

APACHE CORP
Form 10-Q
November 01, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

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 No

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

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

Large accelerated filer Accelerated filer

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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Number of shares of registrant's common stock outstanding as of October 31, 2018 379,543,642

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Forward-Looking Statements and Risk

This report includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical facts included or incorporated by reference in this report, including, without limitation, statements regarding our future financial position, business strategy, budgets, projected revenues, projected costs, and plans and objectives of management for future operations, are forward-looking statements. Such forward-looking statements are based on our examination of historical operating trends, the information that was used to prepare our estimate of proved reserves as of December 31, 2017, and other data in our possession or available from third parties. In addition, forward-looking statements generally can be identified by the use of forward-looking terminology such as “may,” “will,” “could,” “expect,” “intend,” “project,” “estimate,” “anticipate,” “plan,” “believe,” or “continue” or similar terminology. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to have been correct. Important factors that could cause actual results to differ materially from our expectations include, but are not limited to, our assumptions about:

- the market prices of oil, natural gas, natural gas liquids (NGLs), and other products or services;
- our commodity hedging arrangements;
- the supply and demand for oil, natural gas, NGLs, and other products or services;
- pipeline and gathering system capacity;
- production and reserve levels;
- drilling risks;
- economic and competitive conditions;
- the availability of capital resources;
- capital expenditure and other contractual obligations;
- currency exchange rates;
- weather conditions;
- inflation rates;
- the availability of goods and services;
- legislative, regulatory, or policy changes;
- terrorism or cyber attacks;
- occurrence of property acquisitions or divestitures;
- the integration of acquisitions;
- the securities or capital markets and related risks such as general credit, liquidity, market, and interest-rate risks; and

other factors disclosed under Items 1 and 2—Business and Properties—Estimated Proved Reserves and Future Net Cash Flows, Item 1A—Risk Factors, Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations, Item 7A—Quantitative and Qualitative Disclosures About Market Risk and elsewhere in our most recently filed Annual Report on Form 10-K, other risks and uncertainties in our third-quarter 2018 earnings release, other factors disclosed under Part II, Item 1A—Risk Factors of this Quarterly Report on Form 10-Q, and other filings that we make with the Securities and Exchange Commission.

All subsequent written and oral forward-looking statements attributable to the Company, or persons acting on its behalf, are expressly qualified in their entirety by the cautionary statements. We assume no duty to update or revise our forward-looking statements based on changes in internal estimates or expectations or otherwise.

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
APACHE CORPORATION AND SUBSIDIARIES
STATEMENT OF CONSOLIDATED OPERATIONS
(Unaudited)

	For the Quarter Ended September 30, 2018		For the Nine Months Ended September 30, 2017	
	2018	2017	2018	2017
(In millions, except per common share data)				
REVENUES AND OTHER:				
Oil and gas production revenues				
Oil revenues	\$1,555	\$1,070	\$4,524	\$3,292
Natural gas revenues	241	238	675	726
Natural gas liquids revenues	180	81	446	229
	1,976	1,389	5,645	4,247
Derivative instrument losses, net	(23)	(110)	(46)	(69)
Gain on divestitures	1	296	10	616
Other	29	—	50	43
	1,983	1,575	5,659	4,837
OPERATING EXPENSES:				
Lease operating expenses	382	353	1,087	1,059
Gathering, transmission, and processing	92	44	260	151
Taxes other than income	58	46	162	117
Exploration	99	231	251	431
General and administrative	99	98	330	307
Transaction, reorganization, and separation	8	20	20	14
Depreciation, depletion, and amortization:				
Oil and gas property and equipment	575	524	1,666	1,598
Other assets	35	35	105	109
Asset retirement obligation accretion	27	30	81	103
Impairments	10	—	10	8
Financing costs, net	192	101	385	300
	1,577	1,482	4,357	4,197
NET INCOME BEFORE INCOME TAXES	406	93	1,302	640
Current income tax provision	262	99	709	413
Deferred income tax benefit	(17)	(111)	(43)	(758)
NET INCOME INCLUDING NONCONTROLLING INTEREST	161	105	636	985
Net income attributable to noncontrolling interest	80	42	215	137
NET INCOME ATTRIBUTABLE TO COMMON STOCK	\$81	\$63	\$421	\$848
NET INCOME PER COMMON SHARE:				
Basic	\$0.21	\$0.16	\$1.10	\$2.23
Diluted	\$0.21	\$0.16	\$1.09	\$2.22
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:				
Basic	383	381	383	381
Diluted	385	383	385	383

