

APACHE CORP
Form 10-Q
August 07, 2015

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

OR

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

For the transition period from to

Commission File Number 1-4300

APACHE CORPORATION
(exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)
One Post Oak Central, 2000 Post Oak Boulevard, Suite 100, Houston, Texas 77056-4400

41-0747868
(I.R.S. Employer
Identification Number)

(Address of principal executive offices)

Registrant's Telephone Number, Including Area Code: (713) 296-6000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer Accelerated filer

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

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

Number of shares of registrant's common stock outstanding as of July 31, 2015 377,987,486

PART I FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

APACHE CORPORATION AND SUBSIDIARIES

STATEMENT OF CONSOLIDATED OPERATIONS

(Unaudited)

	For the Quarter		For the Six	
	Ended June 30,		Months	
	2015	2014	2015	2014
	(In millions, except per common share data)			
REVENUES AND OTHER:				
Oil and gas production revenues				
Oil revenues	\$ 1,599	\$ 2,797	\$ 2,879	\$ 5,442
Gas revenues	295	505	595	1,065
Natural gas liquids revenues	58	169	116	355
	1,952	3,471	3,590	6,862
Derivative instrument gains (losses), net		(174)		(194)
Other	25	(8)	17	9
	1,977	3,289	3,607	6,677
OPERATING EXPENSES:				
Depreciation, depletion, and amortization:				
Oil and gas property and equipment				
Recurring	923	1,074	1,922	2,096
Additional	5,816	203	13,036	203
Other assets	83	81	166	159
Asset retirement obligation accretion	36	38	72	76
Lease operating expenses	467	560	948	1,108
Gathering and transportation	49	66	105	136
Taxes other than income	55	177	128	358
General and administrative	111	113	193	221
Transaction, reorganization, and separation costs	66	14	120	32
Financing costs, net	63	52	133	97
	7,669	2,378	16,823	4,486
NET INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE				
INCOME TAXES	(5,692)	911	(13,216)	2,191
Current income tax provision	665	373	580	740
Deferred income tax provision (benefit)	(1,525)	(19)	(4,460)	144

NET INCOME (LOSS) FROM CONTINUING OPERATIONS INCLUDING NONCONTROLLING INTEREST	(4,832)	557	(9,336)	1,307
Net income (loss) from discontinued operations, net of tax	(732)	56	(864)	(360)
NET INCOME (LOSS) INCLUDING NONCONTROLLING INTEREST	(5,564)	613	(10,200)	947
Net income attributable to noncontrolling interest	36	108	51	206
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCK	\$ (5,600)	\$ 505	\$ (10,251)	\$ 741
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON SHAREHOLDERS:				
Net income (loss) from continuing operations attributable to common shareholders	\$ (4,868)	\$ 449	\$ (9,387)	\$ 1,101
Net income (loss) from discontinued operations	(732)	56	(864)	(360)
Net income (loss) attributable to common shareholders	\$ (5,600)	\$ 505	\$ (10,251)	\$ 741
NET INCOME (LOSS) PER COMMON SHARE:				
Basic net income (loss) from continuing operations per share	\$ (12.89)	\$ 1.17	\$ (24.88)	\$ 2.83
Basic net income (loss) from discontinued operations per share	(1.94)	0.14	(2.29)	(0.93)
Basic net income (loss) per share	\$ (14.83)	\$ 1.31	\$ (27.17)	\$ 1.90
DILUTED NET INCOME (LOSS) PER COMMON SHARE:				
Diluted net income (loss) from continuing operations per share	\$ (12.89)	\$ 1.17	\$ (24.88)	\$ 2.82
Diluted net income (loss) from discontinued operations per share	(1.94)	0.14	(2.29)	(0.93)
Diluted net income (loss) per share	\$ (14.83)	\$ 1.31	\$ (27.17)	\$ 1.89
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:				
Basic	378	385	377	390
Diluted	378	387	377	392
DIVIDENDS DECLARED PER COMMON SHARE	\$ 0.25	\$ 0.25	\$ 0.50	\$ 0.50

The accompanying notes to consolidated financial statements

are an integral part of this statement.

APACHE CORPORATION AND SUBSIDIARIES
STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME (LOSS)**(Unaudited)**

	For the Quarter Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
	(In millions)			
NET INCOME (LOSS) INCLUDING NONCONTROLLING INTEREST	\$ (5,564)	\$ 613	\$ (10,200)	\$ 947
OTHER COMPREHENSIVE INCOME (LOSS):				
Commodity cash flow hedge activity, net of tax:				
Change in fair value of derivative instruments				(1)
				(1)
COMPREHENSIVE INCOME (LOSS) INCLUDING NONCONTROLLING INTEREST	(5,564)	613	(10,200)	946
Comprehensive income attributable to noncontrolling interest	36	108	51	206
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCK	\$ (5,600)	\$ 505	\$ (10,251)	\$ 740

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APACHE CORPORATION AND SUBSIDIARIES
STATEMENT OF CONSOLIDATED CASH FLOWS

(Unaudited)

	For the Six Months Ended June 30,	
	2015	2014
	(In millions)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss) including noncontrolling interest	\$ (10,200)	\$ 947
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Loss from discontinued operations	864	360
Depreciation, depletion, and amortization	15,124	2,458
Asset retirement obligation accretion	72	76
Provision for (benefit from) deferred income taxes	(4,460)	144
Other	26	12
Changes in operating assets and liabilities:		
Receivables	333	391
Inventories	74	(13)
Drilling advances	118	67
Deferred charges and other	(171)	(114)
Accounts payable	(410)	(131)
Accrued expenses	298	(252)
Deferred credits and noncurrent liabilities	69	4
NET CASH PROVIDED BY CONTINUING OPERATING ACTIVITIES	1,737	3,949
NET CASH PROVIDED BY DISCONTINUED OPERATIONS	196	683
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,933	4,632
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to oil and gas property	(2,987)	(4,369)
Leasehold and property acquisitions	(128)	(112)
Additions to gas gathering, transmission, and processing facilities	(94)	(345)
Proceeds from sale of Deepwater Gulf of Mexico assets		1,367
Restricted cash related to divestitures		(1,367)
Proceeds from sale of Kitimat LNG	854	
Proceeds from sale of other oil and gas properties	119	381
Other, net	(67)	(33)
NET CASH USED IN CONTINUING INVESTING ACTIVITIES	(2,303)	(4,478)
NET CASH PROVIDED BY (USED IN) DISCONTINUED OPERATIONS	4,335	(13)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	2,032	(4,491)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Commercial paper and bank credit facilities, net	(1,570)	(1)
Distributions to noncontrolling interest	(40)	(66)

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Dividends paid	(189)	(176)
Treasury stock activity, net		(1,263)
Other	15	25
NET CASH USED IN CONTINUING FINANCING ACTIVITIES	(1,784)	(1,481)
NET CASH USED IN DISCONTINUED OPERATIONS		(42)
NET CASH USED IN FINANCING ACTIVITIES	(1,784)	(1,523)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,181	(1,382)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	769	1,906
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 2,950	\$ 524

SUPPLEMENTARY CASH FLOW DATA:

Interest paid, net of capitalized interest	\$ 110	\$ 62
Income taxes paid, net of refunds	218	781

The accompanying notes to consolidated financial statements

are an integral part of this statement.

APACHE CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

(Unaudited)

	June 30, 2015	December 31, 2014
	(In millions)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,950	\$ 769
Receivables, net of allowance	1,589	2,024
Inventories	629	708
Drilling advances	193	388
Assets held for sale		1,628
Deferred tax asset	84	769
Prepaid assets and other	48	129
	5,493	6,415
PROPERTY AND EQUIPMENT:		
Oil and gas, on the basis of full-cost accounting:		
Proved properties	84,627	89,852
Unproved properties and properties under development, not being amortized	5,233	7,014
Gathering, transmission and processing facilities	4,299	5,440
Other	1,084	1,152
	95,243	103,458
Less: Accumulated depreciation, depletion, and amortization	(66,928)	(55,382)
	28,315	48,076
OTHER ASSETS:		
Deferred charges and other	1,504	1,461
	\$ 35,312	\$ 55,952
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 710	\$ 1,210
Other current liabilities (Note 3)	1,673	2,454
	2,383	3,664
LONG-TERM DEBT	9,676	11,245
DEFERRED CREDITS AND OTHER NONCURRENT LIABILITIES:		

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Income taxes	2,644	9,499
Asset retirement obligation	2,534	3,048
Other	320	359
	5,498	12,906
COMMITMENTS AND CONTINGENCIES (Note 7)		
EQUITY:		
Common stock, \$0.625 par, 860,000,000 shares authorized, 411,169,515 and 409,706,347 shares issued, respectively	257	256
Paid-in capital	12,483	12,438
Retained earnings	5,809	16,249
Treasury stock, at cost, 33,181,176 and 33,201,455 shares, respectively	(2,889)	(2,890)
Accumulated other comprehensive loss	(116)	(116)
APACHE SHAREHOLDERS EQUITY	15,544	25,937
Noncontrolling interest	2,211	2,200
TOTAL EQUITY	17,755	28,137
	\$ 35,312	\$ 55,952

The accompanying notes to consolidated financial statements

are an integral part of this statement.

