximately $8 million of revenue in the third quarter of 2006.

Grynberg

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. In 2004, Grynberg filed suit against Apache making the same claims he had made previously against others in the industry. With the addition of Apache, there are more than 300 defendants to these actions. The Grynberg lawsuits have been consolidated through a federal Multi-District Litigation (MDL) action located in Wyoming federal court for discovery and pre-trial purposes. The defendants in the MDL, jointly and/or separately, filed motions to dismiss based upon certain statutory requirements Grynberg is required to prove to proceed with these qui tam lawsuits. On October 20, 2006, the multi-district Judge ruled in favor of Apache and other defendants on these motions to dismiss, dismissing Grynberg s lawsuit against Apache and others. Grynberg has appealed the ruling. Although Grynberg purports to be acting on behalf of the government, the federal government has declined to join in the cases. While an adverse judgment against Apache is possible, Apache does not believe the plaintiff s claims have merit and plans to vigorously pursue its defenses against these claims. Exposure related to this lawsuit is not currently determinable.

Egypt Tax Authority

As of the end of 2004, the Egyptian Tax Authority (ETA) had issued claims for back taxes against various Apache subsidiaries in Egypt totaling approximately $113.4 million (at current exchange rates) relating to periods as far back as 1994. In July 2005, the ETA made a new claim for approximately $85 million of additional taxes for the 1994-1999

tax years. All of the ETA tax claims, have now been finally resolved in Apache s favor with no liability.

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Argentine Environmental Claims

In connection with the Pioneer acquisition, 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. PNRA is cooperating with the proceedings, although it from time to time challenges whether certain assessed fines, which could exceed $100,000, are appropriate. PNRA was named in a suit initiated against oil companies operating in the Neuquén basin entitled *Asociación de Superficiarios de la Patagonia v. YPF S.A., et. al.*, originally filed on August 21, 2003, in the Argentine National Supreme Court of Justice. The plaintiffs, a private group of landowners, have also named the national government and several provinces as third parties. The lawsuit alleges injury to the environment generally by the oil and gas industry. The plaintiffs principally seek from all defendants, jointly, (i) the remediation of the contaminated sites, of the superficial and underground waters, and of the soil that was degraded as a result of deforestation, (ii) if the remediation is not possible, payment of an indemnification for the material and moral damages in an unspecified amount claimed from defendants operating in the Neuquén basin, of which PNRA is a small portion, (iii) adoption of all of the necessary measures to prevent future environmental damages, and (iv) the creation of a private restoration fund to provide coverage for remediation of potential future environmental damages. Much of the alleged damage relates to operations by the Argentine state oil company, which conducted oil and gas operations throughout Argentina prior to its privatization, which began in 1990. While the plaintiffs will seek to make all oil and gas companies operating in the Neuquén basin jointly liable for each others actions, PNRA will defend on an individual basis and attempt to require the plaintiffs to delineate damages by company. PNRA intends to defend itself vigorously in the case. It is not certain exactly how or what the court will do in this matter as it is the first of its kind. While it is possible PNRA may incur liabilities related to the environmental claims, no reasonable prediction can be made as PNRA s exposure related to this lawsuit is not currently determinable.

Louisiana Restoration

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. Many of these lawsuits claim small amounts, while others assert claims in excess of a million dollars. Also, some lawsuits or claims are being settled or resolved, while others are still being filed. Any exposure, therefore, related to these lawsuits and claims is not currently determinable. While an adverse judgment against Apache is possible, Apache intends to actively defend the cases.

Hurricane Related Litigation

A class action lawsuit has been filed styled *Barasich, et al., individually and as representatives of all those similarly situated vs. Columbia Gulf Transmission Co., et al, No. 05-4161, United States District Court, Eastern District of Louisiana*, against all oil and gas and pipeline companies that drilled or dredged in the marshes of South Louisiana. The lawsuit claims defendants were negligent by constructing canals and conducting oil and gas operations, which plaintiffs contend is the sole and/or almost the sole cause of the alleged destruction of the marshes in South Louisiana, which plaintiffs blame for all and/or substantially all loss of life and destruction of property which was incurred from Hurricane Katrina. Apache was not named, but if a defendant class is certified, would fall within the definition alleged. Apache believes such claims are without merit, and if joined will undertake an active defense to such claims.

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 whose homes and businesses were damaged by Hurricane Katrina are requesting class certification. They 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

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

defendants (oil and gas companies, electric and coal companies, and chemical manufacturers). Plaintiffs claim defendants emissions of greenhouse gases , cause global warming, which they blame as the cause of their damages. They also claim that the oil company defendants artificially inflated and manipulated the prices of gasoline, diesel fuel, jet fuel, natural gas, and other end-use petrochemicals, and covered it up by misrepresentations. They further allege a conspiracy to disseminate misinformation and cover up the relationship between the defendants and global warming. Plaintiffs seek, among other damages, actual, consequential, and punitive or exemplary damages. A motion has been filed to amend the lawsuit and add additional defendants, including Apache. Apache has not yet been served.

Insurance Claims

In connection with damage related to Hurricanes Katrina and Rita in 2005, Apache has filed claims with OIL Insurance Ltd. (OIL), who provided Apache s first level of property damage insurance coverage (OIL Coverage) and with its principal commercial insurance underwriters, who provided Apache with property damage insurance coverage in excess of OIL Coverage, business interruption insurance coverage, and liability coverage (collectively Excess Coverage). Through December 31, 2006, we have received payments of $37 million from OIL for property damage and $150 million from underwriters providing Excess Coverage for business interruption (the entire amount of the business interruption coverage) and $5 million for property damage. In addition, Apache has $87 million of outstanding claims under its Excess Coverage for property damage and anticipates additional claims of $13 million, which is the remainder of the coverage for property damage (collectively the Remaining Claims). In addition, Apache s liability policy with certain underwriters who provided Excess Coverage includes an endorsement providing $165 million per occurrence for wreck removal costs and expenses. Similarly, Apache has a second layer of liability coverage from certain underwriters which provides an additional $100 million of excess coverage per occurrence which includes the same endorsement for wreck removal costs and expenses (the Second Excess Coverage). Apache informed the lead underwriter on the Excess Coverage policy and the Second Excess Coverage policy, of our plans to make a claim under the wreck removal coverage, and the lead underwriter has requested that Apache not make such claims in return for payment of the Remaining Claims and a waiver of the underwriters alleged right to seek repayment of the amounts already paid to Apache for property damage and business interruption. On account of this request from the lead underwriter, Apache filed an action styled Apache Corporation v. Houston Casualty Company, and Certain Underwriters at Interest in the District Court of Harris County in Houston, Texas seeking a declaratory judgment that the underwriters providing Excess Coverage are obligated to pay the Remaining Claims and have no right to seek repayment of any previously paid amounts, regardless of any final resolution of Apache s right to recovery under the wreck removal endorsement.

General

The Company is involved in other litigation and is subject to governmental and regulatory controls arising in the ordinary course of business. The Company has an accrued liability of approximately $7 million for other legal contingencies that are 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.

Other Commitments and Contingencies

Environmental

The Company, as an owner or lessee and operator of oil and gas properties, is subject to various federal, provincial, state, local and foreign country laws and regulations relating to discharge of materials into, and protection of, the environment. These laws and regulations may, among other things, impose liability on the lessee under an oil and gas lease for the cost of pollution clean-up resulting from operations and subject the lessee to

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

liability for pollution damages. In some instances, the Company may be directed to suspend or cease operations in the affected area. We maintain insurance coverage, which we believe is customary in the industry, although we are not fully insured against all environmental risks.

Apache manages its exposure to environmental liabilities on properties to be acquired by identifying existing problems and assessing the potential liability. The Company also conducts periodic reviews, on a company-wide basis, to identify changes in its environmental risk profile. These reviews evaluate whether there is a probable liability, its amount, and the likelihood that the liability will be incurred. The amount of any potential liability is determined by considering, among other matters, incremental direct costs of any likely remediation and the proportionate cost of employees who are expected to devote a significant amount of time directly to any possible remediation effort. As it relates to evaluations of purchased properties, depending on the extent of an identified environmental problem, the Company may exclude a property from the acquisition, require the seller to remediate the property to Apache s satisfaction, or agree to assume liability for the remediation of the property. The Company s general policy is to limit any reserve additions to any incidents or sites that are considered probable to result in an expected remediation cost exceeding $100,000. Any environmental costs and liabilities that are not reserved for are treated as an expense when actually incurred. In our estimation, neither these expenses nor expenses related to training and compliance programs are likely to have a material impact on our financial condition. As of December 31, 2006, the Company had an undiscounted reserve for environmental remediation of approximately $17 million. Apache is not aware of any environmental claims existing as of December 31, 2006, 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.

International Lease Concessions

The Company, through its subsidiaries, has acquired or has been conditionally or unconditionally granted exploration rights in Egypt, Australia, the North Sea and Argentina. In order to comply with the contracts and agreements granting these rights, the Company, through various wholly-owned subsidiaries, is committed to expend approximately $240 million through 2010.

Contractual Obligations

The Company has leases for buildings, facilities and equipment with varying expiration dates through 2035. Net rental expense was $23 million, $20 million, and $17 million for 2006, 2005 and 2004, respectively.

The Company has additional purchase commitments in Egypt, not included in the table below, for pipeline and gas plant construction totaling $390 million through 2008.

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of December 31, 2006, minimum rental commitments under long-term operating leases, net of sublease rental income, drilling rigs and long-term pipeline transportation commitments, ranging from one to 29 years, are as follows:

	Net Minimum Commitments			
	Total	Leases	Drilling Rigs	Pipeline Transmission
	(In thousands)			
2007	$ 384,651	$ 15,016	$ 333,366	$ 36,269
2008	127,037	14,655	82,670	29,712
2009	46,536	15,205	13,425	17,906
2010	36,787	15,066	3,849	17,872
2011	32,844	15,173		17,671
Thereafter	187,830	34,390		153,440
	$ 815,685	$ 109,505	$ 433,310	$ 272,870

Retirement and Deferred Compensation Plans

The Company provides a 401(k) savings plan for employees which allows participating employees to elect to contribute up to 25 percent of their salaries (50 percent effective January 1, 2006), with Apache making matching contributions up to a maximum of six percent of each employee s salary. In addition, the Company annually contributes six percent of each participating employee s compensation, as defined, to a money purchase retirement plan. The 401(k) plan and the money purchase retirement plan are subject to certain annually-adjusted, government-mandated restrictions which limit the amount of each employee s contributions.