DIVIDENDS DECLARED PER COMMON SHARE

\$0.25 \$0.25 \$0.75 \$0.75

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

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

	For the Quarter Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
	(In millions)			
NET INCOME INCLUDING NONCONTROLLING INTEREST	\$161	\$105	\$636	\$985
OTHER COMPREHENSIVE INCOME:				
Currency translation adjustment	—	109	—	109
COMPREHENSIVE INCOME INCLUDING NONCONTROLLING INTEREST	161	214	636	1,094
Comprehensive income attributable to noncontrolling interest	80	42	215	137
COMPREHENSIVE INCOME ATTRIBUTABLE TO COMMON STOCK	\$81	\$172	\$421	\$957

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, 2018 2017 (In millions)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income including noncontrolling interest	\$636	\$985
Adjustments to reconcile net income to net cash provided by operating activities:		
Unrealized derivative instrument (gain) loss, net	(88)	42
Gain on divestitures	(10)	(616)
Exploratory dry hole expense and unproved leasehold impairments	133	350
Depreciation, depletion, and amortization	1,771	1,707
Asset retirement obligation accretion	81	103
Impairments	10	8
Deferred income tax benefit	(43)	(758)
Loss on extinguishment of debt	94	1
Other	147	166
Changes in operating assets and liabilities:		
Receivables	(113)	(70)
Inventories	(7)	17
Drilling advances	(22)	(72)
Deferred charges and other	91	(60)
Accounts payable	110	2
Accrued expenses	(54)	(65)
Deferred credits and noncurrent liabilities	(2)	20
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,734	1,760
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to oil and gas property	(2,338)	(1,471)
Leasehold and property acquisitions	(86)	(142)
Additions to gas gathering, transmission, and processing facilities	(412)	(384)
Proceeds from sale of Canadian assets, net of cash divested	—	661
Proceeds from sale of oil and gas properties	51	743
Other, net	(55)	(30)
NET CASH USED IN INVESTING ACTIVITIES	(2,840)	(623)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Fixed-rate debt borrowings	992	—
Payments on fixed-rate debt	(1,370)	(70)
Distributions to noncontrolling interest	(256)	(212)
Dividends paid	(287)	(285)
Other	(48)	(5)
NET CASH USED IN FINANCING ACTIVITIES	(969)	(572)
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(1,075)	565
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT BEGINNING OF YEAR	1,668	1,377

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CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT END OF PERIOD	\$593	\$1,942
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SUPPLEMENTARY CASH FLOW DATA:

Interest paid, net of capitalized interest	\$344	\$341
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Income taxes paid, net of refunds	649	315
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The accompanying notes to consolidated financial statements
are an integral part of this statement.

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APACHE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
(Unaudited)

	September 30, 2018	December 31, 2017
	(In millions)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$593	\$ 1,668
Receivables, net of allowance	1,457	1,345
Inventories	362	368
Drilling advances	229	207
Prepaid assets and other	144	137
	2,785	3,725
PROPERTY AND EQUIPMENT:		
Oil and gas, on the basis of successful efforts accounting:		
Proved properties	41,518	39,197
Unproved properties and properties under development	1,704	1,783
Gathering, transmission and processing facilities	1,742	1,376
Other	1,081	1,046
	46,045	43,402
Less: Accumulated depreciation, depletion, and amortization	(27,399)	(25,643)
	18,646	17,759
OTHER ASSETS:		
Deferred charges and other	439	438
	\$21,870	\$ 21,922
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$744	\$ 641
Current debt	150	550
Other current liabilities (Note 5)	1,313	1,373
	2,207	2,564
LONG-TERM DEBT	8,053	7,934
DEFERRED CREDITS AND OTHER NONCURRENT LIABILITIES:		
Income taxes	502	545
Asset retirement obligation	1,867	1,792
Other	295	296
	2,664	2,633
COMMITMENTS AND CONTINGENCIES (Note 9)		
EQUITY:		
Common stock, \$0.625 par, 860,000,000 shares authorized, 415,660,982 and 414,125,879 shares issued, respectively	260	259
Paid-in capital	11,945	12,128
Accumulated deficit	(1,667)	(2,088)
Treasury stock, at cost, 34,092,692 and 33,171,015 shares, respectively	(2,930)	(2,887)
Accumulated other comprehensive income	4	4
APACHE SHAREHOLDERS' EQUITY	7,612	7,416
Noncontrolling interest	1,334	1,375
TOTAL EQUITY	8,946	8,791