APACHE CORPORATION AND SUBSIDIARIES

STATEMENT OF CONSOLIDATED CHANGES IN EQUITY

(Unaudited)

	Common Stock	Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	APACHE SHAREHOLDERS' EQUITY	Non Controlling Interest	TOTAL EQUITY
BALANCE AT DECEMBER 31, 2013	\$ 255	\$ 12,251	\$ 22,032	\$ (1,027)	\$ (115)	\$ 33,396	\$ 1,997	\$ 35,393
Net income			741			741	206	947
Distributions to noncontrolling interest							(66)	(66)
Commodity hedges, net of tax					(1)	(1)		(1)
Common dividends (\$0.50 per share)			(192)			(192)		(192)
Common stock activity, net	1	(25)				(24)		(24)
Treasury stock activity, net		(1)		(1,263)		(1,264)		(1,264)
Compensation expense		99				99		99
BALANCE AT JUNE 30, 2014	\$ 256	\$ 12,324	\$ 22,581	\$ (2,290)	\$ (116)	\$ 32,755	\$ 2,137	\$ 34,892
BALANCE AT DECEMBER 31, 2014	\$ 256	\$ 12,438	\$ 16,249	\$ (2,890)	\$ (116)	\$ 25,937	\$ 2,200	\$ 28,137
Net income (loss)			(10,251)			(10,251)	51	(10,200)
Distributions to noncontrolling interest							(40)	(40)
Common dividends (\$0.50 per share)			(189)			(189)		(189)
Other	1	45		1		47		47
BALANCE AT JUNE 30, 2015	\$ 257	\$ 12,483	\$ 5,809	\$ (2,889)	\$ (116)	\$ 15,544	\$ 2,211	\$ 17,755

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

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

These financial statements have been prepared by Apache Corporation (Apache or the Company) without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). They reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the results for the interim periods, on a basis consistent with the annual audited financial statements. All such adjustments are of a normal recurring nature. Certain information, accounting policies, and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) have been omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. This Quarterly Report on Form 10-Q should be read along with Apache's Annual Report on Form 10-K for the fiscal year ended December 31, 2014, which contains a summary of the Company's significant accounting policies and other disclosures.

The Company's financial statements for prior periods include reclassifications that were made to conform to the current-period presentation. During the second quarter of 2015, Apache completed the sale of its Australian LNG business and oil and gas assets. In March 2014, Apache also completed the sale of all of its operations in Argentina. Results of operations and consolidated cash flows for the divested Australia assets and Argentina operations are reflected as discontinued operations in the Company's financial statements for all periods presented. For more information regarding these divestitures, please refer to Note 2 Acquisitions and Divestitures.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As of June 30, 2015, Apache's significant accounting policies are consistent with those discussed in Note 1 Summary of Significant Accounting Policies to the consolidated financial statements contained in Apache's Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates with regard to these financial statements include the fair value determination of acquired assets and liabilities, the estimate of proved oil and gas reserves and related present value estimates of future net cash flows therefrom, assessing asset retirement obligations, and the estimate of income taxes. Actual results could differ from those estimates.

Oil and Gas Property

The Company follows the full-cost method of accounting for its oil and gas property. Under this method of accounting, all costs incurred for both successful and unsuccessful exploration and development activities, including salaries, benefits and other internal costs directly identified with these activities, and oil and gas property acquisitions are capitalized. The net book value of oil and gas properties, less related deferred income taxes, may not exceed a calculated ceiling. The ceiling limitation is the estimated after-tax future net cash flows from proved oil and gas reserves, discounted at 10 percent per annum and adjusted for designated cash flow hedges. Estimated future net cash flows are calculated using end-of-period costs and an unweighted arithmetic average of commodity prices in effect on the first day of each of the previous 12 months, held flat for the life of the production, except where prices are defined by contractual arrangements. For a discussion of the calculation of estimated future net cash flows, please refer to

Note 14 Supplemental Oil and Gas Disclosures to the consolidated financial statements contained in Apache's Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

Any excess of the net book value of proved oil and gas properties, less related deferred income taxes, over the ceiling is charged to expense and reflected as Additional depreciation, depletion, and amortization (DD&A) in the accompanying statement of consolidated operations. Such limitations are imposed separately on a country-by-country basis and are tested quarterly. In the second quarter of 2015, the Company recorded \$4.3 billion (\$2.8 billion net of tax), \$835 million (\$617 million net of tax), and \$663 million (\$331 million net of tax) in non-cash write-downs of the carrying value of the Company's U.S., Canada, and North Sea proved oil and gas properties, respectively. In the first quarter of 2015, the Company recorded \$5.3 billion (\$3.4 billion net of tax), \$1.4 billion (\$1.0 billion net of tax), and \$632 million (\$316 million net of tax) in non-cash write-downs of the carrying value of the Company's U.S., Canada, and North Sea proved oil and gas properties, respectively. In the second quarter of 2014, the Company recorded a \$203 million (\$77 million net of tax) non-cash write-down of the carrying value of the Company's North Sea proved oil and gas properties.

New Pronouncements Issued But Not Yet Adopted

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-03, which simplifies the presentation of debt issuance costs. The new standard requires debt issuance costs to be presented as a direct deduction from the carrying value of the associated debt liability, whereas they are currently being presented as a component of deferred charges and other on the balance sheet. The new standard creates consistency in the way debt issuance costs and debt discounts are presented on the balance sheet and better aligns U.S. GAAP with International Financial Reporting Standards (IFRS). ASU 2015-03 is effective for annual and interim reporting periods beginning after December 15, 2015. The Company will apply the change retrospectively and does not expect the adoption of this amendment to have a material impact on its consolidated financial statements.

In May 2014, the FASB and the International Accounting Standards Board (IASB) issued a joint revenue recognition standard, ASU 2014-09. The new standard removes inconsistencies in existing standards, changes the way companies recognize revenue from contracts with customers, and increases disclosure requirements. The guidance requires companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. In July 2015, the FASB announced a delay in the effective date of the revenue standard by one year. The deferral results in the new revenue standard being effective for annual and interim periods beginning after December 15, 2017. The standard is required to be adopted using either the full retrospective approach, with all prior periods presented adjusted, or the modified retrospective approach, with a cumulative adjustment to retained earnings on the opening balance sheet. The Company is currently evaluating the level of effort needed to implement the standard, the impact of adopting this standard on its consolidated financial statements, and whether to use the full retrospective approach or the modified retrospective approach.

2. ACQUISITIONS AND DIVESTITURES

2015 Activity

Canada Divestiture

In April 2015, Apache completed the previously disclosed sale of its 50 percent interest in the Kitimat LNG project and related upstream acreage in the Horn River and Liard natural gas basins to Woodside Petroleum Limited (Woodside). Proceeds at closing were \$854 million, of which approximately \$345 million were associated with LNG assets and \$510 million were associated with upstream assets. The proceeds are subject to customary post-closing adjustments.

The Kitimat LNG assets were impaired in the fourth quarter of 2014 and classified as held for sale on the consolidated balance sheet as of December 31, 2014. No material gain or loss was recognized for the LNG assets upon completion of the sale. No gain or loss was recognized on the sale of the upstream assets. In accordance with full cost accounting rules, sales of oil and gas properties are accounted for as adjustments of capitalized costs, with no gain or loss recognized unless such adjustment would significantly alter the relationship between capitalized costs and proved reserves.

Australia Divestitures

Woodside Sale In April 2015, Apache completed the previously disclosed sale of the Wheatstone LNG project and associated upstream oil and gas assets to Woodside. Proceeds at closing were \$2.8 billion, of which approximately \$1.4 billion were associated with LNG assets and \$1.4 billion were associated with the upstream assets. The proceeds are subject to customary post-closing adjustments.