For certain eligible employees, the Company also provides a non-qualified retirement/savings plan which allows the deferral of up to 50 percent of each employee s salary, and which accepts employee contributions and the Company s matching contributions in excess of the above-referenced restrictions on the 401(k) savings plan and money purchase retirement plan. Additionally, Apache Energy Limited, Apache Canada Ltd. and Apache North Sea Limited maintain separate retirement plans, as required under the laws of Australia, Canada and the United Kingdom, respectively.

Vesting in the Company s contributions to the 401(k) savings plan, the money purchase retirement plan and the non-qualified retirement/savings plan occurs at the rate of 20 percent for every full-year of employment. Upon a change in control of ownership, vesting is immediate. Total costs under all plans were $41 million, $39 million and $31 million for 2006, 2005 and 2004, respectively.

Apache also provides a funded noncontributory defined benefit pension plan (U.K. Pension Plan) covering existing BP North Sea employees hired by the Company as part of the BP acquisition. The pension plan provides defined benefits based on years of service and final average salary. The plan is closed to newly hired employees.

Apache also has a postretirement benefit plan covering substantially all of its U.S. employees. The postretirement benefit plan provides for medical benefits up until the age of 65. The plan is contributory with participants contributions adjusted annually. The postretirement benefit plan does not pay benefits once participants become eligible for Medicare and is not affected by the Medicare Modernization Act of 2003.

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following tables set forth the benefit obligation, fair value of plan assets and funded status as of December 31, 2006 and 2005 and the underlying weighted average actuarial assumptions used for the U.K. Pension Plan and U.S. postretirement benefit plan. Apache uses a measurement date of December 31 for its pension and postretirement benefit plans.

	2006		2005	
	Pension Benefits	Postretirement Benefits	Pension Benefits	Postretirement Benefits
	(In thousands)			
Change in Projected Benefit Obligation				
Projected benefit obligation beginning of period	$ 103,367	$ 16,053	$ 88,726	$ 11,039
Service cost	7,189	1,517	6,286	1,399
Interest cost	5,218	899	4,463	812
Foreign currency exchange rate changes	14,920		(10,864)	
Amendments				
Actuarial losses/(gains)	(3,303)	(1,106)	14,893	2,848
Effect of curtailment and settlements				
Benefits paid	(1,764)	(320)	(137)	(129)
Retiree contributions		183		84
Projected benefit obligation at end of year	125,627	17,226	103,367	16,053
Change in Plan Assets				
Fair value of plan assets at beginning of period	90,886		82,022	
Actual return on plan assets	5,661		13,780	
Foreign currency exchange rate changes	13,253		(9,756)	
Employer contributions	4,785	137	4,977	45
Benefits paid	(1,764)	(320)	(137)	(129)
Retiree contributions		183		84
Fair value of plan assets at end of year	112,821		90,886	
Reconciliation of Funded Status				
Funded status of plan	(12,806)	(17,226)	(12,481)	(16,053)
Unrecognized actuarial (gain)/loss	N/A	N/A	7,576	6,385
Unrecognized prior service cost	N/A	N/A		
Unrecognized net transition obligation	N/A	N/A		485
Plan benefit asset/(obligation)	(12,806)	(17,226)	(4,905)	(9,183)
Pretax Amounts Recognized in Accumulated Other Comprehensive Income				
Net actuarial loss	5,228	4,989	N/A	N/A

Prior service cost			N/A	N/A
Transition obligation		441	N/A	N/A
	5,228	5,430	N/A	N/A
Weighted Average Assumptions used as of December 31				
Discount rate	5.10%	5.77%	4.70%	5.50%
Salary increases	4.10%	N/A	3.80%	N/A
Expected return on assets	6.50%	N/A	5.75%	N/A
Healthcare cost trend				
Initial	N/A	9.00%	N/A	9.00%
Ultimate in 2011	N/A	5.00%	N/A	5.00%

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of December 31, 2006 and 2005, the accumulated benefit obligation for the pension plan was $90 million and $76 million, respectively.

Apache s defined benefit pension plan assets are held by a non-related Trustee who has been instructed to invest the assets in an equal blend of equity securities and low-risk debt securities. The Company believes this blend of investments will provide a reasonable rate of return and ensure that the benefits promised to members are provided. The plan s assets do not include any equity or debt securities of Apache. A breakout of previous allocations for plan asset holdings and the target allocation for the Company s plan assets are summarized below.

	Target Allocation 2006	Percentage of Plan Assets at Year-End 2006	2005
Asset Category			
Equity securities	50%	54%	51%
Debt securities	50%	46%	49%
Total	100%	100%	100%

The following tables set forth the components of the net periodic cost and the underlying weighted average actuarial assumptions used for the pension and postretirement benefit plans as of December 31, 2006, 2005 and 2004.

	2006		2005		2004	
	Pension Benefits	Postretirement Benefits	Pension Benefits	Postretirement Benefits	Pension Benefits	Postretirement Benefits
	(In thousands)					
Components of Net Periodic Benefit Costs						
Service cost	$ 7,189	$ 1,517	$ 6,286	$ 1,399	$ 5,507	$ 969
Interest cost	5,218	899	4,463	812	3,661	628
Expected return on assets	(5,750)		(4,822)		(3,589)	
Amortization of:						
Transition obligation		44		44		44
Actuarial (gain)/loss		290		331		250
Net periodic benefit cost	$ 6,657	$ 2,750	$ 5,927	$ 2,586	$ 5,579	$ 1,891

Weighted Average Assumptions used to determine Net Periodic Benefit Costs for the Years ended December 31						
Discount rate	4.70%	5.50%	5.30%	5.75%	5.50%	6.25%
Salary increases	3.80%	N/A	3.80%	N/A	3.75%	N/A
Expected return on assets	5.75%	N/A	6.00%	N/A	6.25%	N/A
Healthcare cost trend						
Initial	N/A	9.00%	N/A	9.00%	N/A	10.00%
Ultimate in 2010	N/A	5.00%	N/A	5.00%	N/A	5.00%

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Assumed health care cost trend rates effect amounts reported for postretirement benefits. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	Postretirement Benefits	
	1% Increase	1% Decrease
	(In thousands)	
Effect on service and interest cost components	$ 316	$ (273)
Effect on postretirement benefit obligation	1,992	(1,744)

Apache expects to contribute approximately $6 million to its pension plan and $402,000 to its postretirement benefit plan in 2007. The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension Benefits	Postretirement Benefits
	(In thousands)	
2007	$ 822	$ 402
2008	1,330	566
2009	1,370	760
2010	1,390	992
2011	1,429	1,249
Years 2012 2016	18,202	10,022

11. MAJOR CUSTOMERS

In 2006, purchases by BP accounted for 20 percent of the Company s oil and gas production revenues.

In 2005, purchases by BP and Shell each accounted for 16 percent of the Company s oil and gas production revenues.

In 2004, purchases by EGPC and BP accounted for 17 percent and 15 percent, respectively, of the Company s oil and gas production revenues.

Concentration of Credit Risk

The Company s revenues are derived principally from uncollateralized sales to customers in the oil and gas industry; therefore, customers may be similarly affected by changes in economic and other conditions within the industry. Apache has not experienced significant credit losses on such sales. Apache sells a large portion of its Egyptian crude oil and natural gas to EGPC for U.S. dollars. Beginning in 2001, we experienced a gradual decline in timeliness of receipts from EGPC for our Egyptian oil and gas sales. Deteriorating economic conditions during 2001 in Egypt

lessened the availability of U.S. dollars, resulting in a one to two month delay in receipts from EGPC. During 2006, we experienced variability in the timing of cash receipts from EGPC. We have not established a reserve for these Egyptian receivables because we continue to get paid, albeit late, and have no indication that we will not be able to collect our receivable.

12. BUSINESS SEGMENT INFORMATION

Apache has interests in six countries: the United States, Canada, Egypt, Australia, offshore the United Kingdom (U.K.) in the North Sea and Argentina. The Company divested its interest in China effective July 1, 2006. Apache s reportable segments are primarily in the business of crude oil and natural gas exploration and production. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates segment performance based on profit or loss from oil and gas operations before income and expense items incidental to oil and gas operations and income taxes. Apache s

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

reportable segments are managed separately based on their geographic locations. Financial information by operating segment is presented below:

	United States	Canada	Egypt	Australia	North Sea	Argentina	Other International	Tota
				(In thousands)				
gas tion revenues	$ 3,027,227	$ 1,379,626	$ 1,664,103	$ 408,453	$ 1,355,139	$ 167,195	$ 72,510	$ 8,07
ng Expenses: iation, on and ation	765,564	365,369	247,354	147,413	179,625	93,025	18,009	1,81
etirement on accretion	65,357	8,506		2,527	11,808	733		8
perating costs	619,346	305,323	147,656	57,942	185,902	40,807	5,398	1,36
ng and rtation costs	31,810	34,246	10,995		26,387	763	121	10
nce and other	116,624	16,115		19,524	394,487	2,559	4,669	55
ng Income	$ 1,428,526	$ 650,067	$ 1,258,098	$ 181,047	$ 556,930	$ 29,308	$ 44,313	4,14
ncome se):								
								4
l and strative								(21
n China ure								17
ng costs, net								(14
Before Taxes								$ 4,00
perty and ment	$ 10,139,918	$ 5,411,726	$ 1,806,901	$ 1,184,180	$ 1,544,778	$ 1,258,749	$	$ 21,34
ssets	$ 11,486,070	$ 5,821,685	$ 2,423,655	$ 1,322,501	$ 1,839,150	$ 1,404,382	$ 10,732	$ 24,30

ons to Net y and ment	$ 3,159,613	$ 1,250,355	$ 569,316	$ 218,345	$ 335,055	$ 1,311,804	$ 11,794	$ 6,85
gas tion revenues	$ 2,824,522	$ 1,450,801	$ 1,358,183	$ 400,791	$ 1,274,470	$ 17,220	$ 131,304	$ 7,45
ng Expenses: iation, on and ation	580,294	266,780	221,230	102,139	187,315	7,214	50,710	1,41
etirement on accretion	31,657	6,811		2,414	12,709	129		5
perating costs	477,780	229,592	116,160	55,666	146,015	4,012	11,250	1,04
ng and rtation costs	29,954	33,309	7,991		28,248		758	10
nce and other	107,300	22,279		38,386	285,293			45
ng Income	$ 1,597,537	$ 892,030	$ 1,012,802	$ 202,186	$ 614,890	$ 5,865	$ 68,586	4,39
ncome se):								12
l and strative								(19
ng costs, net								(11
Before Taxes								$ 4,20
perty and ment	$ 7,745,703	$ 4,526,113	$ 1,894,141	$ 1,113,181	$ 1,391,048	$ 42,875	$ 78,279	$ 16,79
ssets	$ 8,690,410	$ 4,952,561	$ 2,509,970	$ 1,318,233	$ 1,625,168	$ 60,047	$ 115,407	$ 19,27
ons to Net y and ment	$ 1,656,780	$ 1,454,636	$ 541,732	$ 252,787	$ 467,421	$ 36,589	$ 22,545	$ 4,43

