APACHE CORP
Form 10-Q
November 08, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2013

OR

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

For the transition period from to

Commission File Number 1-4300

APACHE CORPORATION

(exact name of registrant as specified in its charter)

Delaware	**41-0747868**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification Number)**

One Post Oak Central, 2000 Post Oak Boulevard, Suite 100, Houston, Texas 77056-4400

(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 x 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 x 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 x	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 x

Number of shares of registrant s common stock outstanding as of October 31, 2013. 399,236,209

PART I FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

APACHE CORPORATION AND SUBSIDIARIES

STATEMENT OF CONSOLIDATED OPERATIONS

(Unaudited)

	For the Quarter Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In millions, except per common share data)			
REVENUES AND OTHER:				
Oil and gas production revenues	$ 4,409	$ 4,141	$ 12,674	$ 12,554
Derivative instrument gains (losses), net	(422)		(275)	
Other	32	38	79	133
	4,019	4,179	12,478	12,687
OPERATING EXPENSES:				
Depreciation, depletion and amortization:				
Oil and gas property and equipment				
Recurring	1,330	1,206	3,906	3,535
Additional	743	729	808	1,898
Other assets	99	94	297	268
Asset retirement obligation accretion	66	60	196	172
Lease operating expenses	819	801	2,419	2,178
Gathering and transportation	83	86	237	235
Taxes other than income	185	167	610	627
General and administrative	127	124	376	384
Merger, acquisitions & transition		7		29
Financing costs, net	51	40	155	125
	3,503	3,314	9,004	9,451
INCOME BEFORE INCOME TAXES	516	865	3,474	3,236
Current income tax provision	410	544	1,191	1,729
Deferred income tax provision (benefit)	(200)	141	225	174
NET INCOME	306	180	2,058	1,333
Preferred stock dividends	6	19	44	57
INCOME ATTRIBUTABLE TO COMMON STOCK	$ 300	$ 161	$ 2,014	$ 1,276

NET INCOME PER COMMON SHARE:

Basic	$ 0.75	$ 0.41	$ 5.11	$ 3.29
Diluted	$ 0.75	$ 0.41	$ 5.06	$ 3.27
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:				
Basic	399	391	394	388
Diluted	401	393	407	390
DIVIDENDS DECLARED PER COMMON SHARE	$ 0.20	$ 0.17	$ 0.60	$ 0.51

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

APACHE CORPORATION AND SUBSIDIARIES

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

(Unaudited)

	For the Quarter Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In millions)			
NET INCOME	$ 306	$ 180	$ 2,058	$ 1,333
OTHER COMPREHENSIVE INCOME (LOSS):				
Commodity cash flow hedge activity, net of tax:				
Reclassification of (gain) loss on settled derivative instruments	(1)	(59)	13	(151)
Change in fair value of derivative instruments	(5)	(41)	(6)	71
Derivative hedge ineffectiveness reclassified into earnings	1		1	
	(5)	(100)	8	(80)
COMPREHENSIVE INCOME	301	80	2,066	1,253
Preferred stock dividends	6	19	44	57
COMPREHENSIVE INCOME ATTRIBUTABLE TO COMMON STOCK	$ 295	$ 61	$ 2,022	$ 1,196

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

APACHE CORPORATION AND SUBSIDIARIES

STATEMENT OF CONSOLIDATED CASH FLOWS

(Unaudited)

	For the Nine Months Ended September 30, 2013	2012
	(In millions)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 2,058	$ 1,333
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion, and amortization	5,011	5,701
Asset retirement obligation accretion	196	172
Provision for deferred income taxes	225	174
Other	187	62
Changes in operating assets and liabilities:		
Receivables	(27)	128
Inventories	(40)	29
Drilling advances	117	(334)
Deferred charges and other	(192)	(200)
Accounts payable	190	168
Accrued expenses	(394)	(814)
Deferred credits and noncurrent liabilities	27	3
NET CASH PROVIDED BY OPERATING ACTIVITIES	7,358	6,422
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to oil and gas property	(7,498)	(6,387)
Additions to gas gathering, transmission, and processing facilities	(859)	(586)
Proceeds from divestiture of Gulf of Mexico Shelf properties	3,594	
Proceeds from Kitimat LNG transaction, net	396	
Proceeds from sale of other oil and gas properties	199	26
Acquisition of Cordillera Energy Partners III, LLC		(2,666)
Acquisition of Yara Pilbara Holdings Pty Limited		(439)
Acquisitions, other	(156)	(122)
Other, net	(10)	(386)
NET CASH USED IN INVESTING ACTIVITIES	(4,334)	(10,560)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Commercial paper and bank credit facilities, net	(516)	1,827
Fixed rate debt borrowings		2,991
Payments on fixed rate debt	(900)	(400)
Dividends paid	(280)	(246)
Treasury stock activity, net	(249)	2
Other	12	(13)

NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		(1,933)		4,161
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,091		23
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		160		295
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$	1,251	$	318
SUPPLEMENTARY CASH FLOW DATA:				
Interest paid, net of capitalized interest	$	185	$	130
Income taxes paid, net of refunds		1,344		1,876

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

APACHE CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

(Unaudited)

	September 30, 2013	December 31, 2012
	(In millions)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,251	$ 160
Receivables, net of allowance	3,086	3,086
Inventories	889	908
Drilling advances	452	584
Derivative instruments	3	31
Prepaid assets and other	335	193
	6,016	4,962
PROPERTY AND EQUIPMENT:		
Oil and gas, on the basis of full-cost accounting:		
Proved properties	81,111	78,383
Unproved properties and properties under development, not being amortized	8,328	8,754
Gathering, transmission and processing facilities	6,791	5,955
Other	1,071	1,055
	97,301	94,147
Less: Accumulated depreciation, depletion and amortization	(45,839)	(40,867)
	51,462	53,280
OTHER ASSETS:		
Goodwill	1,369	1,289
Deferred charges and other	1,392	1,206
	$ 60,239	$ 60,737
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 1,345	$ 1,092
Current debt	57	990
Current asset retirement obligation	139	478
Derivative instruments	205	116
Other current liabilities	2,777	2,860
	4,523	5,536

LONG-TERM DEBT	10,868	11,355
DEFERRED CREDITS AND OTHER NONCURRENT LIABILITIES:		
Income taxes	8,297	8,024
Asset retirement obligation	3,123	4,100
Other	447	391
	11,867	12,515
COMMITMENTS AND CONTINGENCIES (Note 8)		
SHAREHOLDERS EQUITY:		
Preferred stock, no par value, 10,000,000 shares authorized, 6% Cumulative Mandatory Convertible, Series D, $1,000 per share liquidation preference, 1,265,000 shares converted in 2013, 1,265,000 shares issued and outstanding in 2012		1,227
Common stock, $0.625 par, 860,000,000 shares authorized, 407,897,495 and 392,712,245 shares issued, respectively	255	245
Paid-in capital	11,191	9,859
Retained earnings	21,938	20,161
Treasury stock, at cost, 3,977,524 and 1,071,475 shares, respectively	(280)	(30)
Accumulated other comprehensive loss	(123)	(131)
	32,981	31,331
	$ 60,239	$ 60,737