The Wheatstone LNG assets were impaired in the fourth quarter of 2014 and classified as held for sale on the consolidated balance sheet as of December 31, 2014. No material gain or loss was recognized on the ultimate disposal of the LNG project. A loss of approximately \$922 million was recognized on the sale of the Australian upstream assets.

Consortium Sale In June 2015, Apache completed the previously disclosed sale of its Australian subsidiary Apache Energy Limited (AEL) to a consortium of private equity funds managed by Macquarie Capital Group Limited and Brookfield Asset Management Inc. Total proceeds of \$1.9 billion include customary, post-closing adjustments for the period between the effective date, October 1, 2014, and closing. A loss of approximately \$1.3 billion was recognized for the sale of AEL.

Upon closing of the sale of substantially all Australian operations, the associated results of operations for the divested Australian assets and the losses on disposal were classified as discontinued operations in all periods presented in this Quarterly Report on Form 10-Q. The carrying amounts of the major classes of consolidated assets and liabilities associated with the Australia dispositions were as follows:

	December 31, 2014
ASSETS	
Current assets	\$ 1,992
Net property and equipment	6,516
 Total assets	 \$ 8,508
LIABILITIES	
Current liabilities	\$ 606
Asset retirement obligations	517
Non-current deferred tax liability	922
Other long-term liabilities	33
 Total liabilities	 \$ 2,078

Sales and other operating revenues and loss from discontinued operations related to the Australia dispositions were as follows:

	For the Quarter Ended		For the Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
	(In millions)			
Revenues and other from discontinued operations	\$ 101	\$ 195	\$ 288	\$ 482
Loss on Woodside sale	\$ (922)	\$	\$ (922)	\$
Loss on Consortium sale	(1,329)		(1,329)	
Income (loss) from divested Australian operations	(11)	68	24	217
Income tax benefit (expense)	1,530	(12)	1,363	(60)
 Income (loss) from Australian discontinued operations, net of tax	 \$ (732)	 \$ 56	 \$ (864)	 \$ 157

Leasehold and Property Acquisitions

During the second quarter and first six months of 2015, Apache completed \$36 million and \$128 million, respectively, of leasehold and property acquisitions primarily in our North America onshore regions.

Transaction, Reorganization, and Separation Costs

During the second quarter and first six months of 2015, Apache recorded \$66 million and \$120 million, respectively, in costs related to various asset transactions, company reorganization, and employee separation costs.

2014 Activity

Anadarko Basin and Southern Louisiana Divestitures

In December 2014, Apache completed the sale of certain Anadarko basin and non-core southern Louisiana oil and gas assets for approximately \$1.3 billion in two separate transactions. In the Anadarko basin, Apache sold approximately 115,000 net acres in Wheeler County, Texas, and western Oklahoma. In southern Louisiana, Apache sold its working interest in approximately 90,000 net acres. The effective date of both of these transactions was October 1, 2014.

Gulf of Mexico Divestiture

On June 30, 2014, Apache completed the sale of non-operated interests in the Lucius and Heidelberg development projects and 11 primary-term deepwater exploration blocks in the Gulf of Mexico for \$1.4 billion. The effective date of the transaction was May 1, 2014.

Canada Divestiture

On April 30, 2014, Apache completed the sale of producing oil and gas assets in the Deep Basin area of western Alberta and British Columbia, Canada, for \$374 million. Apache sold primarily dry-gas producing properties comprising 328,400 net acres in the Ojay, Noel, and Wapiti areas. In the Wapiti area, Apache retained 100 percent of its working interest in horizons below the Cretaceous, including rights to the liquids-rich Montney and other deeper horizons. The effective date of the transaction was January 1, 2014.

Argentina Divestiture

On March 12, 2014, Apache's subsidiaries completed the sale of all of the Company's operations in Argentina to YPF Sociedad Anónima for cash consideration of \$800 million plus the assumption of \$52 million of bank debt as of June 30, 2013. The results of operations during 2014 related to Argentina have been classified as discontinued operations in this Quarterly Report on Form 10-Q. The 2014 loss from Argentina discontinued operations of \$517 million is included in Net income (loss) from discontinued operations, net of tax on the Consolidated Statement of Operations.

	For the Six Months Ended	
	June 30,	
	2015	2014
	(In millions)	
Revenues and other from discontinued operations	\$	\$ 87
Loss from Argentina divestiture		(539)
Loss from operations in Argentina		(1)
Income tax benefit		23
Loss from discontinued operations, net of tax	\$	\$ (517)

Leasehold and Property Acquisitions

During the second quarter and first six months of 2014, Apache completed \$64 million and \$112 million, respectively, of leasehold and property acquisitions primarily in our North America onshore regions.

Transaction, Reorganization, and Separation Costs

During the second quarter and first six months of 2014, Apache recorded \$14 million and \$32 million, respectively, in costs related to various asset transactions, company reorganization, and employee separation costs.

3. OTHER CURRENT LIABILITIES

The following table provides detail of our other current liabilities:

	June 30, 2015	December 31, 2014
	(In millions)	
Accrued operating expenses	\$ 140	\$ 163
Accrued exploration and development	682	1,606
Accrued compensation and benefits	150	204
Accrued interest	155	160
Accrued income taxes	352	54
Current asset retirement obligation	28	37
Other	166	230
 Total Other current liabilities	 \$ 1,673	 \$ 2,454

4. ASSET RETIREMENT OBLIGATION

The following table describes changes to the Company's asset retirement obligation (ARO) liability for the six-month period ended June 30, 2015:

	(In millions)
Asset retirement obligation at December 31, 2014	\$ 3,085
Liabilities incurred	47
Liabilities divested	(619)
Liabilities settled	(67)
Accretion expense	85
Revisions in estimated liabilities	31
 Asset retirement obligation at June 30, 2015	 2,562
Less current portion	(28)
 Asset retirement obligation, long-term	 \$ 2,534

Accretion expense for 2015 includes Australia discontinued operations of \$13 million, which is included in Net income (loss) from discontinued operations, net of tax on the Consolidated Statement of Operations.

5. DEBT AND FINANCING COSTS

The following table presents the carrying amounts and estimated fair values of the Company's outstanding debt:

June 30, 2015	December 31, 2014
---------------	-------------------

	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In millions)			
Commercial paper and committed bank facilities			1,570	1,570
Notes and debentures	9,676	9,885	9,675	9,944
Total Debt	\$9,676	\$9,885	\$11,245	\$11,514

The Company's debt is recorded at the carrying amount, net of unamortized discount, on its consolidated balance sheet. The carrying amount of the Company's commercial paper, committed bank facilities and uncommitted bank lines, and overdraft lines approximates fair value because the interest rates are variable and reflective of market rates. Apache uses a market approach to determine the fair value of its notes and debentures using estimates provided by an independent investment financial data services firm (a Level 2 fair value measurement).

In June 2015, the Company entered into a \$3.5 billion five-year revolving credit facility which matures in June 2020. Proceeds from borrowings may be used for general corporate purposes. Apache's available borrowing capacity under this facility supports its commercial paper program. In connection with entry into the \$3.5 billion facility, Apache terminated existing credit facilities totaling \$5.3 billion.

The Company has available a \$3.5 billion commercial paper program which generally enables Apache to borrow funds for up to 270 days at competitive interest rates. At June 30, 2015, the Company had no outstanding commercial paper.

On July 30, 2015, the Company gave notice to fully redeem its \$500 million 5.625% notes due in 2017 and its \$400 million 1.75% notes due in 2017 on September 1, 2015. The notes are being redeemed pursuant to the provisions of each respective note's indenture using cash on hand.

Financing Costs, Net

The following table presents the components of Apache's financing costs, net:

	For the Quarter Ended		For the Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2015	2014	2015	2014
	(In millions)			
Interest expense	\$ 123	\$ 124	\$ 251	\$ 248
Amortization of deferred loan costs	2	1	4	3
Capitalized interest	(59)	(72)	(117)	(150)
Interest income	(3)	(1)	(5)	(4)
Financing costs, net	\$ 63	\$ 52	\$ 133	\$ 97

6. INCOME TAXES

The Company estimates its annual effective income tax rate for continuing operations in recording its quarterly provision for income taxes in the various jurisdictions in which the Company operates. Non-cash write-downs of the carrying value of the Company's proved oil and gas properties, statutory tax rate changes and other significant or unusual items are recognized as discrete items in the quarter in which they occur.