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	United States	Canada	Egypt	Australia	North Sea	Argentina	Other International	Total
				(In thousands)				
nd gas uction revenues	$ 2,332,064	$ 1,014,097	$ 932,767	$ 458,006	$ 472,091	$ 7,723	$ 91,269	$ 5,308,
ating Expenses: eciation, tion and tization	554,598	204,181	176,307	118,183	126,667	2,581	39,635	1,222,
retirement ation accretion	25,531	6,078		2,277	12,048	126		46,
e operating costs	376,608	186,043	92,791	52,309	143,453	2,390	10,784	864,
ering and portation costs	28,324	30,741			22,619		577	82,
rance and other	67,544	22,766		64,345	(61,361)	454		93,
ating Income)	$ 1,279,459	$ 564,288	$ 663,669	$ 220,892	$ 228,665	$ 2,172	$ 40,273	2,999,
Income ense):								
								24,
ral and nistrative								(173,
cing costs, net								(116,
litigation sion								(71,
ne Before ne Taxes								$ 2,663,
Property and pment	$ 6,754,515	$ 3,338,990	$ 1,573,639	$ 951,704	$ 1,112,451	$ 22,617	$ 106,443	$ 13,860,
Assets	$ 7,394,542	$ 3,633,469	$ 1,948,833	$ 1,131,026	$ 1,244,419	$ 34,154	$ 116,037	$ 15,502,
tions to Net erty and pment	$ 2,050,025	$ 816,198	$ 392,300	$ 178,280	$ 369,542	$ 4,712	$ 21,875	$ 3,832,

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. SUPPLEMENTAL OIL AND GAS DISCLOSURES (Unaudited)

Oil and Gas Operations

The following table sets forth revenue and direct cost information relating to the Company s oil and gas exploration and production activities. Apache has no long-term agreements to purchase oil or gas production from foreign governments or authorities.

	United States	Canada	Egypt	Australia	North Sea	Argentina	Other International	Total
				(In thousands)				
6								
and gas duction revenues	$ 3,027,227	$ 1,379,626	$ 1,664,103	$ 408,453	$ 1,355,139	$ 167,195	$ 72,510	$ 8,074,2
erating costs:								
preciation, letion and ortization(1)	742,981	355,446	247,354	146,406	178,682	91,562	17,991	1,780,4
et retirement gation accretion	65,357	8,506		2,527	11,808	733		88,9
se operating enses	619,346	305,323	147,656	57,942	185,902	40,807	5,398	1,362,3
hering and sportation costs	31,810	34,246	10,995		26,387	763	121	104,3
duction taxes(2)	104,535	8,982		19,524	394,487	2,559		530,0
ome tax	519,435	215,147	603,887	61,898	278,937	10,770	16,170	1,706,2
	2,083,464	927,650	1,009,892	288,297	1,076,203	147,194	39,680	5,572,3
ults of rations	$ 943,763	$ 451,976	$ 654,211	$ 120,156	$ 278,936	$ 20,001	$ 32,830	$ 2,501,8
ortization rate boe	$ 10.90	$ 9.97	$ 6.23	$ 8.48	$ 8.31	$ 9.08	$ 15.56	$ 9.
5								
and gas duction revenues	$ 2,824,522	$ 1,450,801	$ 1,358,183	$ 400,791	$ 1,274,470	$ 17,220	$ 131,304	$ 7,457,2
erating costs:								

preciation, letion and ortization(1)	556,922	261,195	221,230	100,798	186,675	7,214	50,678	1,384,7
et retirement gation accretion	31,657	6,811		2,414	12,709	129		53,7
se operating enses	477,780	229,592	116,160	55,666	146,015	4,012	11,250	1,040,4
hering and sportation costs	29,954	33,309	7,991		28,248		758	100,2
duction taxes(2)	99,009	9,112		38,386	285,293			431,8
ome tax	578,366	332,435	486,145	69,199	246,212	2,053	22,644	1,737,0
	1,773,688	872,454	831,526	266,463	905,152	13,408	85,330	4,748,0
ults of rations	$ 1,050,834	$ 578,347	$ 526,657	$ 134,328	$ 369,318	$ 3,812	$ 45,974	$ 2,709,2
ortization rate boe	$ 8.78	$ 7.71	$ 6.34	$ 6.82	$ 7.76	$ 11.75	$ 17.07	$ 7.9
4								
and gas duction revenues	$ 2,332,064	$ 1,014,097	$ 932,767	$ 458,006	$ 472,091	$ 7,723	$ 91,269	$ 5,308,0
erating costs:								
preciation, letion and ortization(1)	531,593	200,155	176,307	117,098	126,237	2,582	39,604	1,193,5
et retirement gation accretion	25,531	6,078		2,277	12,048	126		46,0
se operating enses	376,608	186,043	92,791	52,309	143,453	2,390	10,784	864,3
hering and sportation costs	28,324	30,741			22,619		577	82,2
duction taxes(2)	62,791	9,551		64,345	(61,361)	454		75,7
ome tax	490,206	233,949	318,561	75,472	98,511	760	13,300	1,230,7
	1,515,053	666,517	587,659	311,501	341,507	6,312	64,265	3,492,8
ults of rations	$ 817,011	$ 347,580	$ 345,108	$ 146,505	$ 130,584	$ 1,411	$ 27,004	$ 1,815,2
ortization rate boe	$ 7.88	$ 6.28	$ 5.60	$ 6.53	$ 6.49	$ 5.87	$ 14.27	$ 7.0

(1) This amount only reflects DD&A of capitalized costs of oil and gas proved properties and, therefore, does not agree with DD&A reflected on Note 12, Business Segment Information.

(2)

This amount only reflects amounts directly related to oil and gas producing properties and, therefore, does not agree with severance and other taxes reflected on Note 12, Business Segment Information.

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Costs Incurred In Oil And Gas Property Acquisition, Exploration, And Development Activities

	United States	Canada	Egypt	Australia	North Sea	Argentina	Other International	Total
				(In thousands)				
006								
cquisitions:								
roved	$ 1,246,748	$ 5,859	$	$ 23,981	$	$ 800,673	$	$ 2,077,261
nproved	71,260				3,060	321,500		395,820
xploration	102,711	212,700	84,404	127,246	110,465	76,503	2,028	716,057
evelopment	1,660,523	891,008	376,877	58,573	219,033	39,067	10,260	3,255,341
osts incurred(1)	$ 3,081,242	$ 1,109,567	$ 461,281	$ 209,800	$ 332,558	$ 1,237,743	$ 12,288	$ 6,444,479
) Includes capitalized interest and asset retirement costs as follows:								
apitalized interest	$ 29,300	$ 21,793	$ 6,389	$ 3,819	$	$	$	$ 61,301
sset retirement osts	$ 348,057	$ 25,301	$	$ 2,108	$	$ 15,146	$	$ 390,612
005								
cquisitions:								
roved	$ 22,126	$ 27,037	$	$	$	$	$	$ 49,163
nproved	2,721					1,508		4,229
xploration	67,343	286,421	67,028	94,385	24,867	22,491		562,535
evelopment	1,551,702	947,247	293,021	136,782	440,045	3,472	22,521	3,394,790
osts incurred(1)	$ 1,643,892	$ 1,260,705	$ 360,049	$ 231,167	$ 464,912	$ 27,471	$ 22,521	$ 4,010,717
) Includes capitalized interest and asset retirement costs as follows:								
apitalized interest	$ 25,600	$ 17,336	$ 7,725	$ 2,727	$ 3,600	$	$	$ 56,988
sset retirement osts	$ 532,784	$ 31,021	$	$ 10,624	$ (27,760)	$	$	$ 546,669
004								
cquisitions:								
roved	$ 1,081,760	$ 9,839	$	$	$ 1,677	$	$	$ 1,093,276
nproved	126,770							126,770
xploration	85,375	179,990	62,771	53,736	15,002	4,277		401,151
evelopment	718,924	602,755	245,704	86,706	352,171	398	21,818	2,028,476
osts incurred(1)	$ 2,012,829	$ 792,584	$ 308,475	$ 140,442	$ 368,850	$ 4,675	$ 21,818	$ 3,649,673

) Includes capitalized interest and asset retirement costs as follows:

apitalized interest	$ 21,000	$ 15,152	$ 6,563	$ 1,748	$ 6,285	$	$	$ 50,748
sset retirement osts	$ 183,915	$ 10,681	$	$	$ (643)	$	$	$ 193,953

Capitalized Costs

The following table sets forth the capitalized costs and associated accumulated depreciation, depletion and amortization, including impairments, relating to the Company s oil and gas production, exploration and development activities:

	United States	Canada	Egypt	Australia	North Sea	Argentina	Other International	To
				(In thousands)				
operties	$ 15,994,802	$ 6,179,127	$ 2,238,035	$ 1,708,255	$ 2,032,133	$ 955,137	$ 432	$ 29,
properties	332,263	339,157	139,857	63,327	73,046	337,093		1,
	16,327,065	6,518,284	2,377,892	1,771,582	2,105,179	1,292,230	432	30,
ted DD&A	(6,347,121)	(1,536,844)	(1,219,794)	(778,006)	(563,550)	(104,194)	999	(10,
	$ 9,979,944	$ 4,981,440	$ 1,158,098	$ 993,576	$ 1,541,629	$ 1,188,036	$ 1,431	$ 19,
operties	$ 12,983,185	$ 5,117,868	$ 2,193,279	$ 1,512,215	$ 1,735,646	$ 46,264	$ 248,332	$ 23,
properties	264,147	291,120	132,509	49,566	38,675	11,129	8,560	
	13,247,332	5,408,988	2,325,788	1,561,781	1,774,321	57,393	256,892	24,
ted DD&A	(5,607,170)	(1,208,397)	(1,008,660)	(645,244)	(384,868)	(14,559)	(177,290)	(9,
	$ 7,640,162	$ 4,200,591	$ 1,317,128	$ 916,537	$ 1,389,453	$ 42,834	$ 79,602	$ 15,

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Costs Not Being Amortized

The following table sets forth a summary of oil and gas property costs not being amortized at December 31, 2006, by the year in which such costs were incurred. There are no individually significant properties or significant development projects included in costs not being amortized. The majority of the evaluation activities are expected to be completed within five to ten years.

