APACHE CORP
Form 10-K
March 01, 2007

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

Form 10-K

(Mark One)

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

Commission File Number 1-4300
Apache Corporation

A Delaware Corporation **IRS Employer No. 41-0747868**
One Post Oak Central
2000 Post Oak Boulevard, Suite 100
Houston, Texas 77056-4400
Telephone Number (713) 296-6000

Securities Registered Pursuant to Section 12(b) of the Act:

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

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

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

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

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

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

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

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE:

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

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All defined terms under Rule 4-10(a) of Regulation S-X shall have their statutorily prescribed meanings when used in this report. Quantities of natural gas are expressed in this report in terms of thousand cubic feet (Mcf), million cubic feet (MMcf), billion cubic feet (Bcf) or trillion cubic feet (Tcf). Oil is quantified in terms of barrels (bbls); thousands of barrels (Mbbls) and millions of barrels (MMbbls). Natural gas is compared to oil in terms of barrels of oil equivalent (boe) or million barrels of oil equivalent (MMboe). Oil and natural gas liquids are compared with natural gas in terms of million cubic feet equivalent (MMcfe) and billion cubic feet equivalent (Bcfe). One barrel of oil is the energy equivalent of six Mcf of natural gas. Daily oil and gas production is expressed in terms of barrels of oil per day (b/d) and thousands or millions of cubic feet of gas per day (Mcf/d and MMcf/d, respectively) or millions of British thermal units per day (MMBtu/d). Gas sales volumes may be expressed in terms of one million British thermal *units (MMBtu), which is approximately equal to one Mcf. With respect to information relating to our working interest in wells or acreage, net oil and gas wells or acreage is determined by multiplying gross wells or acreage by our working interest therein. Unless otherwise specified, all references to wells and acres are gross.*

PART I

ITEMS 1 AND 2. BUSINESS AND PROPERTIES

General

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

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

Our Growth Strategy

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

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

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

More than a decade ago, recognizing that the United States was a mature oil and gas country, we added an international exploration component to our portfolio strategy, which provides exposure to larger reserve targets with which to grow production and reserves through drilling. Apache is also one of the leading acquirers of three-dimensional (3-D) seismic data in the industry today. Our technology experts have developed strategies for rapid and cost-effective acquisition and processing of 3-D data, enabling our technical teams to analyze large swaths of acreage and generate drilling prospects on an accelerated timetable.

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

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

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

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

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

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

For several years we held small interests in Argentina with the long-term view of expanding there through acquisitions. In April 2006, we purchased Pioneer Natural Resources (Pioneer) interests in Neuquén and the Austral basins for $675 million and subsequently purchased our partner s, Pan American Fueguina S.R.L. (Pan American), interests in Tierra del Fuego, gaining operatorship in the under-exploited, highly prospective Austral basin concessions. Through subsequent workovers, recompletions and development activities, we increased production on the acquired properties and have established Argentina as Apache s latest core area. While we expect unique challenges with evolving governmental regulations, we anticipate growing reserves and production in Argentina.

We exited 2006 with a year-end debt-to-capitalization ratio of 22 percent despite record capital spending of $6.4 billion, excluding asset retirement costs. This flexibility enables us to quickly act on attractive acquisition transactions as they are identified, such as our agreement in January 2007 to acquire, through a joint venture interest, Permian basin assets from Anadarko Petroleum Company (Anadarko) for $1 billion. The transaction, which is subject to normal closing conditions and adjustments for matters such as preferential rights, is expected to close around the end of the first-quarter of 2007.

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

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

Operating Highlights

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

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

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

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

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

United States

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

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

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

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

Canada

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

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

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

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

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

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

Egypt

Overview In Egypt, our operations are conducted pursuant to production sharing contracts under which the contractor partner pays all operating and capital expenditure costs for exploration and development. A percentage of the production, usually up to 40 percent, is available to the contractor partners to recover operating and capital expenditure costs. In general, the balance of the production is allocated between the contractor partners and the Egyptian General Petroleum Corporation (EGPC) on a contractually defined basis. Apache is the second largest acreage holder and the most active driller in the Western Desert of Egypt. Egypt is the country with our largest single acreage position where, as of December 31, 2006, we held approximately 10.2 million gross acres in 19 separate concessions. Development leases within concessions generally have a 25-year life with extensions possible for additional commercial discoveries, or on a negotiated basis. Apache is the largest producer of liquid hydrocarbons and natural gas in the Western Desert. Egypt contributed approximately 21 percent of Apache s production revenues and 19 percent of total production. Egypt accounted for 12 percent of total estimated proved reserves as of December 31, 2006. The Company reports all estimated proved reserves held under production sharing agreements utilizing the economic interest method, which excludes the host country s share of reserves.

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

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

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

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

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

Australia

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

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

During 2007, our Australian region plans to expand the HJV oil and gas production through development of the 2006 discoveries and drilling three additional wells: Bambra 8, Doric 2 and Lee 3. We will monitor the effects of the increased water injection at Stag and possibly drill an additional producer. We will also begin the initial phase of development drilling at the Van Gogh field. A key factor for success in 2007 will be increasing gas production and reserves to fulfill the requirements of our sales contracts, exploration success and initiating the Theo field development and final sanctions thereof. We currently estimate spending approximately $460 million in 2007 to drill 30 exploration, appraisal and development wells and another $50 million for new facilities.

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

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

North Sea

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

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

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

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

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

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

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

Argentina

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

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

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

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

Other International

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

Subsequent Events

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

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

Drilling Statistics

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

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

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

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<u>Productive Oil and Gas Wells</u>

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

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

Production, Pricing and Lease Operating Cost Data

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

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

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