During the second quarter of 2015 Apache's effective tax rate was primarily impacted by an increase in the amount of valuation allowances. The Company repatriated the majority of net cash proceeds from the Kitimat LNG project and Australia divestitures and is now positioned to efficiently repatriate future foreign earnings. The Company utilized an existing deferred tax asset related to net operating losses to offset a portion of the taxable income from the repatriated proceeds. In addition, the Company established a deferred tax asset related to the creditable foreign taxes that accompanied the repatriated proceeds. Management has assessed the potential to utilize foreign tax credit carryforwards and has determined that more likely than not a portion of this deferred tax asset will not be realized. Accordingly the Company recorded tax expense of \$853 million related to an increase in valuation allowance associated with the foreign tax credit carryforward.

Apache's year-to-date effective tax rate is primarily driven by the impact described above, and an increase in the valuation allowance on Canadian deferred tax assets, partially offset by the first quarter deferred tax benefit from the previously announced U.K. tax rate change.

7. COMMITMENTS AND CONTINGENCIES

Legal Matters

Apache is party to various legal actions arising in the ordinary course of business, including litigation and governmental and regulatory controls. As of June 30, 2015, the Company has an accrued liability of approximately \$15 million for all legal contingencies that are deemed to be probable of occurring and can be reasonably estimated. Apache's estimates are based on information known about the matters and its experience in contesting, litigating, and settling similar matters. Although actual amounts could differ from management's estimate, none of the actions are believed by management to involve future amounts that would be material to Apache's financial position, results of operations, or liquidity after consideration of recorded accruals. For material matters that Apache believes an unfavorable outcome is reasonably possible, the Company has disclosed the nature of the matter and a range of potential exposure, unless an estimate cannot be made at this time. It is management's opinion that the loss for any other litigation matters and claims that are reasonably possible to occur will not have a material adverse effect on the Company's financial position, results of operations, or liquidity.

For additional information on each of the Legal Matters described below, please see Note 8 Commitments and Contingencies to the consolidated financial statements contained in Apache's Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

Argentine Environmental Claims and Argentina Tariff

No material change in the status of the YPF Sociedad Anónima and Pioneer Natural Resources Company indemnities matters has occurred since the filing of Apache's Annual Report on Form 10-K for its 2014 fiscal year.

Louisiana Restoration

As more fully described in Apache's Annual Report on Form 10-K for its 2014 fiscal year, numerous surface owners have filed claims or sent demand letters to various oil and gas companies, including Apache, claiming that, under either expressed or implied lease terms or Louisiana law, they are liable for damage measured by the cost of restoration of leased premises to their original condition as well as damages for contamination and cleanup.

In a case captioned *State of Louisiana and the Cameron Parish School Board v. Apache Corporation et al.*, Docket No. 10-18672, in the 38th Judicial District Court, Parish of Cameron, State of Louisiana, plaintiffs allege that defendants' oil and gas exploration and production activities contaminated plaintiffs' property. Plaintiffs claim damages in the range of \$7 million to \$96 million, depending upon the extent of any remediation that may be ordered. Apache, a defendant in the case, acquired its interest in the oil and gas operations on plaintiffs' property from the former operator, defendant Davis Oil Company, and subsequently sold the interest to defendant Wagner Oil Company (Wagner). Apache claims indemnity from Wagner. The case is set for trial in November 2015. While an adverse judgment against Apache might be possible, Apache disagrees with plaintiffs' damage models and will vigorously oppose the claims.

In respect of three lawsuits filed by the Parish of Plaquemines against the Company and other oil and gas producers in the 25th Judicial District Court for the Parish of Plaquemines, State of Louisiana (captioned *Parish of Plaquemines v. Rozel Operating Company et al.*, Docket No. 60-996; *Parish of Plaquemines v. Apache Oil Corporation et al.*, Docket No. 61-000; and *Parish of Plaquemines v. HHE Energy Company et al.*, Docket No. 60-983), defendants filed notices to remove the cases to the United States District Court for the Eastern District of Louisiana, civil action Nos. 13-6722, 13-6711, and 13-6735. Plaintiff's motions to remand have been granted.

No other material change in the status of these matters has occurred since the filing of Apache's Annual Report on Form 10-K for its 2014 fiscal year.

Australia Gas Pipeline Force Majeure

In 2008, Company subsidiaries reported a pipeline explosion that interrupted deliveries of natural gas in Australia to customers under various long-term contracts. The civil lawsuits concerning the pipeline explosion, all of which were filed in the Supreme Court of Western Australia, have been resolved fully and dismissed on confidential terms, including for an exchange of consideration that is not material to Apache. The lawsuits are described in Apache's Annual Report on Form 10-K for its 2014 fiscal year. On April 10, 2015, the court dismissed the lawsuits filed by plaintiffs Alcoa (Civ. 1481 of 2011), Barrick (Civ. 2656 of 2013), EDL LNG (Civ. 1751 of 2014), and Yara (Civ. 1742 of 2014). On April 9, 2015, plaintiffs Harvey (Civ. 1749 of 2014), Iluka (Civ. 1748 of 2014), Newmont (Civ. 1727 of 2014), and Wesfarmers (Civ. 1740 of 2014) discontinued their lawsuits, which were never served on the Apache defendants. All matters relating to the Australia gas pipeline force majeure are concluded.

Apollo Exploration Lawsuit

In a second amended petition filed on February 27, 2015, in a case captioned *Apollo Exploration, LLC, Cogent Exploration, Ltd. Co. & SellmoCo, LLC v. Apache Corporation*, Cause No. CV50538 in the 385th Judicial District Court, Midland County, Texas, plaintiffs allege damages in excess of \$1.1 billion relating to certain purchase and sale agreements, mineral leases, and areas of mutual interest agreements concerning properties located in Hartley, Moore, Potter, and Oldham Counties, Texas. Apache believes that plaintiffs' claims lack merit, and further that plaintiffs' alleged damages are grossly inflated. Apache will vigorously oppose the claims.

Escheat Audits

There has been no material change with respect to the review of the books and records of the Company and its subsidiaries and related entities by the State of Delaware, Department of Finance, Division of Revenue (Unclaimed Property), to determine compliance with the Delaware Escheat Laws, since the filing of Apache's Annual Report on Form 10-K for its 2014 fiscal year.

Burrup-Related Gas Supply Lawsuits

In the lawsuit captioned *Pankaj Oswal v. Apache Corporation*, No. WAD 389/2013, in the Federal Court of Australia, District of Western Australia, General Division, on the eve of a trial that was to commence on February 9, 2015, plaintiff decided to discontinue his claim. On March 18, 2015, the court entered an order dismissing the case. The lawsuit is concluded in the Company's favor.

In the cases captioned *Radhika Oswal v. Australia and New Zealand Banking Group Limited (ANZ) et al.*, No. SCI 2011 4653 and *Pankaj Oswal v. Australia and New Zealand Banking Group Limited (ANZ) et al.*, No. SCI 2012 01995, in the Supreme Court of Victoria, trial is set to commence in March 2016. Certain Oswal-related proceedings (in which neither the Company nor its subsidiaries are parties) have been cross-vested with these proceedings. The Company and its subsidiaries believe that plaintiffs' claims lack merit and will vigorously oppose them. No other material change in the status of this matter has occurred since the filing of Apache's Annual Report on Form 10-K for its 2014 fiscal year.

Environmental Matters

As of June 30, 2015, the Company had an undiscounted reserve for environmental remediation of approximately \$62 million. The Company is not aware of any environmental claims existing as of June 30, 2015, that have not been provided for or would otherwise have a material impact on its financial position, results of operations, or liquidity. 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.

With respect to the June 1, 2013, leak of produced water from a below ground pipeline in the Zama Operations area in northern Alberta, the Alberta Energy Regulator has completed its investigation of the incident and issued an administrative penalty to Apache Canada Ltd. in the amount of \$16,500 CAD. It is possible that additional discharges in Apache Canada Ltd. operating areas, including in the Zama Operations area, could result in additional government fines or sanction.

No other material change in the status of these matters has occurred since the filing of Apache's Annual Report on Form 10-K for its 2014 fiscal year.