	Total	2006	2005	2004	2003 and Prior
			(In thousands)		
Property acquisition costs	$ 908,757	$ 453,059	$ 127,212	$ 148,428	$ 180,058
Exploration and development	351,745	151,470	111,349	52,314	36,612
Capitalized interest	24,241	5,692	8,118	2,547	7,884
Total	$ 1,284,743	$ 610,221	$ 246,679	$ 203,289	$ 224,554

Oil and Gas Reserve Information

We engage Ryder Scott Company, L.P. Petroleum Consultants as independent petroleum engineers to review our estimates of proved hydrocarbon liquid and gas reserves and provide an opinion letter on the reasonableness of Apache s internal projections. Ryder Scott opined that they were in acceptable agreement with the Company s overall reserve estimates and that the reserves they reviewed conform to the SEC s definition of proved reserves as set forth in Rule 210.4-10 (a) of Regulation S-X. The independent reviews typically cover a large percentage of major value fields, international properties and new wells drilled during the year. During 2006, 2005 and 2004, their review covered 75, 74 and 79 percent of Apache s worldwide estimated reserve value, respectively.

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

There are numerous uncertainties inherent in estimating quantities of proved reserves and projecting future rates of production and timing of development expenditures. The following reserve data only represent estimates and should not be construed as being exact.

Oil, Condensate and Natural Gas Liquids (Thousands of barrels)						**Natural Gas (Millions of cubic feet)**				
t	**Australia**	**North Sea**	**Argentina**	**China**	**Total**	**United States**	**Canada**	**Egypt**	**Australia**	**No S**
81	26,999	147,880	845	6,448	593,689	1,565,855	1,411,877	337,844	218,745	3
84	18,919	172,260	910	4,811	662,650	1,722,803	1,479,271	474,028	158,789	6
97	22,550	189,385	1,573	3,393	676,690	1,711,060	1,799,102	605,687	649,972	7
66	20,197	178,364	25,378		728,464	1,840,105	1,591,157	664,818	584,236	6
73	53,102	147,880	1,140	10,822	843,888	2,029,392	1,605,683	550,967	683,273	3
65	10,422	45,261	229	(43)	110,440	291,303	542,779	452,509	54,272	3
		389			84,929	268,386	17,273			
55)	2	(4)	(2)	(346)	(18,100)	53,816	(61,695)	(18,572)	1	
99)	(9,214)	(19,338)	(207)	(2,775)	(88,709)	(236,660)	(119,669)	(50,412)	(43,228)	
					(408)	(657)				
84	54,312	174,188	1,160	7,658	932,040	2,405,580	1,984,371	934,492	694,318	6
31	2,623	44,977	880	427	129,924	388,844	526,876	241,420	175,502	1
					3,894	17,792	5,749			
96)		1	45	(110)	2,170	23,470	(13,717)	(35,071)		
26)	(5,613)	(23,904)	(424)	(2,968)	(89,008)	(218,080)	(135,749)	(60,484)	(45,003)	
					(3,110)	(51,419)	(938)			

93	51,322	195,262	1,661	5,007	975,910	2,566,187	2,366,592	1,080,357	824,817	7
35	23,517	21,777	3,422	3,386	101,421	253,707	248,549	151,086	46,860	
			28,351		82,847	195,552	1,500			
31	24		147	(19)	(1,763)	(74,225)	(102,922)	3,965	4	
48)	(4,341)	(21,369)	(3,064)	(1,156)	(86,245)	(243,441)	(147,579)	(79,424)	(67,934)	
			(724)	(7,218)	(11,129)	(2,418)	(421)			
11	70,522	195,670	29,793		1,061,041	2,695,362	2,365,719	1,155,984	803,747	6

As of December 31, 2006, 2005 and 2004, on a barrel of equivalent basis 32, 30 and 33 percent of our estimated worldwide reserves, respectively, were classified as proved undeveloped. Approximately 22 percent of our year-end 2006 estimated proved developed reserves are classified as proved not producing. These reserves relate to zones that are either behind pipe, or that have been completed but not yet produced, or zones that have been produced in the past, but are not now producing because of mechanical reasons. These reserves may be regarded as less certain than producing reserves because they are frequently based on volumetric calculations rather than performance data. Future production associated with behind pipe reserves is scheduled to follow depletion of the currently producing zones in the same wellbores. It should be noted that additional capital may have to be spent to access these reserves. The capital and economic impact of production timing are reflected in this Note 14, under Future Net Cash Flows. The Company reports all estimated proved reserves held under production sharing agreements utilizing the economic interest method, which excludes the host country s share of reserves.

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Future Net Cash Flows

Future cash inflows are based on year-end oil and gas prices except in those instances where future natural gas or oil sales are covered by physical contract terms providing for higher or lower amounts. Operating costs, production and ad valorem taxes and future development costs are based on current costs with no escalation.

The following table sets forth unaudited information concerning future net cash flows for oil and gas reserves, net of income tax expense. Income tax expense has been computed using expected future tax rates and giving effect to tax deductions and credits available, under current laws, and which relate to oil and gas producing activities. This information does not purport to present the fair market value of the Company s oil and gas assets, but does present a standardized disclosure concerning possible future net cash flows that would result under the assumptions used.

	United States	Canada(1)	Egypt	Australia	North Sea	Argentina	China	T
			(In thousands)					
ws	$ 42,809,947	$ 22,835,940	$ 9,000,743	$ 5,747,306	$ 11,736,209	$ 1,775,939	$	$ 93
n costs	(10,930,520)	(7,602,015)	(1,101,859)	(1,804,495)	(6,905,086)	(427,363)		(28
ent costs	(3,207,033)	(1,888,896)	(1,554,931)	(985,414)	(672,059)	(190,508)		(8
x expense	(8,862,385)	(5,049,325)	(2,466,836)	(883,814)	(1,624,701)	(298,424)		(19
lows	19,810,009	8,295,704	3,877,117	2,073,583	2,534,363	859,644		37
discount	(9,910,108)	(4,714,251)	(1,404,781)	(850,124)	(923,183)	(278,584)		(18
d future ows(2)	$ 9,899,901	$ 3,581,453	$ 2,472,336	$ 1,223,459	$ 1,611,180	$ 581,060	$	$ 19
ws	$ 47,315,554	$ 29,305,244	$ 8,545,414	$ 4,298,054	$ 10,879,416	$ 77,752	$ 251,906	$ 100
n costs	(10,164,938)	(7,299,065)	(972,441)	(1,132,858)	(6,345,449)	(22,743)	(42,027)	(25
ent costs	(2,355,717)	(1,189,550)	(1,072,391)	(537,257)	(650,721)	(3,305)	(34,553)	(5
x expense	(11,098,793)	(6,232,460)	(2,307,759)	(715,294)	(1,355,266)	(5,746)	(39,906)	(21
lows	23,696,106	14,584,169	4,192,823	1,912,645	2,527,980	45,958	135,420	47
discount	(11,617,808)	(7,868,888)	(1,537,495)	(723,140)	(787,319)	(8,598)	(23,504)	(22
d future ows(2)	$ 12,078,298	$ 6,715,281	$ 2,655,328	$ 1,189,505	$ 1,740,661	$ 37,360	$ 111,916	$ 24
ws	$ 32,557,246	$ 17,140,078	$ 6,233,328	$ 3,065,332	$ 6,783,414	$ 37,659	$ 286,304	$ 66

n costs	(8,185,633)	(7,451,626)	(818,876)	(891,117)	(4,098,870)	(12,339)	(76,941)	(21
ent costs	(1,620,421)	(584,160)	(596,249)	(422,045)	(569,435)	(3,795)	(21,425)	(3
x expense	(7,342,348)	(2,461,911)	(1,790,617)	(423,263)	(617,244)	(4,268)	(38,046)	(12
lows	15,408,844	6,642,381	3,027,586	1,328,907	1,497,865	17,257	149,892	28
discount	(7,414,246)	(3,177,411)	(1,165,331)	(568,722)	(418,169)	(3,740)	(29,035)	(12
d future ows(2)	$ 7,994,598	$ 3,464,970	$ 1,862,255	$ 760,185	$ 1,079,696	$ 13,517	$ 120,857	$ 15

1) Prior to 2007, Canadian provincial tax credits were included in the estimated future net cash flows. Effective January 1, 2007, the Alberta government eliminated the Royalty Tax Credit program.

2) Estimated future net cash flows before income tax expense, discounted at 10 percent per annum, totaled approximately $29.6 billion, $35.9 billion and $22.2 billion as of December 31, 2006, 2005 and 2004, respectively.

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table sets forth the principal sources of change in the discounted future net cash flows:

	For the Year Ended December 31,		
	2006	2005	2004
	(In thousands)		
Sales, net of production costs	$ (6,192,148)	$ (5,990,000)	$ (4,383,289)
Net change in prices and production costs	(5,765,792)	13,133,104	1,119,906
Discoveries and improved recovery, net of related costs	3,256,269	5,572,707	4,404,964
Change in future development costs	(665,840)	(635,122)	103,481
Revision of quantities	(439,936)	(298,487)	(242,005)
Purchases of minerals in-place	2,161,922	201,719	2,051,068
Accretion of discount	3,592,933	2,226,336	1,660,486
Change in income taxes	1,119,235	(4,426,510)	(2,091,187)
Sales of properties	(73,817)	(121,773)	(5,825)
Change in production rates and other	(2,151,786)	(429,703)	900,635
	$ (5,158,960)	$ 9,232,271	$ 3,518,234

Impact of Pricing

The estimates of cash flows and reserve quantities shown above are based on year-end oil and gas prices, except in those cases where future natural gas or oil sales are covered by physical contracts at specified prices. Forward price volatility is largely attributable to supply and demand perceptions for natural gas and oil.

Under full-cost accounting rules, the Company reviews the carrying value of its proved oil and gas properties each quarter on a country-by-country basis. Under these rules, capitalized costs of proved oil and gas properties, net of accumulated DD&A and deferred income taxes, may not exceed the present value of estimated future net cash flows from proved oil and gas reserves, discounted at 10 percent, plus the lower of cost or fair value of unproved properties included in the costs being amortized, net of related tax effects (the ceiling). These rules generally require pricing future oil and gas production at the unescalated oil and gas prices at the end of each fiscal quarter and require a write-down if the ceiling is exceeded. Given the volatility of oil and gas prices, it is reasonably possible that the Company s estimate of discounted future net cash flows from proved oil and gas reserves could change in the near term. If oil and gas prices decline significantly, even if only for a short period of time, it is possible that write-downs of oil and gas properties could occur in the future.