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

APACHE CORPORATION AND SUBSIDIARIES

STATEMENT OF CONSOLIDATED SHAREHOLDERS EQUITY

(Unaudited)

	Series D Preferred Stock	Common Stock	Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Equity
				(In millions)			
BALANCE AT DECEMBER 31, 2011	$ 1,227	$ 241	$ 9,066	$ 18,500	$ (32)	$ (9)	$ 28,993
Net income				1,333			1,333
Commodity hedges, net of tax						(80)	(80)
Dividends:							
Preferred				(57)			(57)
Common ($0.51 per share)				(198)			(198)
Common shares issued		3	598				601
Common stock activity, net		1	(12)				(11)
Treasury stock activity, net			1		2		3
Compensation expense			130				130
BALANCE AT SEPTEMBER 30, 2012	$ 1,227	$ 245	$ 9,783	$ 19,578	$ (30)	$ (89)	$ 30,714
BALANCE AT DECEMBER 31, 2012	$ 1,227	$ 245	$ 9,859	$ 20,161	$ (30)	$ (131)	$ 31,331
Net income				2,058			2,058
Commodity hedges, net of tax						8	8
Dividends:							
Preferred				(44)			(44)
Common ($0.60 per share)				(237)			(237)
Common shares issued		9	1,218				1,227
Common stock activity, net		1	(12)				(11)
Treasury stock activity, net			(1)		(250)		(251)
Conversion of Series D preferred stock	(1,227)						(1,227)
Compensation expense			135				135
Other			(8)				(8)
BALANCE AT SEPTEMBER 30, 2013	$	$ 255	$ 11,191	$ 21,938	$ (280)	$ (123)	$ 32,981

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

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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, 2012, which contains a summary of the Company s significant accounting policies and other disclosures. Additionally, the Company s financial statements for prior periods may include reclassifications that were made to conform to the current-period presentation.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As of September 30, 2013, Apache s significant accounting policies are consistent with those discussed in Note 1 Summary of Significant Accounting Policies of its consolidated financial statements contained in Apache s Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

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 properties. 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.

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. For a discussion of the calculation of estimated future net cash flows, please refer to Note 14 Supplemental Oil and Gas Disclosures in Apache s Annual Report on Form 10-K for the fiscal year ended

December 31, 2012.

In the third quarter of 2013, the Company recorded $552 million ($356 million net of tax) and $116 million ($76 million net of tax) in non-cash write-downs of the carrying value of the Company s U.S. and Argentinian proved oil and gas properties, respectively. Additionally, the Company recorded a write-down of its Argentinian proved property balances of $65 million ($42 million net of tax) in the first quarter of 2013. Excluding the effects of cash flow hedges in calculating the ceiling limitation, the write-down amounts would not have been materially different. Separately, in the third quarter of 2013 the Company exited operations in Kenya and recorded $75 million, ($46 million net of tax), to additional DD&A associated with the impairment of the entire carrying value of the Kenyan oil and gas property leases.

For the 2012 quarters ended March 31, June 30, and September 30, the Company recorded write-downs of its Canadian proved property balances of $521 million ($390 million net of tax), $641 million ($480 million net of tax), and $721 million ($539 million net of tax), respectively.

New Pronouncements Issued But Not Yet Adopted

In July 2013, the FASB issued ASU No. 2013-11, which requires entities to present unrecognized tax benefits as a decrease in a net operating loss, similar tax loss, or tax credit carryforward if certain criteria are met. The guidance will eliminate the diversity in practice in the presentation of unrecognized tax benefits but will not alter the way in which entities assess deferred tax assets for realizability. ASU No. 2013-11 is effective for annual and interim reporting periods beginning after December 15, 2013. The Company is currently evaluating the impact of adopting this amendment on its consolidated financial statements, and any changes will be applied prospectively.

2. ACQUISITIONS AND DIVESTITURES

2013 Activity

Sinopec Partnership

On August 29, 2013, Apache announced a global strategic partnership with Sinopec International Petroleum Exploration and Production Corporation (Sinopec) to pursue joint upstream oil and gas projects. As the first step in this partnership, Apache will receive $3.1 billion in cash, subject to customary closing adjustments, in exchange for Sinopec gaining a 33 percent minority participation in Apache s Egypt oil and gas business. Apache will continue to operate its Egypt upstream oil and gas business. The Egypt partnership is subject to customary governmental approvals and is expected to close during the fourth quarter of 2013, with an effective date of January 1, 2013.

Gulf of Mexico Shelf

On September 30, 2013, Apache completed the sale of its Gulf of Mexico Shelf operations and properties to Fieldwood Energy LLC (Fieldwood), an affiliate of Riverstone Holdings. Under the terms of the agreement, Apache received consideration of $3.6 billion in cash proceeds and $1.5 billion of discounted asset abandonment liabilities assumed by Fieldwood. Additionally, Apache will receive approximately $200 million associated with pending preferential right settlements expected to close in the fourth quarter. Apache has retained a 50 percent ownership interest in all exploration blocks and in horizons below existing production in developed blocks. The effective date of the agreement is July 1, 2013.

Apache s net book value of oil and gas properties was reduced by approximately $4.3 billion of proved property costs and $632 million of unproved property costs as a result of the transaction.

Kitimat LNG Project

In February 2013, Apache completed a transaction with Chevron Canada Limited (Chevron Canada) to build and operate the Kitimat LNG project and develop shale gas resources at the Liard and Horn River basins in British Columbia. Chevron Canada and Apache Canada are now each a 50 percent owner of the Kitimat LNG plant, the Pacific Trail Pipelines Limited Partnership (PTP), and 644,000 gross undeveloped acres in the Horn River and Liard basins. As part of the transaction, Apache Canada increased its ownership in the LNG plant and PTP pipeline from 40 percent, sold portions of its existing interests in Horn River and Liard, and purchased other additional interests in Horn River. Chevron Canada will operate the LNG plant and pipeline while Apache Canada will continue to operate the upstream assets. Apache s net proceeds from the transaction were $396 million after post-closing adjustments.

Other Activity

During the first nine months of 2013 Apache completed $199 million of other oil and gas property sales and $156 million of oil and gas property acquisitions.

2012 Activity

Cordillera Energy Partners III, LLC

On April 30, 2012, Apache completed the acquisition of Cordillera Energy Partners III, LLC (Cordillera), a privately held exploration and production company, in a stock and cash transaction. Cordillera s properties included approximately 312,000 net acres in the Granite Wash, Tonkawa, Cleveland, and Marmaton plays in western Oklahoma and the Texas Panhandle.

Apache issued 6,272,667 shares of common stock and paid approximately $2.7 billion of cash to the sellers as consideration for the transaction. The transaction was accounted for using the acquisition method of accounting, which requires, among other things, that assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. The following table summarizes the final estimates of the assets acquired and liabilities assumed in the acquisition.