LNG Divestiture Dispute

In respect of the purchase by Woodside of the Wheatstone and Kitimat LNG projects and accompanying upstream oil and gas reserves from the Company and its subsidiaries, the base purchase price is subject to adjustment in accordance with the terms of the applicable sale and purchase agreement. Woodside has notified the Company and its subsidiaries that it seeks purchase price adjustments in the net amounts of \$175 million (for working capital adjustments) and \$214 million (for all other adjustments). To the extent the parties are unable to resolve their differences, the dispute will be referred to an independent accounting expert for final determination under the terms of the applicable sale and purchase agreement. The Company believes that under the terms of the sale and purchase agreements, Woodside's requests for payment of purchase price adjustments lack merit; therefore, the Company has not recorded a liability associated with this dispute.

8. CAPITAL STOCK**Net Income (Loss) per Common Share**

A reconciliation of the components of basic and diluted net income (loss) per common share for the quarters and six-month periods ended June 30, 2015, and 2014 is presented in the table below.

	For the Quarter Ended June 30,					
	2015			2014		
	Loss	Shares	Per Share	Income	Shares	Per Share
(In millions, except per share amounts)						
Basic:						
Income (loss) from continuing operations	\$ (4,868)	378	\$ (12.89)	\$ 449	385	\$ 1.17
Income (loss) from discontinued operations	(732)	378	(1.94)	56	385	0.14
Income (loss) attributable to common stock	\$ (5,600)	378	\$ (14.83)	\$ 505	385	\$ 1.31
Effect of Dilutive Securities:						
Stock options and other					2	
Diluted:						
Income (loss) from continuing operations	\$ (4,868)	378	\$ (12.89)	\$ 449	387	\$ 1.17
Income (loss) from discontinued operations	(732)	378	(1.94)	56	387	0.14
Income (loss) attributable to common stock	\$ (5,600)	378	\$ (14.83)	\$ 505	387	\$ 1.31
For the Six Months Ended June 30,						
2015			2014			
	Loss	Shares	Per Share	Income	Shares	Per Share
(In millions, except per share amounts)						
Basic:						
Income (loss) from continuing operations	\$ (9,387)	377	\$ (24.88)	\$ 1,101	390	\$ 2.83
Loss from discontinued operations	(864)	377	(2.29)	(360)	390	(0.93)
Income (loss) attributable to common stock	\$ (10,251)	377	\$ (27.17)	\$ 741	390	\$ 1.90
Effect of Dilutive Securities:						
Stock options and other					2	
Diluted:						
Income (loss) from continuing operations	\$ (9,387)	377	\$ (24.88)	\$ 1,101	392	\$ 2.82
Loss from discontinued operations	(864)	377	(2.29)	(360)	392	(0.93)
Income (loss) attributable to common stock	\$ (10,251)	377	\$ (27.17)	\$ 741	392	\$ 1.89

The diluted earnings per share calculation excludes options and restricted stock units that were anti-dilutive totaling 8.3 million and 3.2 million for the quarters ended June 30, 2015 and 2014, respectively, and 8.3 million and 5 million

for the six months ended June 30, 2015, and 2014, respectively.

Common and Preferred Stock Dividends

For the quarters ended June 30, 2015, and 2014, Apache paid \$95 million and \$97 million, respectively, in dividends on its common stock. For the six months ended June 30, 2015, and 2014, Apache paid \$189 million and \$176 million, respectively.

Stock Repurchase Program

Apache's Board of Directors has authorized the purchase of up to 40 million shares of the Company's common stock. Shares may be purchased either in the open market or through privately held negotiated transactions. The Company initiated the buyback program on June 10, 2013, and through December 31, 2014, had repurchased a total of 32.2 million shares at an average price of \$88.96 per share. The Company has not purchased any additional shares during 2015, and is not obligated to acquire any specific number of shares.

9. BUSINESS SEGMENT INFORMATION

Apache is engaged in a single line of business. Both domestically and internationally, the Company explores for, develops, and produces natural gas, crude oil and natural gas liquids. At June 30, 2015, the Company had production in four countries: the United States, Canada, Egypt, and the United Kingdom (U.K.) North Sea. Apache also pursues exploration interests in other countries that may, over time, result in reportable discoveries and development opportunities. Financial information for each country is presented below:

	United States	Canada	Egypt ⁽¹⁾	North Sea	Other International	Total ⁽³⁾
	(In millions)					
For the Quarter Ended June 30, 2015						
Oil and Gas Production Revenues	\$ 767	\$ 138	\$ 664	\$ 383	\$	\$ 1,952
Operating Income (Loss) ⁽²⁾	\$ (4,224)	\$ (886)	\$ 214	\$ (581)	\$	\$ (5,477)
Other Income (Expense):						
Other						25
General and administrative						(111)
Transaction, reorganization, and separation costs						(66)
Financing costs, net						(63)
Loss Before Income Taxes						\$ (5,692)
For the Six Months Ended June 30, 2015						
Oil and Gas Production Revenues	\$ 1,427	\$ 271	\$ 1,196	\$ 696	\$	\$ 3,590
Operating Income (Loss) ⁽²⁾	\$ (9,546)	\$ (2,314)	\$ 318	\$ (1,245)	\$	\$ (12,787)
Other Income (Expense):						
Other						17
General and administrative						(193)
Transaction, reorganization, and separation costs						(120)
Financing costs, net						(133)
Loss Before Income Taxes						\$ (13,216)
Total Assets	\$ 18,615	\$ 3,585	\$ 7,679	\$ 4,838	\$ 595	\$ 35,312
For the Quarter Ended June 30, 2014						
Oil and Gas Production Revenues	\$ 1,529	\$ 293	\$ 989	\$ 660	\$	\$ 3,471
Operating Income (Loss) ⁽²⁾	\$ 679	\$ 47	\$ 585	\$ (39)	\$	\$ 1,272
Other Income (Expense):						
Derivative instrument gains (losses), net						(174)

Other	(8)
General and administrative	(113)
Transaction, reorganization, and separation costs	(14)
Financing costs, net	(52)

Income Before Income Taxes	\$ 911
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For the Six Months Ended June 30, 2014

Oil and Gas Production Revenues	\$ 3,034	\$ 611	\$ 1,939	\$ 1,278	\$ 6,862
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Operating Income ⁽²⁾	\$ 1,342	\$ 119	\$ 1,121	\$ 144	\$ 2,726
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Other Income (Expense):

Derivative instrument gains (losses), net	(194)
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Other	9
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General and administrative	(221)
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Transaction, reorganization, and separation costs	(32)
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Financing costs, net	(97)
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Income Before Income Taxes	\$ 2,191
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Total Assets	\$ 31,547	\$ 6,842	\$ 7,264	\$ 6,713	\$ 534	\$ 52,900
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(1) Includes a noncontrolling interest in Egypt.

(2) Operating Income (Loss) consists of oil and gas production revenues less depreciation, depletion, and amortization, asset retirement obligation accretion, lease operating expenses, gathering and transportation costs, and taxes other than income. The operating income (loss) of U.S., Canada, and North Sea for the second quarter of 2015 includes non-cash write-downs of each region's carrying value of oil and gas properties of \$4.3 billion, \$835 million and \$663 million, respectively. For the first six months of 2015, operating income (loss) of U.S., Canada, and North Sea include non-cash write-downs of each region's carrying value of oil and gas properties of \$9.6 billion, \$2.2 billion, and \$1.3 billion, respectively. North Sea's operating income (loss) for the second quarter and first six months of 2014 includes a \$203 million non-cash write-down of the carrying value of oil and gas properties.

(3) Amounts for 2014 have been restated to exclude Argentina and Australia discontinued operations. Total Assets for the 2014 periods also excludes \$8.3 million of divested Australian assets.

10. SUPPLEMENTAL GUARANTOR INFORMATION

In December 1999, Apache Finance Canada issued approximately \$300 million of publicly-traded notes due in 2029. The notes are fully and unconditionally guaranteed by Apache. The following condensed consolidating financial statements are provided as an alternative to filing separate financial statements.

Apache Finance Canada is 100 percent owned by Apache Corporation. As such, these condensed consolidating financial statements should be read in conjunction with Apache's consolidated financial statements and the notes thereto, of which this note is an integral part.