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. SUPPLEMENTAL QUARTERLY FINANCIAL DATA (Unaudited)

	First	Second	Third	Fourth	Total
	(In thousands, except per share amounts)				
2006					
Revenues	$ 1,999,102	$ 2,061,518	$ 2,261,481	$ 1,966,678	$ 8,288,779
Expenses, net	1,338,181	1,337,893	1,614,417	1,445,837	5,736,328
Net income	$ 660,921	$ 723,625	$ 647,064	$ 520,841	$ 2,552,451
Income attributable to common stock	$ 659,501	$ 722,205	$ 645,644	$ 519,421	$ 2,546,771
Net income per common share(1):					
Basic	$ 2.00	$ 2.19	$ 1.96	$ 1.57	$ 7.72
Diluted	$ 1.97	$ 2.17	$ 1.94	$ 1.56	$ 7.64
2005					
Revenues	$ 1,662,288	$ 1,759,231	$ 2,061,052	$ 2,101,673	$ 7,584,244
Expenses, net	1,101,805	1,171,201	1,374,057	1,313,451	4,960,514
Net income	$ 560,483	$ 588,030	$ 686,995	$ 788,222	$ 2,623,730
Income attributable to common stock	$ 559,063	$ 586,610	$ 685,575	$ 786,802	$ 2,618,050
Net income per common share(1):					
Basic	$ 1.70	$ 1.79	$ 2.08	$ 2.39	$ 7.96
Diluted	$ 1.67	$ 1.76	$ 2.05	$ 2.35	$ 7.84

(1) The sum of the individual quarterly net income per common share amounts may not agree with year-to-date net income per common share as each quarterly computation is based on the weighted average number of common shares outstanding during that period. All potentially dilutive securities were included in each quarterly computation of diluted net income per common share, as none were antidilutive.

15. SUPPLEMENTAL GUARANTOR INFORMATION

Prior to 2001, Apache Finance Australia was a finance subsidiary of Apache with no independent operations. In this capacity, it issued approximately $270 million of publicly traded notes that are fully and unconditionally guaranteed by Apache and, beginning in 2001, Apache North America, Inc. The guarantors of Apache Finance Australia have joint and several liabilities. Similarly, Apache Finance Canada was also a finance subsidiary of Apache and had issued approximately $300 million of publicly traded notes that were fully and unconditionally guaranteed by Apache.

Generally, the issuance of publicly traded securities would subject those subsidiaries to the reporting requirements of the Securities and Exchange Commission. Since these subsidiaries had no independent operations and qualified as finance subsidiaries, they were exempted from these requirements.

During 2001, Apache contributed stock of its Australian and Canadian operating subsidiaries to Apache Finance Australia and Apache Finance Canada, respectively. As a result of these contributions, they no longer qualify as finance subsidiaries. As allowed by the SEC rules, 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 is wholly owned and has been consolidated in Apache Corporation s consolidated financial statements for all periods presented. As such, the condensed consolidating financial statements should be read in conjunction with the financial statements of Apache Corporation and subsidiaries and notes thereto of which this note is an integral part.

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
For the Year Ended December 31, 2006

	Apache Corporation	Apache North America	Apache Finance Australia	Apache Finance Canada	All Other Subsidiaries of Apache Corporation	Reclassifications & Eliminations	Consolidated
			(In thousands)				
REVENUES AND OTHER:							
Oil and gas production revenues	$ 2,920,731	$	$	$	$ 5,382,157	$ (228,635)	$ 8,074,253
Equity in net income (loss) of affiliates	1,795,327	33,997	41,733	277,944	(45,977)	(2,103,024)	
Gain on China divestiture					173,545		173,545
Other	94,369		(63)		(53,325)		40,981
	4,810,427	33,997	41,670	277,944	5,456,400	(2,331,659)	8,288,779
OPERATING EXPENSES:							
Depreciation, depletion and amortization	752,930				1,063,429		1,816,359
Asset retirement obligation accretion	65,357				23,574		88,931
Lease operating costs	614,154				976,855	(228,635)	1,362,374
Gathering and transportation costs	31,618				72,704		104,322
Severance and other taxes	108,193				445,785		553,978
General and administrative	161,625				49,709		211,334
Financing costs, net	118,429		18,003	56,444	(50,990)		141,886
	1,852,306		18,003	56,444	2,581,066	(228,635)	4,279,184
INCOME (LOSS) BEFORE INCOME TAXES	2,958,121	33,997	23,667	221,500	2,875,334	(2,103,024)	4,009,595
Provision (benefit) for income taxes	405,670		(10,330)	(18,203)	1,080,007		1,457,144
NET INCOME	2,552,451	33,997	33,997	239,703	1,795,327	(2,103,024)	2,552,451
Preferred stock dividends	5,680						5,680
INCOME ATTRIBUTABLE TO	$ 2,546,771	$ 33,997	$ 33,997	$ 239,703	$ 1,795,327	$ (2,103,024)	$ 2,546,771

COMMON STOCK

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
For the Year Ended December 31, 2005

	Apache Corporation	Apache North America	Apache Finance Australia	Apache Finance Canada	All Other Subsidiaries of Apache Corporation	Reclassifications & Eliminations	Consolidated
			(In thousands)				
REVENUES AND OTHER:							
Oil and gas production revenues	$ 2,784,339	$	$	$	$ 5,002,331	$ (329,379)	$ 7,457,291
Equity in net income of affiliates	1,636,571	34,622	46,839	275,191	(49,699)	(1,943,524)	
Other	125,812		(25)		1,166		126,953
	4,546,722	34,622	46,814	275,191	4,953,798	(2,272,903)	7,584,244
OPERATING EXPENSES:							
Depreciation, depletion and amortization	575,748				839,934		1,415,682
Asset retirement obligation accretion	31,657				22,063		53,720
Lease operating costs	477,780				892,074	(329,379)	1,040,475
Gathering and transportation costs	30,025				70,235		100,260
Severance and other taxes	103,381			1	349,876		453,258
General and administrative	167,011				31,261		198,272
Financing costs, net	76,004		18,050	56,440	(34,171)		116,323
	1,461,606		18,050	56,441	2,171,272	(329,379)	3,377,990
INCOME (LOSS) BEFORE INCOME TAXES	3,085,116	34,622	28,764	218,750	2,782,526	(1,943,524)	4,206,254
Provision (benefit) for income taxes	461,386		(5,858)	(18,959)	1,145,955		1,582,524
NET INCOME	2,623,730	34,622	34,622	237,709	1,636,571	(1,943,524)	2,623,730
Preferred stock dividends	5,680						5,680
INCOME ATTRIBUTABLE TO COMMON STOCK	$ 2,618,050	$ 34,622	$ 34,622	$ 237,709	$ 1,636,571	$ (1,943,524)	$ 2,618,050

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

For the Year Ended December 31, 2004

	Apache Corporation	Apache North America	Apache Finance Australia	Apache Finance Canada	All Other Subsidiaries of Apache Corporation	Reclassifications & Eliminations	Consolidated
			(In thousands)				
REVENUES AND OTHER:							
Oil and gas production revenues	$ 2,313,901	$	$	$	$ 3,295,849	$ (301,733)	$ 5,308,017
Equity in net income of affiliates	978,881	51,888	63,859	152,823	33,641	(1,281,092)	
Other	47,321		(25)		(22,736)		24,560
	3,340,103	51,888	63,834	152,823	3,306,754	(1,582,825)	5,332,577
OPERATING EXPENSES:							
Depreciation, depletion and amortization	551,057				671,095		1,222,152
Asset retirement obligation accretion	25,531				20,529		46,060
Lease operating costs	375,894				790,217	(301,733)	864,378
Gathering and transportation costs	28,317				53,944		82,261
Severance and other taxes	65,559			(208)	28,397		93,748
General and administrative	138,058				35,136		173,194
China litigation provision					71,216		71,216
Financing costs, net	86,980		18,047	40,363	(28,905)		116,485
	1,271,396		18,047	40,155	1,641,629	(301,733)	2,669,494
INCOME (LOSS) BEFORE INCOME TAXES	2,068,707	51,888	45,787	112,668	1,665,125	(1,281,092)	2,663,083
Provision (benefit) for income taxes	398,636		(6,101)	(85,767)	686,244		993,012
INCOME (LOSS) BEFORE CHANGE IN ACCOUNTING PRINCIPLE	1,670,071	51,888	51,888	198,435	978,881	(1,281,092)	1,670,071

Cumulative effect of change in accounting principle, net of income tax	(1,317)						(1,317)
NET INCOME	1,668,754	51,888	51,888	198,435	978,881	(1,281,092)	1,668,754
Preferred stock dividends	5,680						5,680
INCOME ATTRIBUTABLE TO COMMON STOCK	$ 1,663,074	$ 51,888	$ 51,888	$ 198,435	$ 978,881	$ (1,281,092)	$ 1,663,074

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2006

	Apache Corporation	Apache North America	Apache Finance Australia	Apache Finance Canada	All Other Subsidiaries of Apache Corporation	Reclassifications & Eliminations	Consolidated
				(In thousands)			
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 1,508,882	$	$ (20,706)	$ (21,372)	$ 2,846,102	$	$ 4,312,906
CASH FLOWS FROM INVESTING ACTIVITIES:							
Additions to property and equipment	(1,834,732)				(2,056,907)		(3,891,639)
Acquisition of BP p.l.c. properties	(833,820)						(833,820)
Acquisition of Pioneer s Argentine operations					(704,809)		(704,809)
Acquisition of Amerada Hess properties	(229,134)						(229,134)
Acquisition of Pan American Fueguina S.R.L. properties					(396,056)		(396,056)
Additions to gas gathering, transmission and processing facilities	(53,656)				(194,933)		(248,589)
Proceeds from China divestiture					264,081		264,081

Proceeds from sale of Egyptian properties					409,203		409,203
Proceeds from sales of oil and gas properties					4,740		4,740
Investment in and advances to subsidiaries, net	6,270	(18,050)			(41,333)	53,113	
Other, net	120,997				(270,556)		(149,559)
NET CASH USED IN INVESTING ACTIVITIES	(2,824,075)	(18,050)			(2,986,570)	53,113	(5,775,582)
CASH FLOWS FROM FINANCING ACTIVITIES:							
Debt borrowings	1,714,813		2,654	1,651	21,685	39,160	1,779,963
Payments on debt	(143,900)				(6,366)		(150,266)
Dividends paid	(154,143)						(154,143)
Common stock activity	31,963	18,050	18,050	19,721	36,452	(92,273)	31,963
Treasury stock activity, net	(166,907)						(166,907)
Cost of debt and equity transactions	(2,061)						(2,061)
Other	35,791						35,791
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,315,556	18,050	20,704	21,372	51,771	(53,113)	1,374,340
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	363		(2)		(88,697)		(88,336)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3,785		2	1	225,072		228,860
CASH AND CASH EQUIVALENTS	$ 4,148	$	$	$ 1	$ 136,375	$	$ 140,524