		(In millions)
Current assets	$	39
Proved properties		1,040
Unproved properties		2,299
Gathering, transmission, and processing facilities		1
Goodwill(1)		173
Deferred tax asset		64
Total assets acquired	$	3,616
Current liabilities		88
Deferred income tax liabilities		237
Other long-term obligations		5
Total liabilities assumed	$	330
Net assets acquired	$	3,286

(1) Goodwill was the excess of the consideration transferred over the net assets recognized and represents the future economic benefits arising from assets acquired that could not be individually identified and separately recognized. Goodwill is not deductible for tax purposes.

Yara Pilbara Holdings Pty Limited

On January 31, 2012, a subsidiary of Apache Energy Limited completed the acquisition of a 49 percent interest in Yara Pilbara Holdings Pty Limited (YPHPL, formerly Burrup Holdings Limited) for $439 million, including working capital adjustments. The transaction was funded with debt. Yara Australia Pty Ltd (Yara) owns the remaining 51 percent of YPHPL and operates the plant. The investment in YPHPL is accounted for under the equity method of accounting, with the balance recorded as a component of Deferred charges and other in Apache s consolidated balance sheet and results of operations recorded as a component of Other under Revenues and Other in the Company s statement of consolidated operations.

3. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

<u>Objectives and Strategies</u>

The Company is exposed to fluctuations in crude oil and natural gas prices on the majority of its worldwide production. Apache manages the variability in its cash flows by occasionally entering into derivative transactions on a portion of its crude oil and natural gas production. The Company utilizes various types of derivative financial instruments, including swaps and options, to manage fluctuations in cash flows resulting from changes in commodity prices.

Counterparty Risk

The use of derivative instruments exposes the Company to counterparty credit risk, or the risk that a counterparty will be unable to meet its commitments. To reduce the concentration of exposure to any individual counterparty, Apache utilizes a diversified group of investment-grade rated counterparties, primarily financial institutions, for its derivative transactions. As of September 30, 2013, Apache had derivative positions with 17 counterparties. The Company monitors counterparty creditworthiness on an ongoing basis; however, it cannot predict sudden changes in counterparties creditworthiness. In addition, even if such changes are not sudden, the Company may be limited in its ability to mitigate an increase in counterparty credit risk. Should one of these counterparties not perform, Apache may not realize the benefit of some of its derivative instruments resulting from lower commodity prices.

The Company executes commodity derivative transactions under master agreements that have netting provisions that provide for offsetting payables against receivables. In general, if a party to a derivative transaction incurs a material deterioration in its credit ratings, as defined in the applicable agreement, the other party has the right to demand the posting of collateral, demand a transfer, or terminate the arrangement. The Company s net derivative liability position at September 30, 2013, represents the aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a net liability position. The Company has not provided any collateral to any of its counterparties as of September 30, 2013.

Derivative Instruments

As of September 30, 2013, Apache had the following open crude oil derivative positions:

Production Period	Settlement Index	Fixed-Price Swaps Mbbls	Fixed-Price Swaps Weighted Average Fixed Price	Collars Mbbls	Collars Weighted Average Floor Price	Collars Weighted Average Ceiling Price
2013 [(1)]	NYMEX WTI	222	$ 77.66	368	$ 80.00	$ 103.64
2013 [(1)]	Dated Brent			828	86.39	117.93
2013	NYMEX WTI	5,520	90.85			
2013	Dated Brent	5,978	106.47			
2014 [(1)]	NYMEX WTI	76	74.50			
2014	NYMEX WTI	22,813	90.83			
2014	Dated Brent	22,812	100.05			

(1) For 2013 and 2014, these fixed-price swaps and collars have been designated as cash flow hedges with unrealized gains and losses deferred in accumulated other comprehensive loss.

As of September 30, 2013, Apache had the following open natural gas derivative positions:

Production Period	Settlement Index	Fixed-Price Swaps MMBtu (in 000 s)	Fixed-Price Swaps Weighted Average Fixed Price
2013 [(1)]	NYMEX Henry Hub	2,517	$ 6.71
2013	NYMEX Henry Hub	22,080	4.20
2014 [(1)]	NYMEX Henry Hub	1,295	6.72

(1) For 2013 and 2014, these fixed-price swaps have been designated as cash flow hedges with unrealized gains and losses deferred in accumulated other comprehensive loss.

Fair Value Measurements

Apache s commodity derivative instruments consist of variable-to-fixed price commodity swaps and options. The fair values of the Company s derivatives are not actively quoted in the open market. The Company uses a market approach to estimate the fair values of its derivative instruments, utilizing commodity futures price strips for the underlying commodities provided by a reputable third party.

The following table presents the Company s derivative assets and liabilities measured at fair value on a recurring basis:

	Fair Value Measurements Using					
	Quoted Price in Active Markets (Level 1)	Significant Other Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value	Netting[1]	Carrying Amount
			(In millions)			
September 30, 2013						
Assets:						
Derivatives designated as cash flow hedges	$	$ 11	$	$ 11		
Derivatives not designated as cash flow hedges		14		14		
Total Derivative assets	$	$ 25	$	$ 25	$ (22)	$ 3
Liabilities:						
Derivatives designated as cash flow hedges	$	$ 8	$	$ 8		
Derivatives not designated as cash flow hedges		230		230		
Total Derivative liabilities	$	$ 238	$	$ 238	$ (22)	$ 216
December 31, 2012						
Assets:						
Derivatives designated as cash flow hedges	$	$ 48	$	$ 48	$ (15)	$ 33
Liabilities:						
Derivatives designated as cash flow hedges	$	$ 51	$	$ 51		
Derivatives not designated as cash flow hedges		80		80		
Total Derivative liabilities	$	$ 131	$	$ 131	$ (15)	$ 116

(1) The derivative fair values are based on analysis of each contract on a gross basis, excluding the impact of netting agreements with counterparties.

Derivative Assets and Liabilities Recorded in the Consolidated Balance Sheet

All derivative instruments are reflected as either assets or liabilities at fair value in the consolidated balance sheet. These fair values are recorded by netting asset and liability positions where counterparty master netting arrangements contain provisions for net settlement. The carrying value of the Company s derivative assets and liabilities and their locations on the consolidated balance sheet are as follows:

	September 30, 2013	December 31, 2012
	(In millions)	
Current Assets: Derivative instruments	$ 3	$ 31
Other Assets: Deferred charges and other		2

Total Assets	$ 3	$ 33
Current Liabilities: Derivative instruments	$ 205	$ 116
Noncurrent Liabilities: Other	11	
Total Liabilities	$ 216	$ 116

Derivative Activity Recorded in the Statement of Consolidated Operations

The following table summarizes the effect of derivative instruments on the Company s statement of consolidated operations:

	Gain (Loss) on Derivatives Recognized in Income	For the Quarter Ended September 30, 2013	2012	For the Nine Months Ended September 30, 2013	2012
		(In millions)			
Gain (loss) on cash flow hedges reclassified from accumulated other comprehensive loss	Oil and Gas Production Revenues	$ 2	$ 83	$ (18)	$ 202
Gain (loss) for ineffectiveness on cash flow hedges	Revenues and other: Other	$ (1)	$ 1	$ (1)	$ 1
Gain (loss) on derivatives not designated as cash flow hedges	Derivative instrument gains (losses), net	$ (422)	$	$ (275)	$

Unrealized gains and losses for derivative activity recorded in the statement of consolidated operations is reflected in the statement of consolidated cash flows as a component of Other in Adjustments to reconcile net income to net cash provided by operating activities.