APACHE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

For the Quarter Ended June 30, 2015

	Apache Corporation	Apache Finance Canada	All Other Subsidiaries of Apache Corporation	Reclassifications & Eliminations	Consolidated
	(In millions)				
REVENUES AND OTHER:					
Oil and gas production revenues	\$ 434	\$	\$ 1,518	\$	\$ 1,952
Equity in net income of affiliates	(1,987)	(393)	(1)	2,381	
Other	(10)	12	4	19	25
	(1,563)	(381)	1,521	2,400	1,977
OPERATING EXPENSES:					
Depreciation, depletion, and amortization	4,346		2,476		6,822
Asset retirement obligation accretion	3		33		36
Lease operating expenses	108		359		467
Gathering and transportation	7		42		49
Taxes other than income	33		22		55
General and administrative	74		18	19	111
Transaction, reorganization, and separation costs	66				66
Financing costs, net	71	11	(19)		63
	4,708	11	2,931	19	7,669
NET INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES					
Provision (benefit) for income taxes	(6,271)	(392)	(1,410)	2,381	(5,692)
	(843)	2	(19)		(860)
NET INCOME (LOSS) FROM CONTINUING OPERATIONS INCLUDING NONCONTROLLING INTEREST					
Net income (loss) from discontinued operations, net of tax	(5,428)	(394)	(1,391)	2,381	(4,832)
	(172)		(560)		(732)
NET INCOME (LOSS) INCLUDING NONCONTROLLING INTEREST					
Net income attributable to noncontrolling interest	(5,600)	(394)	(1,951)	2,381	(5,564)
			36		36

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NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCK	\$ (5,600)	\$ (394)	\$ (1,987)	\$ 2,381	\$ (5,600)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCK	\$ (5,600)	\$ (394)	\$ (1,987)	\$ 2,381	\$ (5,600)

APACHE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

For the Quarter Ended June 30, 2014

	Apache Corporation	Apache Finance Canada	All Other Subsidiaries of Apache Corporation (In millions)	Reclassifications & Eliminations	Consolidated
REVENUES AND OTHER:					
Oil and gas production revenues	\$ 895	\$	\$ 2,576	\$	\$ 3,471
Equity in net income (loss) of affiliates	491	24	11	(526)	
Derivative instrument gains (losses), net	(125)		(49)		(174)
Other	(69)	13	44	4	(8)
	1,192	37	2,582	(522)	3,289
OPERATING EXPENSES:					
Depreciation, depletion, and amortization	356		1,002		1,358
Asset retirement obligation accretion	8		30		38
Lease operating expenses	121		439		560
Gathering and transportation	14		52		66
Taxes other than income	47		130		177
General and administrative	96		13	4	113
Transaction, reorganization, and separation costs	14				14
Financing costs, net	41	10	1		52
	697	10	1,667	4	2,378
NET INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES					
	495	27	915	(526)	911
Provision (benefit) for income taxes	(10)	(8)	372		354
NET INCOME (LOSS) FROM CONTINUING OPERATIONS INCLUDING NONCONTROLLING INTEREST					
	505	35	543	(526)	557
Net income from discontinued operations, net of tax			56		56
NET INCOME (LOSS) INCLUDING NONCONTROLLING INTEREST					
	505	35	599	(526)	613

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Net income attributable to noncontrolling interest				108		108
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCK	\$ 505	\$ 35	\$ 491	\$ (526)	\$ 505	
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCK	\$ 505	\$ 35	\$ 491	\$ (526)	\$ 505	

APACHE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

For the Six Months Ended June 30, 2015

	Apache Corporation	Apache Finance Canada	All Other Subsidiaries of Apache Corporation	Reclassifications & Eliminations	Consolidated
	(In millions)				
REVENUES AND OTHER:					
Oil and gas production revenues	\$ 799	\$	\$ 2,791	\$	\$ 3,590
Equity in net income (loss) of affiliates	(3,072)	(1,047)		4,119	
Other	(50)	26	22	19	17
	(2,323)	(1,021)	2,813	4,138	3,607
OPERATING EXPENSES:					
Depreciation, depletion, and amortization	9,845		5,279		15,124
Asset retirement obligation accretion	7		65		72
Lease operating expenses	232		716		948
Gathering and transportation	16		89		105
Taxes other than income	67		61		128
General and administrative	138		36	19	193
Transaction, reorganization, and separation costs	120				120
Financing costs, net	123	21	(11)		133
	10,548	21	6,235	19	16,823
NET INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES					
	(12,871)	(1,042)	(3,422)	4,119	(13,216)
Provision (benefit) for income taxes	(2,792)	5	(1,093)		(3,880)
NET INCOME (LOSS) FROM CONTINUING OPERATIONS INCLUDING NONCONTROLLING INTEREST					
	(10,079)	(1,047)	(2,329)	4,119	(9,336)
Net loss from discontinued operations, net of tax	(172)		(692)		(864)
NET INCOME (LOSS) INCLUDING NONCONTROLLING INTEREST					
	(10,251)	(1,047)	(3,021)	4,119	(10,200)
Net income attributable to noncontrolling interest			51		51
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCK					
	\$ (10,251)	\$ (1,047)	\$ (3,072)	\$ 4,119	\$ (10,251)
	\$ (10,251)	\$ (1,047)	\$ (3,072)	\$ 4,119	\$ (10,251)

COMPREHENSIVE INCOME (LOSS)
ATTRIBUTABLE TO COMMON STOCK

APACHE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

For the Six Months Ended June 30, 2014

	Apache Corporation	Finance Canada	All Other Subsidiaries of Apache Corporation	Reclassifications & Eliminations	Consolidated
(In millions)					
REVENUES AND OTHER:					
Oil and gas production revenues	\$ 1,787	\$	\$ 5,075	\$	\$ 6,862
Equity in net income (loss) of affiliates	744	53	4	(801)	
Derivative instrument gains (losses), net	(145)		(49)		(194)
Other	(73)	27	52	3	9
	2,313	80	5,082	(798)	6,677
OPERATING EXPENSES:					
Depreciation, depletion, and amortization	684		1,774		2,458
Asset retirement obligation accretion	15		61		76
Lease operating expenses	249		859		1,108
Gathering and transportation	28		108		136
Taxes other than income	126		232		358
General and administrative	189		29	3	221
Transaction, reorganization, and separation costs	30		2		32
Financing costs, net	73	20	4		97
	1,394	20	3,069	3	4,486
NET INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES					
	919	60	2,013	(801)	2,191
Provision for income taxes	52	2	830		884
NET INCOME (LOSS) FROM CONTINUING OPERATIONS INCLUDING NONCONTROLLING INTEREST					
	867	58	1,183	(801)	1,307
Net loss from discontinued operations, net of tax	(127)		(233)		(360)
NET INCOME (LOSS) INCLUDING NONCONTROLLING INTEREST					
	740	58	950	(801)	947
Net income attributable to noncontrolling interest			206		206
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCK					
	\$ 740	\$ 58	\$ 744	\$ (801)	\$ 741

COMPREHENSIVE INCOME (LOSS)										
ATTRIBUTABLE TO COMMON STOCK ⁽¹⁾	\$	739	\$	58	\$	744	\$	(801)	\$	740

- ⁽¹⁾ Comprehensive income (loss) activity is recorded on the Apache Corporation entity and consists of derivative instrument reclassifications and changes in fair value as reflected on our Statement of Consolidated Comprehensive Income.

APACHE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

For the Six Months Ended June 30, 2015

	Apache Corporation	Apache Finance Canada	All Other Subsidiaries of Apache Corporation	Reclassifications & Eliminations	Consolidated
	(In millions)				
CASH PROVIDED BY (USED IN)					
CONTINUING OPERATING ACTIVITIES	\$ 192	\$ (21)	\$ 1,566	\$	\$ 1,737
CASH PROVIDED BY DISCONTINUED OPERATIONS			196		196
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	192	(21)	1,762		1,933
CASH FLOWS FROM INVESTING ACTIVITIES:					
Additions to oil and gas property	(1,222)		(1,765)		(2,987)
Leasehold and property acquisitions	(124)		(4)		(128)
Additions to gas gathering, transmission, and processing facilities	(24)		(70)		(94)
Proceeds from sale of Kitimat LNG			854		854
Proceeds from sale of other oil and gas properties	4		115		119
Investment in subsidiaries, net	82			(82)	
Other	(16)		(51)		(67)
NET CASH USED IN CONTINUING INVESTING ACTIVITIES	(1,300)		(921)	(82)	(2,303)
NET CASH PROVIDED BY DISCONTINUED OPERATIONS			4,335		4,335
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(1,300)		3,414	(82)	2,032
CASH FLOWS FROM FINANCING ACTIVITIES:					
Commercial paper and bank credit facilities, net	(1,570)				(1,570)
Intercompany borrowings	4,551	(10)	(4,623)	82	
Distributions to noncontrolling interest			(40)		(40)
Dividends paid	(189)				(189)
Treasury stock activity, net					
Other	2	31	(18)		15
	2,794	21	(4,681)	82	(1,784)