AT END OF
YEAR

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2005

	Apache Corporation	Apache North America	Apache Finance Australia	Apache Finance Canada	All Other Subsidiaries of Apache Apache Corporation	Reclassifications & Eliminations	Consolidated
				(In thousands)			
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 1,976,399	$	$ (21,000)	$ (40,186)	$ 2,417,057	$	$ 4,332,270
CASH FLOWS FROM INVESTING ACTIVITIES:							
Additions to property and equipment	(1,572,043)				(2,143,813)		(3,715,856)
Proceeds from sales of oil and gas properties	78,468				1,195		79,663
Investment in and advances to subsidiaries, net	26,088	(18,050)			(60,908)	52,870	
Other, net	(23,612)				(72,037)		(95,649)
NET CASH USED IN INVESTING ACTIVITIES	(1,491,099)	(18,050)			(2,275,563)	52,870	(3,731,842)
CASH FLOWS FROM FINANCING ACTIVITIES:							
Long-term borrowings	153,087		2,950	554	(49,058)	45,835	153,368
Payments on long-term debt	(548,700)				(830)		(549,530)
Dividends paid	(117,395)						(117,395)
Common stock activity	18,864	18,050	18,050	39,630	22,975	(98,705)	18,864
Treasury stock activity, net	6,620						6,620
Cost of debt and equity transactions	(861)						(861)

Other	6,273						6,273
NET CASH PROVIDED BY FINANCING ACTIVITIES	(482,112)	18,050	21,000	40,184	(26,913)	(52,870)	(482,661)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,188			(2)	114,581		117,767
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	597		2	3	110,491		111,093
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 3,785	$	$ 2	$ 1	$ 225,072	$	$ 228,860

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2004

	Apache Corporation	Apache North America	Apache Finance Australia	Apache Finance Canada	All Other Subsidiaries of Apache Corporation	Reclassifications & Eliminations	Consolidated
				(In thousands)			
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 1,486,100	$	$ (17,500)	$ (356,371)	$ 2,119,290	$	$ 3,231,519
CASH FLOWS FROM INVESTING ACTIVITIES:							
Additions to property and equipment	(900,464)				(1,556,024)		(2,456,488)
Acquisitions	(880,136)						(880,136)
Proceeds from sales of oil and gas properties	3,210				832		4,042
Investment in and advances to subsidiaries, net	62,069	(18,050)			(373,353)	329,334	
Other, net	(27,003)				(51,428)		(78,431)
NET CASH USED IN INVESTING ACTIVITIES	(1,742,324)	(18,050)			(1,979,973)	329,334	(3,411,013)
CASH FLOWS FROM FINANCING ACTIVITIES:							
Long-term borrowings	544,561		(550)	347,550	(184,717)	(162,020)	544,824
Payments on long-term debt	(283,400)						(283,400)
Dividends paid	(90,369)						(90,369)
Common stock activity	21,595	18,050	18,050	8,823	122,391	(167,314)	21,595
Treasury stock activity, net	12,472						12,472
	(2,303)						(2,303)

Cost of debt and equity transactions							
Other	54,265						54,265
NET CASH PROVIDED BY FINANCING ACTIVITIES	256,821	18,050	17,500	356,373	(62,326)	(329,334)	257,084
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	597			2	76,991		77,590
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			2	1	33,500		33,503
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 597	$	$ 2	$ 3	$ 110,491	$	$ 111,093

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATING BALANCE SHEET
For the Year Ended December 31, 2006

	Apache Corporation	Apache North America	Apache Finance Australia	Apache Finance Canada	All Other Subsidiaries of Apache Corporation	Reclassifications & Eliminations	Consolida
				(In thousands)			
ASSETS							
RENT ASSETS:							
and cash equivalents	$ 4,148	$	$	$ 1	$ 136,375	$	$ 140
vables, net of allowance	824,404		861		826,399		1,651
tories	30,580				289,806		320
ng advances and other	374,067				3,630		377
	1,233,199		861	1	1,256,210		2,490
PERTY AND PMENT, NET	9,960,531				11,385,721		21,346
ER ASSETS:							
ompany receivable, net	1,013,099		(6,355)	(253,715)	(753,029)		
will, net					189,252		189
y in affiliates	7,761,686	279,129	511,806	1,908,263	(1,171,863)	(9,289,021)	
red charges and other	122,893			3,985	155,522		282
	$ 20,091,408	$ 279,129	$ 506,312	$ 1,658,534	$ 11,061,813	$ (9,289,021)	$ 24,308
LIABILITIES AND SHAREHOLDERS EQUITY							
RENT LIABILITIES:							
unts payable	$ 381,780	$	$	$ 57	$ 263,052	$	$ 644
accrued expenses	958,294		2,599	38,201	365,535		1,364
nt Debt	1,570,500		169,837		61,757		1,802
	2,910,574		172,436	38,258	690,344		3,811
G-TERM DEBT	1,271,845		99,809	646,926	1,251		2,019
ERRED CREDITS AND ER							
CURRENT LIABILITIES:							

he taxes	1,631,847		(45,062)	4,273	2,027,931		3,618
nces from gas purchasers	43,167						43
retirement obligation	932,844				438,009		1,370
	110,078				142,592		252
	2,717,936		(45,062)	4,273	2,608,532		5,285
MITMENTS AND TINGENCIES							
REHOLDERS EQUITY	13,191,053	279,129	279,129	969,077	7,761,686	(9,289,021)	13,191
	$ 20,091,408	$ 279,129	$ 506,312	$ 1,658,534	$ 11,061,813	$ (9,289,021)	$ 24,308

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATING BALANCE SHEET
For the Year Ended December 31, 2005

	Apache Corporation	Apache North America	Apache Finance Australia	Apache Finance Canada	All Other Subsidiaries of Apache Corporation	Reclassifications & Eliminations	Consolidat
			(In thousands)				
ASSETS							
RRENT ASSETS:							
h and cash equivalents	$ 3,785	$	$ 2	$ 1	$ 225,072	$	$ 228,8
eivables, net of allowance	516,208				928,337		1,444,5
ntories	30,276				179,394		209,6
ling advances and other	188,607				90,395		279,0
	738,876		2	1	1,423,198		2,162,0
OPERTY AND UIPMENT, NET	7,680,469				9,110,871		16,791,3
HER ASSETS:							
rcompany receivable, net	1,058,228		(3,936)	(254,216)	(800,076)		
dwill, net					189,252		189,2
ity in affiliates	5,833,283	315,460	558,215	1,609,007	(1,183,600)	(7,132,365)	
erred charges and other	44,974			4,301	79,852		129,1
	$ 15,355,830	$ 315,460	$ 554,281	$ 1,359,093	$ 8,819,497	$ (7,132,365)	$ 19,271,7
LIABILITIES AND SHAREHOLDERS EQUITY							
RRENT LIABILITIES:							
ounts payable	$ 378,247	$	$	$ 946	$ 335,405	$	$ 714,5
rued expenses and other	687,125		5,619	38,343	740,879		1,471,9
	1,065,372		5,619	39,289	1,076,284		2,186,5
NG-TERM DEBT	1,271,431		269,411	646,860	4,252		2,191,9
FERRED CREDITS AND HER NONCURRENT BILITIES:							
ome taxes	1,140,457		(36,209)	4,782	1,471,599		2,580,6

ances from gas purchasers	68,768						68,7
et retirement obligation	972,024				390,334		1,362,3
and gas derivative ruments	152,430						152,4
er	144,133				43,745		187,8
	2,477,812		(36,209)	4,782	1,905,678		4,352,0
MMITMENTS AND NTINGENCIES							
AREHOLDERS EQUITY	10,541,215	315,460	315,460	668,162	5,833,283	(7,132,365)	10,541,2
	$ 15,355,830	$ 315,460	$ 554,281	$ 1,359,093	$ 8,819,497	$ (7,132,365)	$ 19,271,7

Board of Directors

Frederick M. Bohen (3)(5)
Former Executive Vice President and
Chief Operating Officer,
The Rockefeller University

G. Steven Farris (1)
President, Chief Executive Officer and
Chief Operating Officer,
Apache Corporation

Randolph M. Ferlic, M.D. (1)(2)
Founder and Former President,
Surgical Services of the Great Plains, P.C.

Eugene C. Fiedorek (2)
Private Investor, Former Managing Director,
EnCap Investments L.C.

A. D. Frazier, Jr. (3)(5)
Chairman and Chief Executive Officer,
Danka Business Systems PLC

Patricia Albjerg Graham(4)
Charles Warren Research Professor Emerita
of the History of American Education,
Harvard University

John A. Kocur (1)(3)
Attorney at Law; Former Vice Chairman of the Board,
Apache Corporation

George D. Lawrence (1)(3)
Private Investor; Former Chief Executive Officer,
The Phoenix Resource Companies, Inc.

F. H. Merelli (1)(2)
Chairman of the Board, Chief Executive Officer
and President, Cimarex Energy Co.

Rodman D. Patton (2)
Former Managing Director,
Merrill Lynch Energy Group

Charles J. Pitman (4)
Former Regional President Middle East/Caspian/Egypt/India, BP Amoco plc;
Sole Member, Shaker Mountain Energy Associates, LLC

Raymond Plank (1)
Founder and Chairman of the Board,
Apache Corporation

Jay A. Precourt (4)
Chairman of the Board, Hermes Consolidated, Inc.

(1) Executive Committee

(2) Audit Committee

(3) Management Development and Compensation Committee

(4) Corporate Governance and Nominating Committee

(5) Stock Option Plan Committee

Officers

Raymond Plank
Chairman of the Board

G. Steven Farris
President, Chief Executive Officer and
Chief Operating Officer

Michael S. Bahorich
Executive Vice President Exploration and Production Technology

John A. Crum
Executive Vice President

Rodney J. Eichler
Executive Vice President and General Manager,
Apache Egypt Companies

Roger B. Plank
Executive Vice President and Chief Financial Officer

Floyd R. Price
Executive Vice President Eurasia, Latin America
and New Ventures

Jon A. Jeppesen
Senior Vice President

P. Anthony Lannie
Senior Vice President and General Counsel

Sarah B. Teslik

Senior Vice President Policy and Governance

Jeffrey M. Bender
Vice President Human Resources

Michael J. Benson
Vice President Security

Thomas P. Chambers
Vice President Corporate Planning

John J. Christmann
Vice President Business Development

Matthew W. Dundrea
Vice President and Treasurer

Robert J. Dye
Vice President Investor Relations

Rebecca A. Hoyt
Vice President and Controller

Anthony R. Lentini, Jr.
Vice President Public and International Affairs

Janine J. McArdle
Vice President Oil and Gas Marketing

W. Kregg Olson
Vice President Corporate Reservoir Engineering

Jon W. Sauer
Vice President Tax

Cheri L. Peper
Corporate Secretary

Shareholder Information
Stock Data

	Price Range		Dividends per Share	
	High	**Low**	**Declared**	**Paid**
2006				
First Quarter	$ 76.25	$ 63.17	$ .10	$ .10
Second Quarter	75.66	56.50	.10	.10
Third Quarter	72.40	59.18	.15	.10
Fourth Quarter	70.50	59.99	.15	.15
2005				
First Quarter	$ 65.90	$ 47.45	$ .08	$ .08
Second Quarter	67.99	51.52	.08	.08
Third Quarter	78.60	64.85	.10	.08
Fourth Quarter	75.95	59.36	.10	.10

The Company has paid cash dividends on its common stock for 42 consecutive years through December 31, 2006. Future dividend payments will depend upon the Company s level of earnings, financial requirements and other relevant factors.