Derivative Activity in Accumulated Other Comprehensive Loss

A reconciliation of the components of accumulated other comprehensive loss in the statement of consolidated shareholders equity related to Apache s cash flow hedges is presented in the table below. Derivative activity represents all of the reclassifications out of accumulated other comprehensive loss to income for the periods presented.

	For the Nine Months Ended September 30, 2013 Before tax	After tax	2012 Before tax	After tax
	(In millions)			
Unrealized gain (loss) on derivatives at beginning of period	$ (10)	$ (6)	$ 145	$ 113
Realized amounts reclassified into earnings	18	13	(202)	(151)
Net change in derivative fair value	(7)	(6)	97	71
Ineffectiveness reclassified into earnings	1	1	(1)	
Unrealized gain on derivatives at end of period	$ 2	$ 2	$ 39	$ 33

Gains and losses on existing hedges will be realized in future earnings through 2014, in the same period as the related sales of natural gas and crude oil production occur. Included in accumulated other comprehensive loss as of September 30, 2013, is a net gain of approximately $2 million ($1 million after tax) that applies to the next 12 months; however, estimated and actual amounts are likely to vary materially as a result of changes in market conditions.

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4. OTHER CURRENT LIABILITIES

The following table provides detail of our other current liabilities:

	September 30, 2013	December 31, 2012
	(In millions)	
Accrued operating expenses	$ 248	$ 211
Accrued exploration and development	1,745	1,792
Accrued compensation and benefits	178	198
Accrued interest	133	160
Accrued income taxes	289	297
Other	184	202
Total Other current liabilities	$ 2,777	$ 2,860

5. ASSET RETIREMENT OBLIGATION

The following table describes changes to the Company s asset retirement obligation (ARO) liability for the nine-month period ended September 30, 2013:

	(In millions)
Asset retirement obligation at December 31, 2012	$ 4,578
Liabilities incurred	383
Liabilities acquired	53
Liabilities divested	(1,563)
Liabilities settled	(396)
Accretion expense	196
Revisions in estimated liabilities	11
Asset retirement obligation at September 30, 2013	3,262
Less current portion	(139)
Asset retirement obligation, long-term	$ 3,123

6. DEBT AND FINANCING COSTS

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

	September 30, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In millions)			

Uncommitted credit lines	$ 57	$ 57	$ 91	$ 91
Commercial paper			489	489
Notes and debentures	10,868	11,258	11,765	13,340
Total Debt	$ 10,925	$ 11,315	$ 12,345	$ 13,920

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 and uncommitted credit facilities 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).

During 2013, Apache repaid the $500 million aggregate principal amount of 5.25-percent notes that matured on April 15, 2013 and the $400 million aggregate principal amount of 6.00-percent notes that matured on September 15, 2013 by borrowing under our commercial paper program.

The Company has available a $3.0 billion commercial paper program, which generally enables Apache to borrow funds for up to 270 days at competitive interest rates. The commercial paper program is fully supported by available borrowing capacity under our committed credit facilities. During the third quarter of 2013, the Company used proceeds from divestitures to repay all outstanding commercial paper. As of December 31, 2012, the Company had $489 million in commercial paper outstanding.

As of September 30, 2013, the Company had unsecured committed revolving credit facilities totaling $3.3 billion, of which $1.0 billion matures in August 2016 and $2.3 billion matures in June 2017. The facilities consist of a $1.7 billion facility and $1.0 billion facility for the U.S., a $300 million facility for Australia, and a $300 million facility for Canada. As of September 30, 2013, available borrowing capacity under the Company s credit facilities was $3.3 billion. The Company s committed credit facilities are used to support Apache s commercial paper program.

As of September 30, 2013 and December 31, 2012, current debt included $57 million and $91 million, respectively, borrowed on uncommitted credit facilities and overdraft lines.

Financing Costs, Net

	For the Quarter Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In millions)			
Interest expense	$ 146	$ 132	$ 437	$ 371
Amortization of deferred loan costs	2	2	6	5
Capitalized interest	(93)	(90)	(276)	(241)
Interest income	(4)	(4)	(12)	(10)
Financing costs, net	$ 51	$ 40	$ 155	$ 125

7. INCOME TAXES

The Company estimates its annual effective income tax rate in recording its quarterly provision for income taxes in the various jurisdictions in which the Company operates. Statutory tax rate changes and other significant or unusual items are recognized as discrete items in the quarter in which they occur. Accordingly, the Company recorded the income tax impact of a $552 million non-cash write-down and a $75 million non-cash impairment on its U.S. and Kenyan oil and gas properties, respectively, as discrete items for the three months ended September 30, 2013. The Company also recorded the income tax impact of $65 million and $116 million non-cash write-downs of its Argentinian proved oil and gas properties as discrete items in the first and third quarters of 2013, respectively. In 2012, the Company recorded the income tax impact of $521 million, $641 million, and $721 million non-cash write-downs of its Canadian proved oil and gas properties as discrete items in the first, second, and third quarters, respectively.

The Company recorded increases of $48 million and $10 million in the Argentina and Canada valuation allowances, respectively, during the third quarter of 2013 for deferred tax assets the Company does not expect to realize. During the first nine months of 2013, the Company recorded increases in the valuation allowances in Argentina and Canada totaling $66 million and $38 million, respectively.

Apache and its subsidiaries are subject to U.S. federal income tax as well as income or capital taxes in various state and foreign jurisdictions. The Company s tax reserves are related to tax years that may be subject to examination by the relevant taxing authority. The Company is under audit with the Internal Revenue Service (IRS) for the 2011 and 2012 tax years. The Company is also under audit in various states and in most of the Company s foreign jurisdictions as part of its normal course of business.

8. 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. The Company has an accrued liability of approximately $8 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.

Argentine Environmental Claims

As more fully described in Note 8 of the financial statements in Apache s Annual Report on Form 10-K for its 2012 fiscal year, in 2006 the Company acquired a subsidiary of Pioneer Natural Resources in Argentina (PNRA) that is involved in various administrative proceedings with environmental authorities in the Neuquén Province relating to permits for and discharges from operations in that province. In addition, PNRA was named in a suit initiated against oil companies operating in the Neuquén basin entitled *Asociación de Superficiarios de la Patagonia v. YPF S.A., et. al.*, originally filed on August 21, 2003, in the Argentine National Supreme Court of Justice relating to various environmental and remediation claims. The plaintiff in that case, known as ASSUPA, in 2012 asserted similar lawsuits and claims against numerous oil and gas producers relating to other geographic areas of Argentina, including claims against a Company subsidiary relating to the Austral Basin. While it is possible that one or more of the Company s subsidiaries may incur liabilities related to these claims, no reasonable prediction can be made as the Company s subsidiaries exposure related to these lawsuits is not currently determinable. 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 2012 fiscal year.