NET CASH PROVIDED BY (USED IN)
CONTINUING FINANCING ACTIVITIES

NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	2,794	21	(4,681)	82	(1,784)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,686		495		2,181
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	267		502		769
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 1,953	\$	\$ 997	\$	\$ 2,950

APACHE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

For the Six Months Ended June 30, 2014

	Apache Corporation	Apache Finance Canada	All Other Subsidiaries of Apache Corporation	Reclassifications & Eliminations	Consolidated
	(In millions)				
CASH PROVIDED BY (USED IN)					
CONTINUING OPERATING ACTIVITIES	\$ 70	\$ (33)	\$ 3,912	\$	\$ 3,949
CASH PROVIDED BY DISCONTINUED OPERATIONS			683		683
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	70	(33)	4,595		4,632
CASH FLOWS FROM INVESTING ACTIVITIES:					
Additions to oil and gas property	(1,625)		(2,744)		(4,369)
Leasehold and property acquisitions	(83)		(29)		(112)
Additions to gas gathering, transmission, and processing facilities	(2)		(343)		(345)
Proceeds from sale of Deepwater Gulf of Mexico assets	1,367				1,367
Restricted cash related to divestitures	(1,367)				(1,367)
Proceeds from sale of other oil and gas properties	69		312		381
Investment in subsidiaries, net	2,899			(2,899)	
Other	(35)		2		(33)
NET CASH PROVIDED BY (USED IN) CONTINUING INVESTING ACTIVITIES	1,223		(2,802)	(2,899)	(4,478)
NET CASH USED IN DISCONTINUED OPERATIONS			(13)		(13)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	1,223		(2,815)	(2,899)	(4,491)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Commercial paper and bank credit facilities, net			(1)		(1)
Intercompany borrowings		11	(2,909)	2,898	
Distributions to noncontrolling interest			(66)		(66)
Dividends paid	(176)				(176)
Treasury stock activity, net	(1,263)				(1,263)

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Other		19	5	1	25
NET CASH PROVIDED BY (USED IN) CONTINUING FINANCING ACTIVITIES	(1,439)	30	(2,971)	2,899	(1,481)
NET CASH USED IN DISCONTINUED OPERATIONS			(42)		(42)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(1,439)	30	(3,013)	2,899	(1,523)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(146)	(3)	(1,233)		(1,382)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	155	3	1,748		1,906
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 9	\$ 3	\$ 515	\$ 524	

APACHE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATING BALANCE SHEET

June 30, 2015

	Apache Corporation	Apache Finance Canada	All Other Subsidiaries of Apache Corporation	Reclassifications & Eliminations	Consolidated
	(In millions)				
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	\$ 1,953	\$	\$ 997	\$	\$ 2,950
Receivables, net of allowance	470		1,119		1,589
Inventories	38		591		629
Drilling advances	17	1	175		193
Deferred tax asset	72		12		84
Prepaid assets and other	22		26		48
Intercompany receivable	5,420			(5,420)	
	7,992	1	2,920	(5,420)	5,493
PROPERTY AND EQUIPMENT, NET	5,096		23,219		28,315
OTHER ASSETS:					
Intercompany receivable			691	(691)	
Equity in affiliates	21,663	149	452	(22,264)	
Deferred charges and other	176	1,000	1,328	(1,000)	1,504
	\$ 34,927	\$ 1,150	\$ 28,610	\$ (29,375)	\$ 35,312
LIABILITIES AND SHAREHOLDERS					
EQUITY					
CURRENT LIABILITIES:					
Accounts payable	\$ 449	\$	\$ 261	\$	\$ 710
Other current liabilities	838	1	834		1,673
Intercompany payable			5,420	(5,420)	
	1,287	1	6,515	(5,420)	2,383
LONG-TERM DEBT	9,378	298	0		9,676
DEFERRED CREDITS AND OTHER					
NONCURRENT LIABILITIES:					
Intercompany payable	691			(691)	
Income taxes	502		2,142		2,644

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Asset retirement obligation	220		2,314		2,534
Other	7,305	250	(6,235)	(1,000)	320
	8,718	250	(1,779)	(1,691)	5,498
COMMITMENTS AND CONTINGENCIES					
APACHE SHAREHOLDERS EQUITY	15,544	601	21,663	(22,264)	15,544
Noncontrolling interest			2,211		2,211
TOTAL EQUITY	15,544	601	23,874	(22,264)	17,755
	\$ 34,927	\$ 1,150	\$ 28,610	\$ (29,375)	\$ 35,312

APACHE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATING BALANCE SHEET

December 31, 2014

	Apache Corporation	Apache Finance Canada	All Other Subsidiaries of Apache Corporation	Reclassifications & Eliminations	Consolidated
	(In millions)				
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	\$ 267	\$	\$ 502	\$	\$ 769
Receivables, net of allowance	837		1,187		2,024
Inventories	24		684		708
Drilling advances	34	1	353		388
Assets held for sale			1,628		1,628
Deferred tax asset	612		157		769
Prepaid assets and other	32		97		129
Intercompany receivable	4,939			(4,939)	
	6,745	1	4,608	(4,939)	6,415
PROPERTY AND EQUIPMENT, NET	13,940		34,136		48,076
OTHER ASSETS:					
Intercompany receivable			608	(608)	
Equity in affiliates	25,791	869	444	(27,104)	
Goodwill			87		87
Deferred charges and other	175	1,002	1,197	(1,000)	1,374
	\$ 46,651	\$ 1,872	\$ 41,080	\$ (33,651)	\$ 55,952
LIABILITIES AND SHAREHOLDERS EQUITY					
CURRENT LIABILITIES:					
Accounts payable	\$ 748	\$ 10	\$ 452	\$	\$ 1,210
Asset retirement obligation	28		9		37
Other current liabilities	1,014	1	1,402		2,417
Intercompany payable			4,939	(4,939)	
	1,790	11	6,802	(4,939)	3,664
LONG-TERM DEBT	10,947	298			11,245

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DEFERRED CREDITS AND OTHER NONCURRENT LIABILITIES:					
Intercompany payable	608			(608)	
Income taxes	5,076		4,423		9,499
Asset retirement obligation	211		2,837		3,048
Other	2,082	250	(973)	(1,000)	359
	7,977	250	6,287	(1,608)	12,906
COMMITMENTS AND CONTINGENCIES					
APACHE SHAREHOLDERS EQUITY	25,937	1,313	25,791	(27,104)	25,937
Noncontrolling interest			2,200		2,200
TOTAL EQUITY	25,937	1,313	27,991	(27,104)	28,137
	\$ 46,651	\$ 1,872	\$ 41,080	\$ (33,651)	\$ 55,952

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

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. The Company has exploration and production interests in four countries: the United States (U.S.), Canada, Egypt, and the United Kingdom (U.K.) North Sea. Apache also pursues exploration interests in other countries that may over time result in reportable discoveries and development opportunities.

This discussion relates to Apache Corporation and its consolidated subsidiaries and should be read in conjunction with our consolidated financial statements and accompanying notes included under Part I, Item 1, Financial Statements of this Quarterly Report on Form 10-Q, as well as our consolidated financial statements, accompanying notes and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for our 2014 fiscal year. Results of operations and consolidated cash flows for our divested Australia assets and Argentina operations are reflected as discontinued operations in all periods presented in this Quarterly Report on Form 10-Q.

Strategic Overview

The Company's strategic outlook and foundation for growth are based on our core producing asset base and large undeveloped acreage positions. We believe our holdings provide for growth through sustainable lower-risk drilling opportunities onshore in North America, balanced by higher-risk, higher-reward exploration in Egypt, the North Sea, and other offshore areas. We closely monitor drilling and acquisition cost trends in each of our core areas relative to product prices and, when appropriate, adjust our capital budgets accordingly and allocate funds to projects based on expected value. We do this through a disciplined and focused process that includes analyzing current economic conditions, projected rate of return on internally generated drilling inventories, and opportunities for tactical acquisitions or leasehold purchases that add substantial drilling prospects or, occasionally, provide access to new core areas that could enhance our portfolio.