Apache common stock is listed on the New York and Chicago stock exchanges and the NASDAQ National Market (symbol APA). At December 31, 2006, the Company s shares of common stock outstanding were held by approximately 7,000 shareholders of record and 319,000 beneficial owners. Also listed on the New York Stock Exchange are:

Apache Finance Canada s 7.75% notes, due 2029 (symbol APA 29)

Corporate Offices
One Post Oak Central
2000 Post Oak Boulevard
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Houston, Texas 77056-4400
(713) 296-6000

Independent Public Accountants
Ernst & Young LLP
Five Houston Center
1401 McKinney Street, Suite 1200
Houston, Texas 77010-2007

Stock Transfer Agent and Registrar
Wells Fargo Bank, N.A.
Attn: Shareowner Services
P.O. Box 64854
South St. Paul, Minnesota 55164-0854
(651) 450-4064 or (800) 468-9716

Communications concerning the transfer of shares, lost certificates, dividend checks, duplicate mailings or change of address should be directed to the stock transfer agent. Shareholders can access account information on the web site: http://www.shareowneronline.com

Dividend Reinvestment Plan

Shareholders of record may invest their dividends automatically in additional shares of Apache common stock at the market price. Participants may also invest up to an additional $25,000 in Apache shares each quarter through this service. All bank service fees and brokerage commissions on purchases are paid by Apache. A prospectus describing the terms of the Plan and an authorization form may be obtained from the Company s stock transfer agent, Wells Fargo Bank, N.A.

Direct Registration

Shareholders of record may hold their shares of Apache common stock in book-entry form. This eliminates costs related to safekeeping or replacing paper stock certificates. In addition, shareholders of record may request electronic movement of book-entry shares between your account with the Company s stock transfer agent and your broker. Stock certificates may be converted to book-entry shares at any time. Questions regarding this service may be directed to the Company s stock transfer agent, Wells Fargo Bank, N.A.

Annual Meeting

Apache will hold its annual meeting of shareholders on Wednesday, May 2, 2007, at 10 a.m. in the Ballroom, Hilton Houston Post Oak, 2001 Post Oak Boulevard, Houston, Texas. Apache plans to web cast the annual meeting live; connect through the Apache web site: http://www.apachecorp.com

Stock Held in Street Name

The Company maintains a direct mailing list to ensure that shareholders with stock held in brokerage accounts receive information on a timely basis. Shareholders wanting to be added to this list should direct their requests to Apache s Public and International Affairs Department, 2000 Post Oak Boulevard, Suite 100, Houston, Texas, 77056-4400, by calling (713) 296-6157 or by registering on Apache s web site: http://www.apachecorp.com

Form 10-K Request

Shareholders and other persons interested in obtaining, without cost, a copy of the Company s Form 10-K filed with the Securities and Exchange Commission may do so by writing to Cheri L. Peper, Corporate Secretary, 2000 Post Oak Boulevard, Suite 100, Houston, Texas, 77056-4400.

Investor Relations

Shareholders, brokers, securities analysts or portfolio managers seeking information about the Company are welcome to contact Robert J. Dye, Vice President of Investor Relations, at (713) 296-6662.

Members of the news media and others seeking information about the Company should contact Apache s Public and International Affairs Department at (713) 296-6107.

Web site: http://www.apachecorp.com

EXHIBIT INDEX

Exhibit No.	Description
2.1	Agreement and Plan of Merger among Registrant, YPY Acquisitions, Inc. and The Phoenix Resource Companies, Inc., dated March 27, 1996 (incorporated by reference to Exhibit 2.1 to Registrant s Registration Statement on Form S-4, Registration No. 333-02305, filed April 5, 1996)
2.2	Purchase and Sale Agreement by and between BP Exploration & Production Inc., as seller, and Registrant, as buyer, dated January 11, 2003 (incorporated by reference to Exhibit 2.1 to Registrant s Current Report on Form 8-K, dated and filed January 13, 2003, SEC File No. 001-4300)
2.3	Sale and Purchase Agreement by and between BP Exploration Operating Company Limited, as seller, and Apache North Sea Limited, as buyer, dated January 11, 2003 (incorporated by reference to Exhibit 2.2 to Registrant s Current Report on Form 8-K, dated and filed January 13, 2003, SEC File No. 001-4300)
3.1	Restated Certificate of Incorporation of Registrant, dated February 11, 2004, as filed with the Secretary of State of Delaware on February 12, 2004 (incorporated by reference to Exhibit 3.1 to Registrant s Annual Report on Form 10-K for year ended December 31, 2003, SEC File No. 001-4300)
*3.2	Bylaws of Registrant, as amended December 14, 2006
4.1	Form of Certificate for Registrant s Common Stock (incorporated by reference to Exhibit 4.1 to Registrant s Quarterly Report on Form 10-Q for the quarter ended March 31, 2004, SEC File No. 001-4300)
4.2	Form of Certificate for Registrant s 5.68% Cumulative Preferred Stock, Series B (incorporated by reference to Exhibit 4.2 to Amendment No. 2 on Form 8-K/A to Registrant s Current Report on Form 8-K, dated and filed April 18, 1998, SEC File No. 001-4300)
4.3	Rights Agreement, dated January 31, 1996, between Registrant and Norwest Bank Minnesota, N.A., rights agent, relating to the declaration of a rights dividend to Registrant s common shareholders of record on January 31, 1996 (incorporated by reference to Exhibit(a) to Registrant s Registration Statement on Form 8-A, dated January 24, 1996, SEC File No. 001-4300)
4.4	Amendment No. 1, dated as of January 31, 2006, to the Rights Agreement dated as of December 31, 1996, between Apache Corporation, a Delaware corporation, and Wells Fargo Bank, N.A. (successor to Norwest Bank Minnesota, N.A.) (incorporated by reference to Exhibit 4.4 to Registrant s Amendment No. 1 to Registration Statement on Form 8-A, dated January 31, 2006, SEC File No. 001-4300)
4.5	Senior Indenture, dated February 15, 1996, between Registrant and JPMorgan Chase Bank, formerly known as The Chase Manhattan Bank, as trustee, governing the senior debt securities and guarantees (incorporated by reference to Exhibit 4.6 to Registrant s Registration Statement on Form S-3, dated May 23, 2003, Reg. No. 333-105536)
4.6	First Supplemental Indenture to the Senior Indenture, dated as of November 5, 1996, between Registrant and JPMorgan Chase Bank, formerly known as The Chase Manhattan Bank, as trustee, governing the senior debt securities and guarantees (incorporated by reference to Exhibit 4.7 to Registrant s Registration Statement on Form S-3, dated May 23, 2003, Reg. No. 333-105536)
4.7	Form of Indenture among Apache Finance Pty Ltd, Registrant and The Chase Manhattan Bank, as trustee, governing the debt securities and guarantees (incorporated by reference to Exhibit 4.1 to Registrant s Registration Statement on Form S-3, dated November 12, 1997, Reg. No. 333-339973)
4.8	

	Form of Indenture among Registrant, Apache Finance Canada Corporation and The Chase Manhattan Bank, as trustee, governing the debt securities and guarantees (incorporated by reference to Exhibit 4.1 to Amendment No. 1 to Registrant s Registration Statement on Form S-3, dated November 12, 1999, Reg. No. 333-90147)
*10.1	Form of Amended and Restated Credit Agreement, dated as of May 9, 2006, among Registrant, the Lenders named therein, JPMorgan Chase Bank, as Administrative Agent, Citibank, N.A. and Bank of America, N.A., as Co-Syndication Agents, and BNP Paribas and UBS Loan Finance LLC, as Co-Documentation Agents

Exhibit No.	Description
10.2	Form of Credit Agreement, dated as of May 12, 2005, among Registrant, the Lenders named therein, JPMorgan Chase Bank, N.A., as Global Administrative Agent, J.P. Morgan Securities Inc. and Banc of America Securities, LLC, as Co-Lead Arrangers and Joint Bookrunners, Bank of America, N.A. and Citibank, N.A., as U.S. Co-Syndication Agents, and Calyon New York Branch and Société Générale, as U.S. Co-Documentation Agents (excluding exhibits and schedules) (incorporated by reference to Exhibit 10.01 to Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005, SEC File No. 001-4300)
10.3	Form of Credit Agreement, dated as of May 12, 2005, among Apache Canada Ltd, a wholly-owned subsidiary of Registrant, the Lenders named therein, JPMorgan Chase Bank, N.A., as Global Administrative Agent, RBC Capital Markets and BMO Nesbitt Burns, as Co-Lead Arrangers and Joint Bookrunners, Royal Bank of Canada, as Canadian Administrative Agent, Bank of Montreal and Union Bank of California, N.A., Canada Branch, as Canadian Co-Syndication Agents, and The Toronto-Dominion Bank and BNP Paribas (Canada), as Canadian Co-Documentation Agents (excluding exhibits and schedules) (incorporated by reference to Exhibit 10.02 to Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005, SEC File No. 001-4300)
10.4	Form of Credit Agreement, dated as of May 12, 2005, among Apache Energy Limited, a wholly-owned subsidiary of Registrant, the Lenders named therein, JPMorgan Chase Bank, N.A., as Global Administrative Agent, Citigroup Global Markets Inc. and Deutsche Bank Securities Inc., as Co-Lead Arrangers and Joint Bookrunners, Citisecurities Limited, as Australian Administrative Agent, Deutsche Bank AG, Sydney Branch, and JPMorgan Chase Bank, as Australian Co-Syndication Agents, and Bank of America, N.A., Sydney Branch, and UBS AG, Australia Branch, as Australian Co-Documentation Agents (excluding exhibits and schedules) (incorporated by reference to Exhibit 10.03 to Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005, SEC File No. 001-4300)
10.5	Form of Five-Year Credit Agreement, dated May 28, 2004, among Registrant, the Lenders named therein, JPMorgan Chase Bank, as Administrative Agent, Citibank N.A. and Bank of America, N.A., as Co-Syndication Agents, and Barclays Bank PLC and UBS Loan Finance LLC. as Co-Documentation Agents (excluding exhibits and schedules) (incorporated by reference to Exhibit 10.1 to Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2004, SEC File No. 001-4300)
10.6	Form of First Amendment to Combined Credit Agreements, dated May 28, 2004, among Registrant, Apache Energy Limited, Apache Canada Ltd., the Lenders named therein, JP Morgan Chase Bank, as Global Administrative Agent, Bank of America, N.A., as Global Syndication Agent, and Citibank, N.A., as Global Documentation Agent (excluding exhibits and schedules) (incorporated by reference to Exhibit 10.2 to Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2004, SEC File No. 001-4300)
10.7	Concession Agreement for Petroleum Exploration and Exploitation in the Khalda Area in Western Desert of Egypt by and among Arab Republic of Egypt, the Egyptian General Petroleum Corporation and Phoenix Resources Company of Egypt, dated April 6, 1981 (incorporated by reference to Exhibit 19(g) to Phoenix s Annual Report on Form 10-K for year ended December 31, 1984, SEC File No. 1-547)
10.8	Amendment, dated July 10, 1989, to Concession Agreement for Petroleum Exploration and Exploitation in the Khalda Area in Western Desert of Egypt by and among Arab Republic of Egypt, the Egyptian General Petroleum Corporation and Phoenix Resources Company of Egypt incorporated by reference to Exhibit 10(d)(4) to Phoenix s Quarterly Report on Form 10-Q for