U.S. Royalty Litigation

As more fully described in Note 8 of the financial statements in Apache s Annual Report on Form 10-K for its 2012 fiscal year, on August 20, 2012, in *Foster v. Apache Corporation*, Civil Action No. CIV-10-0573-HE, in the United States District Court for the Western District of Oklahoma, the District Court denied plaintiff s motion for class certification. The plaintiff filed a motion for reconsideration, which was also denied, and petitioned the United States Court of Appeals for the Tenth Circuit to accept an appeal of the District Court s ruling denying class certification. The plaintiff withdrew the petition to appeal following decisions on July 8, 2013, by the United States Court of Appeals for the Tenth Circuit to vacate District Court class certification orders in two unrelated lawsuits *Wallace B. Roderick Revocable Living Trust v. XTO Energy, Inc.*, No. 12-3176, and *Chieftain Royalty Company v. XTO Energy, Inc.*, No. 12-7047. 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 2012 fiscal year.

Louisiana Restoration

As more fully described in Note 8 of the financial statements in Apache s Annual Report on Form 10-K for its 2012 fiscal year, numerous surface owners have filed claims or sent demand letters to various oil and gas companies, including Apache, claiming that, under either expressed or implied lease terms or Louisiana law, they are liable for damage measured by the cost of restoration of leased premises to their original condition as well as damages for contamination and cleanup. No material change in the status of these matters has occurred since the filing of Apache s Annual Report on Form 10-K for its 2012 fiscal year.

On July 24, 2013, a lawsuit was filed captioned *Board of Commissioners of the Southeast Louisiana Flood Protection Authority East v. Tennessee Gas Pipeline Company et al.*, Case No. 2013-6911 in the Civil District Court for the Parish of Orleans, State of Louisiana, in which plaintiff on behalf of itself and as the board governing the levee districts of Orleans, Lake Borgne Basin, and East Jefferson alleges that Louisiana coastal lands have been damaged as a result of oil and gas industry activity, including a network of canals for access and pipelines. The plaintiff seeks damages and injunctive relief in the form of abatement and restoration based on claims of negligence, strict liability, natural servitude of drain, public nuisance, private nuisance, and breach of contract third party beneficiary. Apache has been indiscriminately named as one of approximately 100 defendants in the lawsuit. Defendant Chevron U.S.A., Inc. filed a notice to remove the case to the United States District Court for the Eastern District of Louisiana, civil action No. 13-5410. The overall exposure related to this lawsuit is not currently determinable. While an adverse judgment against Apache might be possible, Apache intends to vigorously defend the case.

Hurricane-Related Litigation

As more fully described in Note 8 of the financial statements in Apache s Annual Report on Form 10-K for its 2012 fiscal year, on May 27, 2011, in the case styled *Comer et al. v. Murphy Oil USA, Inc. et al.*, Case No. 1:11-cv-220 HS0-JMR, in the United States District Court for the Southern District of Mississippi, the District Court granted defendants motion to dismiss plaintiffs claims, and plaintiffs appealed the decision to the United States Court of Appeals for the Fifth Circuit. On May 14, 2013, the United States Court of Appeals for the Fifth Circuit affirmed the District Court s decision in case No. 12-60291. The deadline expired for the plaintiffs to seek a review by the United States Supreme Court, and the matter is resolved. 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 2012 fiscal year.

Australia Gas Pipeline Force Majeure

As more fully described in Note 8 of the financial statements in Apache s Annual Report on Form 10-K for its 2012 fiscal year, in 2008 Company subsidiaries reported a pipeline explosion that interrupted deliveries of natural gas in Australia to customers under various long-term contracts. No material change in the status of these matters has occurred since the filing of Apache s most recent Annual Report on Form 10-K for its 2012 fiscal year except as follows:

In the case captioned *Alcoa of Australia Limited v. Apache Energy Limited, Apache Northwest Pty Ltd, Tap (Harriet) Pty Ltd, and Kufpec Australia Pty Ltd*, Civ. 1481 of 2011, in the Supreme Court of Western Australia, on June 20, 2012, the Supreme Court struck out Alcoa s claim that the liquidated damages provisions under two long-term contracts are unenforceable as a penalty and also struck out Alcoa s claim for damages for breach of statutory duty. On September 17, 2013, the Western Australia Court of Appeal dismissed the Company subsidiaries appeal concerning Alcoa s remaining tort claim for economic loss. On October 15, 2013, the Company subsidiaries applied to the High Court of Australia for leave to appeal. The applications for leave to appeal are pending. If the High Court does not grant leave to appeal at this time, all of the Company subsidiaries defenses remain intact for further proceedings at the trial court level.

In the case captioned *Burrup Fertilisers Pty Ltd v. Apache Corporation, Apache Energy Limited, and Apache Northwest Pty Ltd,* Cause No. 2009-79834, in the District Court of Harris County, Texas, on March 22, 2013, Burrup Fertilisers agreed to dismiss its Texas lawsuit based on Apache Corporation s motion to dismiss on the ground of *forum non conveniens*. Accordingly, the District Court entered an agreed order dismissing Burrup Fertilisers Texas lawsuit on the ground of *forum non conveniens*. By its terms, the order of dismissal does not prevent Burrup Fertilisers from re-filing its lawsuit in the civil courts of Western Australia.

On October 31, 2013, a natural gas customer, Barrick (Plutonic) Limited (Barrick), filed a lawsuit captioned *Barrick (Plutonic) Limited v. Apache Energy Limited, Apache Northwest Pty Ltd, Harriet (Onyx) Pty Ltd, and Kufpec Australia Pty Ltd*, Civ. 2656 of 2013, in the Supreme Court of Western Australia. The lawsuit concerns the interruption of gas deliveries to Barrick under certain gas supply contracts. Barrick asserts tort claims against the Company s subsidiaries and seeks approximately $19 million USD in general damages, including for alleged lost gold production at the Plutonic mine. The Company s subsidiaries do not believe that Barrick s claims have merit and will vigorously pursue their defenses against such claims.

As noted in Apache s most recent Annual Report on Form 10-K for its 2012 fiscal year, other customers have threatened to file suit challenging the declaration of force majeure under their contracts. At least one third party that is not a customer has also threatened to file suit. In the event it is determined that the pipeline explosion was not a force majeure, Company subsidiaries believe that liquidated damages should be the extent of the damages under long-term contracts with such provisions. Approximately 90 percent of the natural gas volumes sold by Company subsidiaries under long-term contracts have liquidated damages provisions. The Company s subsidiaries share of contractual liquidated damages under the long-term contracts with such provisions would not be expected to exceed $50 million AUD exclusive of interest. This is a reduction from the previous estimate of $200 million AUD. No assurance can be given that customers and/or third parties would not assert claims in excess of contractual liquidated damages, and exposure related to such claims is not currently determinable. While an adverse judgment against Company subsidiaries (and the Company, in the case of the Burrup Fertilisers lawsuit) is possible, the Company and Company subsidiaries do not believe any such claims would have merit and plan to vigorously pursue their defenses against any such claims.