Over the last five years, Apache has increasingly focused on its North American onshore resource base. Recent drilling success and the acquisition of acreage positions across North America add to our robust drilling inventory in the Permian Basin and other key onshore operating areas. As part of our strategy, this quarter we completed the sales of our Kitimat and Wheatstone LNG projects and our upstream assets in Australia. The Company believes our current portfolio, which includes a significant onshore North America resource base coupled with Brent-linked, free cash flow generating assets in the North Sea and Egypt, provides flexibility in capital allocation and a platform for sustainable growth in a volatile commodity price environment.

In response to the significant drop in commodity prices in late 2014, we moved quickly and decisively on matters within our control: capital spending, overhead, and lease operating costs. We significantly reduced capital spending in 2015; however, we are prepared to ramp up activity when commodity prices and service costs realign. We have also taken steps to reduce our operating cost structure, including organizational changes to better integrate our human resources. As part of these efforts, we streamlined our organizational structure and are in the process of closing our regional office in Tulsa, Oklahoma. By the end of 2015, we will have consolidated our corporate and Houston region employee bases into a single location, which we believe will foster increased collaboration and communication as well as accelerate technology development and transfer among our core asset teams.

The decline in the price of oil and natural gas at the end of 2014 and during the first half of 2015 was dramatic; however, we believe this low price environment will provide future growth opportunities for companies that move aggressively to reduce spending and maintain a strong balance sheet position.

Financial Highlights

Results for the quarter and six months ended June 30, 2015, include:

Average daily equivalent production increased 7 percent for both the quarter and six months when compared to the prior-year periods adjusted for asset divestitures.

Liquids production for the second quarter of 2015 averaged 365 Mboe per day (Mboe/d), with crude oil representing 83 percent of total liquids production. Liquids production, adjusted for asset divestitures, increased 8 percent from both the second quarter and first six months of 2014.

Oil and gas production revenues for the second quarter and first six months of 2015 totaled \$2.0 billion and \$3.6 billion, respectively, down 44 and 48 percent from respective prior-year periods, reflecting the significant decrease in realized commodity prices.

For the second quarter, Apache reported a loss from continuing operations of \$4.9 billion, or \$12.89 per diluted common share, compared with earnings of \$449 million, or \$1.17 per diluted share in the second quarter of 2014. The current period loss included after-tax charges for a ceiling test impairment of \$3.7 billion.

For the first half of 2015, Apache reported a loss from continuing operations of \$9.4 billion or \$24.88 per diluted share, compared with earnings of \$1.1 billion, or \$2.82 per diluted share, respectively, for the prior year period. The loss for 2015 includes after-tax write-downs of oil and gas properties in the U.S., Canada, and U.K. North Sea totaling \$8.4 billion.

Net cash provided by continuing operating activities totaled \$1.7 billion for the first half of 2015, compared to \$3.9 billion in the comparable prior-year period, reflecting a significant decline in commodity prices.

The proceeds received from asset divestments enabled us to reduce total debt 21 percent during the quarter, to \$9.7 billion, and exit the quarter with \$3 billion in cash. We have also initiated steps to pay off \$900 million of outstanding 2017 bonds.

Operational Developments

Our internally generated exploration and drilling opportunities provide the foundation for our growth. Highlights of our 2015 drilling successes and other operational developments are discussed below.

North America

North America onshore production in the second quarter and first six months of 2015 of 317 Mboe/d and 312 Mboe/d, respectively, represents 56 percent of Apache's total worldwide production for each respective period.

Onshore oil production during the second quarter of 2015 decreased 2 percent from the prior-year quarter; however, production was up 7 percent when excluding volumes from 2014 divestitures. This production performance is notable given that Apache reduced its North American onshore exploration and development capital spending by 68 percent in the second quarter of 2015 compared to the prior-year quarter.

Production from the Permian Basin region, which accounts for more than half of Apache's total onshore North American production, increased 8 percent in the second quarter of 2015 compared to the second quarter of 2014. The increase in production was achieved despite a 75 percent reduction in exploration and development capital spending in the second quarter of 2015 compared to the prior-year quarter.

International and Offshore

In Egypt, second quarter 2015 gross production of 349 Mboe/d was down slightly compared to the second quarter of 2014 as strong growth in higher margin oil production was offset by a decline in low margin natural gas production. Gross oil production of 203 thousand barrels of oil per day (Mb/d) was up 3 percent

compared to the 2014 second quarter as Apache continued to successfully delineate the Ptah and Berenice oil discoveries. Gross production from the Ptah and Berenice fields achieved a combined daily peak rate of more than 22 Mb/d.

Apache drilled 8 wells in the North Sea during the second quarter of 2015 with a 90 percent success rate. Production of 69 Mboe/d was down approximately 3 Mboe/d a result of annual platform maintenance programs that are typically performed during the third quarter. Excluding the associated downtime, North Sea production in the second quarter was approximately flat compared to the second quarter of 2014.

During the second quarter of 2015, Apache completed the previously disclosed sale of its 50 percent interest in the Kitimat LNG project in Canada, along with the associated upstream oil and gas assets, to Woodside Petroleum Limited (Woodside) for total proceeds of approximately \$854 million. Proceeds include reimbursement of Apache's net expenditure in the project, changes in working capital and other contractual adjustments between the effective date, July 1, 2014, and closing.

Apache completed the sale of the Wheatstone LNG project and associated upstream oil and gas assets in Australia to Woodside for total proceeds of \$2.8 billion during the second quarter of 2015. Proceeds include reimbursement of Apache's net expenditure in the project, changes in working capital, and other contractual adjustments between the effective date, July 1, 2014, and closing.

Also in the second quarter of 2015, Apache completed the sale of its Australian subsidiary Apache Energy Limited (AEL) to a consortium of private equity funds managed by Macquarie Capital Group Limited and Brookfield Asset Management Inc. for cash consideration of \$1.9 billion which includes customary, post-closing adjustments. The effective date of the sale is October 1, 2014.

Results of Operations**Oil and Gas Revenues**

The table below presents revenues by geographic region and each region's percent contribution to revenues for 2015 and 2014.

	For the Quarter Ended June 30,				For the Six Months Ended June 30,			
	2015		2014		2015		2014	
	\$	%	\$	%	\$	%	\$	%
	Value	Contribution	Value	Contribution	Value	Contribution	Value	Contribution
	(\$ in millions)							
Total Oil Revenues:								
United States	\$ 627	39%	\$ 1,145	41%	\$ 1,137	39%	\$ 2,237	41%
Canada	75	5%	154	5%	135	5%	294	6%
North America	702	44%	1,299	46%	1,272	44%	2,531	47%
Egypt ⁽¹⁾	553	35%	885	32%	986	34%	1,731	32%
North Sea	344	22%	613	22%	621	22%	1,180	21%
International ⁽¹⁾	897	56%	1,498	54%	1,607	56%	2,911	53%
Total ⁽¹⁾	\$ 1,599	100%	\$ 2,797	100%	\$ 2,879	100%	\$ 5,442	100%
Total Gas Revenues:								
United States	\$ 90	31%	\$ 245	49%	\$ 193	32%	\$ 511	48%
Canada	61	20%	122	24%	128	22%	270	25%
North America	151	51%	367	73%	321	54%	781	73%
Egypt ⁽¹⁾	107	36%	99	19%	203	34%	202	19%
North Sea	37	13%	39	8%	71	12%	82	8%
International ⁽¹⁾	144	49%	138	27%	274	46%	284	27%
Total ⁽¹⁾	\$ 295	100%	\$ 505	100%	\$ 595	100%	\$ 1,065	100%
Natural Gas Liquids (NGL) Revenues:								
United States	\$ 50	86%	\$ 139	82%	\$ 97	84%	\$ 286	81%
Canada	2	3%	17	10%	8	7%	47	13%
North America	52	90%	156	92%	105	91%	333	94%
Egypt ⁽¹⁾	4	7%	5	3%	7	6%	6	2%
North Sea	2	3%	8	5%	4	3%	16	4%

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International ⁽¹⁾	6	10%	13	8%	11	9%	22	6%
Total ⁽¹⁾	\$ 58	100%	\$ 169	100%	\$ 116	100%	\$ 355	100%
Total Oil and Gas Revenues:								
United States	\$ 767	39%	\$ 1,529	44%	\$ 1,427	40%	\$ 3,034	44%
Canada	138	7%						