	quarter ended June 30, 1989, SEC File No. 1-547)
10.9	Farmout Agreement, dated September 13, 1985 and relating to the Khalda Area Concession, by and between Phoenix Resources Company of Egypt and Conoco Khalda Inc. (incorporated by reference to Exhibit 10.1 to Phoenix s Registration Statement on Form S-1, Registration No. 33-1069, filed October 23, 1985)
10.10	Amendment, dated March 30, 1989, to Farmout Agreement relating to the Khalda Area Concession, by and between Phoenix Resources Company of Egypt and Conoco Khalda Inc. (incorporated by reference to Exhibit 10(d)(5) to Phoenix s Quarterly Report on Form 10-Q for quarter ended June 30, 1989, SEC File No. 1-547)

Exhibit No.	Description
10.11	Amendment, dated May 21, 1995, to Concession Agreement for Petroleum Exploration and Exploitation in the Khalda Area in Western Desert of Egypt between Arab Republic of Egypt, the Egyptian General Petroleum Corporation, Repsol Exploration Egypt S.A., Phoenix Resources Company of Egypt and Samsung Corporation (incorporated by reference to Exhibit 10.12 to Registrant s Annual Report on Form 10-K for year ended December 31, 1997, SEC File No. 001-4300)
10.12	Concession Agreement for Petroleum Exploration and Exploitation in the Qarun Area in Western Desert of Egypt, between Arab Republic of Egypt, the Egyptian General Petroleum Corporation, Phoenix Resources Company of Qarun and Apache Oil Egypt, Inc., dated May 17, 1993 (incorporated by reference to Exhibit 10(b) to Phoenix s Annual Report on Form 10-K for year ended December 31, 1993, SEC File No. 1-547)
10.13	Agreement for Amending the Gas Pricing Provisions under the Concession Agreement for Petroleum Exploration and Exploitation in the Qarun Area, effective June 16, 1994 (incorporated by reference to Exhibit 10.18 to Registrant s Annual Report on Form 10-K for year ended December 31, 1996, SEC File No. 001-4300)
10.14	Apache Corporation Corporate Incentive Compensation Plan A (Senior Officers Plan), dated July 16, 1998 (incorporated by reference to Exhibit 10.13 to Registrant s Annual Report on Form 10-K for year ended December 31, 1998, SEC File No. 001-4300)
10.15	Apache Corporation Corporate Incentive Compensation Plan B (Strategic Objectives Format), dated July 16, 1998 (incorporated by reference to Exhibit 10.14 to Registrant s Annual Report on Form 10-K for year ended December 31, 1998, SEC File No. 001-4300).
* 10.16	Apache Corporation 401(k) Savings Plan, dated January 1, 2007
* 10.17	Apache Corporation Money Purchase Retirement Plan, dated January 1, 2007
* 10.18	Non-Qualified Retirement/Savings Plan of Apache Corporation, amended and restated as of January 1, 2005
10.19	Apache Corporation 1990 Stock Incentive Plan, as amended and restated September 13, 2001 (incorporated by reference to Exhibit 10.01 to Registrant s Quarterly Report on Form 10-Q, as amended by Form 10-Q/A, for the quarter ended September 30, 2001, SEC File No. 001-4300)
10.20	Apache Corporation 1995 Stock Option Plan, as amended and restated September 15, 2005, effective as of January 1, 2005 (incorporated by reference to Exhibit 10.1 to Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, SEC File No. 001-4300)
10.21	Apache Corporation 2000 Share Appreciation Plan, as amended and restated September 15, 2005, effective as of January 1, 2005 (incorporated by reference to Exhibit 10.4 to Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, SEC File No. 001-4300)
10.22	Apache Corporation 1996 Performance Stock Option Plan, as amended and restated September 13, 2001 (incorporated by reference to Exhibit 10.03 to Registrant s Quarterly Report on Form 10-Q, as amended by Form 10-Q/A, for the quarter ended September 30, 2001, SEC File No. 001-4300)
10.23	Apache Corporation 1998 Stock Option Plan, as amended and restated September 15, 2005, effective as of January 1, 2005 (incorporated by reference to Exhibit 10.2 to Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, SEC File No. 001-4300)
10.24	Apache Corporation 2000 Stock Option Plan, as amended and restated September 15, 2005, effective as of January 1, 2005 (incorporated by reference to Exhibit 10.3 to Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, SEC File No. 001-4300)
10.25	Apache Corporation 2003 Stock Appreciation Rights Plan, dated and effective May 1, 2003 (incorporated by reference to Exhibit 10.31 to Registrant s Annual Report on Form 10-K for year

ended December 31, 2003, SEC File No. 001-4300)

10.26 Apache Corporation 2005 Stock Option Plan, dated February 3, 2005 (incorporated by reference to Appendix B to the Proxy Statement relating to Apache s 2005 annual meeting of stockholders, as filed with the Commission on March 28, 2005, Commission File No. 001-4300)

10.27 Apache Corporation 2005 Share Appreciation Plan, dated February 3, 2005 (incorporated by reference to Appendix C to the Proxy Statement relating to Apache s 2005 annual meeting of stockholders, as filed with the Commission on March 28, 2005, Commission File No. 001-4300)

Exhibit No.	Description
10.28	1990 Employee Stock Option Plan of The Phoenix Resource Companies, Inc., as amended through September 29, 1995, effective April 9, 1990 (incorporated by reference to Exhibit 10.33 to Registrant s Annual Report on Form 10-K for year ended December 31, 1996, SEC File No. 001-4300)
10.29	Apache Corporation Income Continuance Plan, as amended and restated May 3, 2001 (incorporated by reference to Exhibit 10.30 to Registrant s Annual Report on Form 10-K for the year ended December 31, 2001, SEC File No. 001-4300)
10.30	Apache Corporation Deferred Delivery Plan, as amended and restated September 15, 2005, effective as of January 1, 2005 (incorporated by reference to Exhibit 10.5 to Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, SEC File No. 001-4300)
10.31	Apache Corporation Executive Restricted Stock Plan, as amended and restated December 14, 2005, effective January 1, 2005 (incorporated by reference to Exhibit 10.36 to Registrant s Annual Report on Form 10-K for year ended December 31, 2005, SEC File No. 001-4300)
10.32	Apache Corporation Non-Employee Directors Compensation Plan, as amended and restated September 15, 2005, effective as of January 1, 2005 (incorporated by reference to Exhibit 10.7 to Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, SEC File No. 001-4300)
10.33	Apache Corporation Outside Directors Retirement Plan, as amended and restated May 4, 2006, effective as of January 1, 2006 (incorporated by reference to Exhibit 10.1 to Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2006, SEC File No. 001-4300)
10.34	Apache Corporation Equity Compensation Plan for Non-Employee Directors, as amended and restated February 5, 2004 (incorporated by reference to Exhibit 10.38 to Registrant s Annual Report on Form 10-K for year ended December 31, 2003, SEC File No. 001-4300)
10.35	Amended and Restated Employment Agreement, dated December 5, 1990, between Registrant and Raymond Plank (incorporated by reference to Exhibit 10.39 to Registrant s Annual Report on Form 10-K for year ended December 31, 1996, SEC File No. 001-4300)
10.36	First Amendment, dated April 4, 1996, to Restated Employment Agreement between Registrant and Raymond Plank (incorporated by reference to Exhibit 10.40 to Registrant s Annual Report on Form 10-K for year ended December 31, 1996, SEC File No. 001-4300)
10.37	Amended and Restated Employment Agreement, dated December 20, 1990, between Registrant and John A. Kocur (incorporated by reference to Exhibit 10.10 to Registrant s Annual Report on Form 10-K for year ended December 31, 1990, SEC File No. 001-4300)
10.38	Employment Agreement, dated June 6, 1988, between Registrant and G. Steven Farris (incorporated by reference to Exhibit 10.6 to Registrant s Annual Report on Form 10-K for year ended December 31, 1989, SEC File No. 001-4300)
10.39	Amended and Restated Conditional Stock Grant Agreement, dated September 15, 2005, effective January 1, 2005, between Registrant and G. Steven Farris (incorporated by reference to Exhibit 10.06 to Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, SEC File No. 001-4300)
10.40	Amended and Restated Gas Purchase Agreement, effective July 1, 1998, by and among Registrant and MW Petroleum Corporation, as seller, and Producers Energy Marketing, LLC, as buyer (incorporated by reference to Exhibit 10.1 to Registrant s Current Report on Form 8-K, dated June 18, 1998, filed June 23, 1998, SEC File No. 001-4300)
10.41	Deed of Guaranty and Indemnity, dated January 11, 2003, made by Registrant in favor of BP Exploration Operating Company Limited (incorporated by reference to Registrant s Current Report

	on Form 8-K, dated and filed January 13, 2003, SEC File No. 001-4300)
*12.1	Statement of Computation of Ratios of Earnings to Fixed Charges and Combined Fixed Charges and Preferred Stock Dividends
14.1	Code of Business Conduct (incorporated by reference to Exhibit 14.1 to Registrant s Annual Report on Form 10-K for year ended December 31, 2003, SEC File No. 001-4300)
*21.1	Subsidiaries of Registrant
*23.1	Consent of Ernst & Young LLP
*23.2	Consent of Ryder Scott Company L.P., Petroleum Consultants

Exhibit No.	Description
*24.1	Power of Attorney (included as a part of the signature pages to this report)
*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

* Filed herewith.

Management contracts or compensatory plans or arrangements required to be filed herewith pursuant to Item 15 hereof.