Breton Lawsuit

As more fully described in Note 8 of the financial statements in Apache s Annual Report on Form 10-K for its 2012 fiscal year, on October 29, 2012, plaintiffs filed an amended complaint in *Breton Energy, L.L.C. et al. v. Mariner Energy Resources, Inc., et al.*, Case 4:11-cv-03561, in the United States District Court for the Southern District of Texas, Houston Division, seeking compensation from defendants for allegedly depriving plaintiffs of rights to hydrocarbons in a reservoir described by plaintiffs as a common reservoir in West Cameron Blocks 171 and 172 offshore Louisiana in the Gulf of Mexico. On May 28, 2013, the United States District Court for the Southern District of Texas dismissed the plaintiffs claims and entered judgment in favor of the defendants. On June 3, 2013, the plaintiffs filed a notice of appeal in the United States Court of Appeals for the Fifth Circuit. The appeal is pending. 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 2012 fiscal year.

Escheat Audits

As more fully described in Note 8 of the financial statements in Apache s Annual Report on Form 10-K for its 2012 fiscal year, the State of Delaware, Department of Finance, Division of Revenue (Unclaimed Property), has notified numerous companies, including Apache Corporation, that the State intends to examine its books and records and those of its subsidiaries and related entities to determine compliance with the Delaware Escheat Laws. The review is ongoing, and no material change in the status of this matter has occurred since the filing of Apache s Annual Report on Form 10-K for its 2012 fiscal year.

Burrup-Related Gas Supply Lawsuits

As more fully described in Note 8 of the financial statements in Apache s Annual Report on Form 10-K for its 2012 fiscal year, on May 19, 2011, a lawsuit captioned *Pankaj Oswal et al. v. Apache Corporation*, Cause No. 2011-30302, in the District Court of Harris County, Texas, was filed in which plaintiffs assert claims against the Company under the Australian Trade Practices Act. Following a hearing on March 22, 2013, the District Court on April 5, 2013, granted Apache Corporation s motion to dismiss on the ground of *forum non conveniens* and entered an order dismissing the Texas lawsuit. On or about October 11, 2013, a statement of claim captioned *Pankaj Oswal v. Apache Corporation*, No. WAD 389/2013, in the Federal Court of Australia, District of Western Australia, General Division, was filed in which plaintiff asserts claims against the Company under the Australian Trade Practices Act. The Company does not believe the lawsuit has merit and will vigorously defend against it. 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 2012 fiscal year.

In the case captioned *Radhika Oswal v. Australia and New Zealand Banking Group Limited* (ANZ) *et al.*, No. SCI 2011 4653, in the Supreme Court of Victoria, plaintiff has filed an application seeking to amend her statement of claim in order to add parties as defendants to the proceedings, including the Company and certain of its subsidiaries. Similarly, in a companion case captioned *Pankaj Oswal v. Australia and New Zealand Banking Group Limited* (ANZ) *et al.*, No. SCI 2012 01995, in the Supreme Court of Victoria, plaintiff has also filed an application seeking to amend his statement of claim in order to add parties as defendants to the proceedings, including the Company and certain of its subsidiaries. Each of the applications is opposed and will be considered by the Supreme Court of Victoria. 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 2012 fiscal year.

Concerning the action filed by Tap (Harriet) Pty Ltd (Tap) against Burrup Fertilisers Pty Ltd et al., Civ. 2329 of 2009, in the Supreme Court of Western Australia, no material change in the status of this matter has occurred since the filing of Apache s Annual Report on Form 10-K for its 2012 fiscal year.

Environmental Matters

As of September 30, 2013, the Company had an undiscounted reserve for environmental remediation of approximately $94 million. The Company is not aware of any environmental claims existing as of September 30, 2013, 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.

As more fully described in Note 8 of the financial statements in Apache s Annual Report on Form 10-K for its 2012 fiscal year, on May 25, 2011, a panel of the Bureau of Ocean Energy Management (BOEMRE, as it was then known) published a report dated May 23, 2011, and titled OCS G-2580, Vermilion Block 380 Platform A, Incidents of Noncompliance. The report concerned the BOEMRE s investigation of a fire on the Vermillion 380 A platform located in the Gulf of Mexico. Apache currently operates the platform, however, at the time of the incident Mariner Energy was the operator. On April 17, 2013, the Office of Hearings and Appeals, Interior Board of Land Appeals of the United States Department of the Interior, No. IBLA 2012-183, affirmed certain Incidents of Noncompliance issued by the Bureau of Safety and Environmental Enforcement (BSEE) arising out of Mariner Energy s operation of the Vermilion 380 platform. The Company is considering its options, including but not limited to, whether to appeal this determination. BSEE has referred the matter for a civil penalty review but no civil penalties have been assessed at this time. 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 2012 fiscal year.

On June 1, 2013, Apache Canada Ltd. discovered a leak of produced water from a below ground pipeline in the area of our Zama Operations in northern Alberta. The pipeline was associated with a produced water disposal well. The spill resulted in approximately 97 thousand barrels of produced water (revised from an initial estimate of 60 thousand barrels) being released to the marsh land environment. The applicable government agencies were immediately notified of the event and the line was shut down. Apache Canada Ltd. is investigating the leak, while conducting clean up and monitoring activities in the affected area and communicating with appropriate parties including regulatory and First Nation representatives. While the exposure related to this incident is not currently determinable, the Company does not expect the economic impact of this incident to have a material effect on the Company s financial position, results of operations, or liquidity.

9. CAPITAL STOCK

Net Income per Common Share

A reconciliation of the components of basic and diluted net income per common share for the quarters and nine-month periods ended September 30, 2013 and 2012 is presented in the table below.

	For the Quarter Ended September 30,					
	2013			2012		
	Income	Shares	Per Share	Income	Shares	Per Share
	(In millions, except per share amounts)					
Basic:						
Income attributable to common stock	$ 300	399	$ 0.75	$ 161	391	$ 0.41
Effect of Dilutive Securities:						
Stock options and other		2			2	
Diluted:						
Income attributable to common stock, including assumed conversions	$ 300	401	$ 0.75	$ 161	393	$ 0.41

	For the Nine Months Ended September 30,					
	2013			2012		
	Income	Shares	Per Share	Income	Shares	Per Share
	(In millions, except per share amounts)					
Basic:						
Income attributable to common stock	$ 2,014	394	$ 5.11	$ 1,276	388	$ 3.29
Effect of Dilutive Securities:						
Mandatory Convertible Preferred Stock	44	11				
Stock options and other		2			2	
Diluted:						
Income attributable to common stock, including assumed conversions	$ 2,058	407	$ 5.06	$ 1,276	390	$ 3.27

The diluted earnings per share calculation excludes options and restricted stock units that were anti-dilutive totaling 5.4 million and 5.1 million for the quarters ending September 30, 2013 and 2012, and 6.0 million and 4.1 million for the nine months ended September 30, 2013 and 2012, respectively. For the quarter ended September 30, 2013, and the quarter and nine months ended September 30, 2012, 4.8 million, 14.3 million, and 14.3 million shares, respectively, related to the assumed conversion of the Mandatory Convertible Preferred Stock were also anti-dilutive.

Common and Preferred Stock Dividends

For the quarter and nine months ended September 30, 2013, Apache paid $78 million and $223 million, respectively, in dividends on its common stock. For the quarter and nine months ended September 30, 2012, Apache paid $67 million and $189 million, respectively. During the first quarter of 2013, Apache s Board of Directors approved an 18 percent increase for the regular quarterly cash dividend on the Company s common stock to $0.20 per share. This increase first applied to the dividend on common stock payable on May 22, 2013, to stockholders of record on April 22, 2013.

In each of the first nine months of 2013 and 2012, the Company also paid $57 million in dividends on its Series D Preferred Stock, which was converted to common stock in August 2013.

Stock Repurchase Program

In May 2013, Apache s Board of Directors authorized the purchase of up to 30 million shares of the Company s common stock, valued at approximately $2 billion when first announced. 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, with the repurchase of 2,924,271 shares at an average price of $85.47 during the month of June. Subsequent to the third quarter of 2013, 5,043,713 shares were repurchased at an average price of $88.73. The Company anticipates that further purchases will primarily be made with proceeds from asset dispositions, but the Company is not obligated to acquire any specific number of shares.

Series D Preferred Stock

On July 28, 2010, Apache issued 25.3 million depositary shares, each representing a 1/20th interest in a share of Apache s 6.00-percent Mandatory Convertible Preferred Stock, Series D (Preferred Share), or 1.265 million Preferred Shares. Upon conversion of the outstanding Preferred Shares on August 1, 2013, 14.4 million Apache common shares were issued.

10. 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 September 30, 2013, the Company had production in six countries: the United States, Canada, Egypt, Australia, the United Kingdom (U.K.) North Sea, and Argentina. 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	Australia	North Sea	Argentina	Other International	Total
				(In millions)				
For the Quarter Ended September 30, 2013								
Oil and Gas Production Revenues	$ 2,029	$ 325	$ 1,022	$ 279	$ 633	$ 121	$	$ 4,409
Operating Income (Loss) [1]	$ 310	$ 4	$ 658	$ 117	$ 186	$ (115)	$ (76)	$ 1,084
Other Income (Expense):								
Derivative instrument gains (losses), net								(422)
Other								32
General and administrative								(127)
Financing costs, net								(51)
Income Before Income Taxes								$ 516
For the Nine Months Ended September 30, 2013								
Oil and Gas Production Revenues	$ 5,543	$ 952	$ 2,924	$ 867	$ 2,025	$ 363	$	$ 12,674
Operating Income (Loss) [1]	$ 1,607	$ 17	$ 1,827	$ 373	$ 634	$ (181)	$ (76)	$ 4,201
Other Income (Expense):								
Derivative instrument gains (losses), net								(275)
Other								79
General and administrative								(376)
Financing costs, net								(155)
Income Before Income Taxes								$ 3,474
Total Assets	$ 29,503	$ 7,083	$ 7,142	$ 7,567	$ 7,292	$ 1,598	$ 54	$ 60,239
For the Quarter Ended September 30, 2012								
Oil and Gas Production Revenues	$ 1,533	$ 318	$ 1,143	$ 397	$ 624	$ 126	$	$ 4,141
Operating Income (Loss)[1]	$ 495	$ (744)	$ 781	$ 231	$ 236	$ 6	$ (7)	$ 998
Other Income (Expense):								

Other								38
General and administrative								(124)
Merger, acquisitions & transition								(7)
Financing costs, net								(40)
Income Before Income Taxes								$ 865
For the Nine Months Ended September 30, 2012								
Oil and Gas Production Revenues	$ 4,525	$ 966	$ 3,403	$ 1,211	$ 2,060	$ 389	$	$ 12,554
Operating Income (Loss) [(1)]	$ 1,692	$ (1,903)	$ 2,380	$ 683	$ 752	$ 51	$ (14)	$ 3,641
Other Income (Expense):								
Other								133
General and administrative								(384)
Merger, acquisitions & transition								(29)
Financing costs, net								(125)
Income Before Income Taxes								$ 3,236
Total Assets	$ 29,786	$ 7,349	$ 7,208	$ 5,876	$ 6,581	$ 1,823	$ 187	$ 58,810

(1) 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 U.S. operating income includes a $552 million non-cash write-down for the quarter and nine months ended September 30, 2013. Argentina s operating loss for the quarter and first nine months of 2013 includes additional depletion of $116 million and $181 million, respectively, to write-down the carrying value of oil and gas properties. Canada s operating loss for the third quarter and first nine months of 2012 includes additional depletion of $721 million and $1.9 billion, respectively, to write-down the carrying value of oil and gas properties. Separately, in the third quarter of 2013 the Company exited operations in Kenya and recorded $75 million to additional DD&A associated with the impairment of the carrying value of the Kenyan oil and gas property leases.

11. SUPPLEMENTAL GUARANTOR INFORMATION

In December 1999, Apache Finance Canada Corporation (Apache Finance Canada) issued approximately $300 million of publicly-traded notes due in 2029. In May 2003, Apache Finance Canada issued an additional $350 million of publicly-traded notes due in 2015. Both 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 has been fully consolidated in Apache s consolidated financial statements. As such, these condensed consolidating financial statements should be read in conjunction with the financial statements of Apache Corporation and subsidiaries and notes thereto, of which this note is an integral part.

APACHE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

For the Quarter Ended September 30, 2013

	Apache Corporation	Apache Finance Canada	All Other Subsidiaries of Apache Corporation	Reclassifications & Eliminations	Consolidated
			(In millions)		
REVENUES AND OTHER:					
Oil and gas production revenues	$ 1,374	$	$ 3,035	$	$ 4,409
Equity in net income (loss) of affiliates	619	(4)	3	(618)	
Derivative instrument gains (losses), net	(422)				(422)
Other	2	16	15	(1)	32
	1,573	12	3,053	(619)	4,019
OPERATING EXPENSES:					
Depreciation, depletion and amortization	1,041		1,131		2,172
Asset retirement obligation accretion	20		46		66
Lease operating expenses	254		565		819
Gathering and transportation	18		65		83
Taxes other than income	62		123		185
General and administrative	103		25	(1)	127
Financing costs, net	36	14	1		51
	1,534	14	1,956	(1)	3,503
INCOME (LOSS) BEFORE INCOME TAXES	39	(2)	1,097	(618)	516
Provision (benefit) for income taxes	(267)	(1)	478		210
NET INCOME (LOSS)	306	(1)	619	(618)	306
Preferred stock dividends	6				6
INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCK	$ 300	$ (1)	$ 619	$ (618)	$ 300
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCK [1]	$ 295	$ (1)	$ 619	$ (618)	$ 295

(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 OPERATIONS

For the Quarter Ended September 30, 2012

	Apache Corporation	Apache Finance Canada	All Other Subsidiaries of Apache Corporation	Reclassifications & Eliminations	Consolidated
			(In millions)		
REVENUES AND OTHER:					
Oil and gas production revenues	$ 1,030	$	$ 3,111	$	$ 4,141
Equity in net income (loss) of affiliates	41	(271)	71	159	
Other		18	21	(1)	38
	1,071	(253)	3,203	158	4,179
OPERATING EXPENSES:					
Depreciation, depletion and amortization	349		1,680		2,029
Asset retirement obligation accretion	20		40		60
Lease operating expenses	277		524		801
Gathering and transportation	15		71		86
Taxes other than income	52		115		167
General and administrative	97		28	(1)	124
Merger, acquisitions & transition	7				7
Financing costs, net	20	14	6		40
	837	14	2,464	(1)	3,314
INCOME (LOSS) BEFORE INCOME TAXES	234	(267)	739	159	865
Provision (benefit) for income taxes	54	(67)	698		685
NET INCOME (LOSS)	180	(200)	41	159	180
Preferred stock dividends	19				19
INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCK	$ 161	$ (200)	$ 41	$ 159	$ 161
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCK [1]	$ 61	$ (200)	$ 41	$ 159	$ 61

(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 OPERATIONS

For the Nine Months Ended September 30, 2013

	Apache Corporation	Apache Finance Canada	All Other Subsidiaries of Apache Corporation	Reclassifications & Eliminations	Consolidated
			(In millions)		
REVENUES AND OTHER:					
Oil and gas production revenues	$ 3,775	$	$ 8,899	$	$ 12,674
Equity in net income (loss) of affiliates	1,947	(21)	8	(1,934)	
Derivative instrument gains (losses), net	(275)				(275)
Other	3	46	34	(4)	79
	5,450	25	8,941	(1,938)	12,478
OPERATING EXPENSES:					
Depreciation, depletion and amortization	1,912		3,099		5,011
Asset retirement obligation accretion	60		136		196
Lease operating expenses	802		1,617		2,419
Gathering and transportation	49		188		237
Taxes other than income	163		447		610
General and administrative	305		75	(4)	376
Financing costs, net	104	42	9		155
	3,395	42	5,571	(4)	9,004
INCOME (LOSS) BEFORE INCOME TAXES	2,055	(17)	3,370	(1,934)	3,474
Provision (benefit) for income taxes	(3)	(4)	1,423		1,416
NET INCOME (LOSS)	2,058	(13)	1,947	(1,934)	2,058
Preferred stock dividends	44				44
INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCK	$ 2,014	$ (13)	$ 1,947	$ (1,934)	$ 2,014
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCK[(1)]	$ 2,022	$ (13)	$ 1,947	$ (1,934)	$ 2,022

(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 OPERATIONS

For the Nine Months Ended September 30, 2012

	Apache Corporation	Apache Finance Canada	All Other Subsidiaries of Apache Corporation	Reclassifications & Eliminations	Consolidated
			(In millions)		
REVENUES AND OTHER:					
Oil and gas production revenues	$ 3,070	$	$ 9,484	$	$ 12,554
Equity in net income (loss) of affiliates	813	(672)	176	(317)	
Other	(1)	52	85	(3)	133
	3,882	(620)	9,745	(320)	12,687
OPERATING EXPENSES:					
Depreciation, depletion and amortization	997		4,704		5,701
Asset retirement obligation accretion	57		115		172
Lease operating expenses	708		1,470		2,178
Gathering and transportation	38		197		235
Taxes other than income	146		481		627
General and administrative	302		85	(3)	384
Merger, acquisitions & transition	23		6		29
Financing costs, net	71	42	12		125
	2,342	42	7,070	(3)	9,451
INCOME (LOSS) BEFORE INCOME TAXES	1,540	(662)	2,675	(317)	3,236
Provision (benefit) for income taxes	207	(166)	1,862		1,903
NET INCOME (LOSS)	1,333	(496)	813	(317)	1,333
Preferred stock dividends	57				57
INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCK	$ 1,276	$ (496)	$ 813	$ (317)	$ 1,276
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCK [1]	$ 1,196	$ (496)	$ 813	$ (317)	$ 1,196

(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 Nine Months Ended September 30, 2013

	Apache Corporation	Apache Finance Canada	All Other Subsidiaries of Apache Corporation	Reclassifications & Eliminations	Consolidated
			(In millions)		
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 1,434	$ (89)	$ 6,013	$	$ 7,358
CASH FLOWS FROM INVESTING ACTIVITIES:					
Additions to oil and gas property	(2,956)		(4,542)		(7,498)
Additions to gas gathering, transmission and processing facilities	(85)		(774)		(859)
Proceeds from divestiture of Shelf	3,594				3,594
Proceeds from Kitimat LNG transaction, net			396		396
Proceeds from sale of other oil and gas properties			199		199
Acquisitions, other			(156)		(156)
Investment in subsidiaries, net	596			(596)	
Other	(41)		31		(10)
NET CASH USED IN INVESTING ACTIVITIES	1,108		(4,846)	(596)	(4,334)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Commercial paper and bank credit facilities, net	(502)		(14)		(516)
Intercompany borrowings		1	(585)	584	
Payments on fixed rate debt	(900)				(900)
Dividends paid	(280)				(280)
Treasury stock activity, net	(249)				(249)
Other	17	88	(105)	12	12
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(1,914)	89	(704)	596	(1,933)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	628	0	463		1,091
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			160		160

CASH AND CASH EQUIVALENTS AT END OF PERIOD	$	628	$	0	$	623	$		$	1,251

APACHE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

For the Nine Months Ended September 30, 2012

	Apache Corporation	Apache Finance Canada	All Other Subsidiaries of Apache Corporation	Reclassifications & Eliminations	Consolidated
			(In millions)		
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 1,755	$ (86)	$ 4,753	$	$ 6,422
CASH FLOWS FROM INVESTING ACTIVITIES:					
Additions to oil and gas property	(2,330)		(4,057)		(6,387)
Additions to gas gathering, transmission and processing facilities	(28)		(558)		(586)
Acquisition of Cordillera	(2,666)				(2,666)
Acquisition of Yara Pilbara Holdings Pty Limited			(439)		(439)
Acquisitions, other	(56)		(66)		(122)
Proceeds from sales of oil and gas properties	20		6		26
Investment in subsidiaries, net	(541)			541	
Other	(340)		(46)		(386)
NET CASH USED IN INVESTING ACTIVITIES	(5,941)		(5,160)	541	(10,560)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Commercial paper and bank credit facilities, net	1,792		35		1,827
Intercompany borrowings			572	(572)	
Fixed rate debt borrowings	2,991				2,991
Payments on fixed rate debt	(400)				(400)
Dividends paid	(246)				(246)
Treasury stock activity, net	2				2
Other	38	82	(164)	31	(13)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	4,177	82	443	(541)	4,161
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(9)	(4)	36		23
	41	5	249		295

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$	32