\$21,870 \$ 21,922

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

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APACHE CORPORATION AND SUBSIDIARIES
 STATEMENT OF CONSOLIDATED CHANGES IN EQUITY
 (Unaudited)

	Common Stock	Paid-In Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	APACHE SHAREHOLDERS' EQUITY	Noncontrolling Interest	TOTAL EQUITY
(In millions)								
BALANCE AT DECEMBER 31, 2016	\$258	\$12,364	\$ (3,385)	\$ (2,887)	\$ (112)	\$ 6,238	\$ 1,441	\$7,679
Net income	—	—	848	—	—	848	137	985
Distributions to noncontrolling interest	—	—	—	—	—	—	(212)	(212)
Common dividends (\$0.75 per share)	—	(286)	—	—	—	(286)	—	(286)
Other	1	108	(7)	—	109	211	—	211
BALANCE AT SEPTEMBER 30, 2017	\$259	\$12,186	\$ (2,544)	\$ (2,887)	\$ (3)	\$ 7,011	\$ 1,366	\$8,377
BALANCE AT DECEMBER 31, 2017	\$259	\$12,128	\$ (2,088)	\$ (2,887)	\$ 4	\$ 7,416	\$ 1,375	\$8,791
Net income	—	—	421	—	—	421	215	636
Distributions to noncontrolling interest	—	—	—	—	—	—	(256)	(256)
Common dividends (\$0.75 per share)	—	(287)	—	—	—	(287)	—	(287)
Other	1	104	—	(43)	—	62	—	62
BALANCE AT SEPTEMBER 30, 2018	\$260	\$11,945	\$ (1,667)	\$ (2,930)	\$ 4	\$ 7,612	\$ 1,334	\$8,946

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

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

These consolidated 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 presentation of the results for the interim periods, on a basis consistent with the annual audited financial statements, with the exception of recently adopted accounting pronouncements discussed below. 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 (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, 2017, which contains a summary of the Company's significant accounting policies and other disclosures.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As of September 30, 2018, 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, 2017, with the exception of Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers (Topic 606)" (see "Revenue Recognition" section in this Note 1 below).

Use of Estimates

Preparation of financial statements in conformity with 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, the assessment of asset retirement obligations, the estimates of fair value for long-lived assets, and the estimate of income taxes. Actual results could differ from those estimates.

Fair Value Measurements

Certain assets and liabilities are reported at fair value on a recurring basis in Apache's consolidated balance sheet. Accounting Standards Codification (ASC) 820-10-35, "Fair Value Measurement" (ASC 820), provides a hierarchy that prioritizes and defines the types of inputs used to measure fair value. The fair value hierarchy gives the highest priority to Level 1 inputs, which consist of unadjusted quoted prices for identical instruments in active markets. Level 2 inputs consist of quoted prices for similar instruments. Level 3 valuations are derived from inputs that are significant and unobservable; hence, these valuations have the lowest priority.

The valuation techniques that may be used to measure fair value include a market approach, an income approach, and a cost approach. A market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. An income approach uses valuation techniques to convert future amounts to a single present amount based on current market expectations, including present value techniques, option-pricing models, and the excess earnings method. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost).

Recurring fair value measurements are presented in further detail in Note 4—Derivative Instruments and Hedging Activities and Note 8—Debt and Financing Costs.

Apache also uses fair value measurements on a nonrecurring basis when certain qualitative assessments of its assets indicate a potential impairment. For the third quarter and nine-month period ended September 30, 2018, the Company recorded asset impairments in connection with fair value assessments totaling \$10 million. In the third quarter of 2018, Apache agreed to sell certain of its unproved properties offshore the U.K. in the North Sea (North Sea). As a result, the Company performed a fair value assessment of the properties and recorded a \$10 million impairment on the carrying values of the associated capitalized exploratory well costs. The fair value of the impaired assets was

determined using the negotiated sales price, a Level 1 fair value measurement.

The Company recorded no asset impairments in connection with fair value assessments in the third quarter of 2017. For the nine-month period ended September 30, 2017, the Company recorded asset impairments in connection with fair value assessments

totaling \$8 million for a United Kingdom (U.K.) Petroleum Revenue Tax (PRT) decommissioning asset that is no longer expected to be realizable from future abandonment activities in the North Sea.

In 2016, the U.K. government enacted Finance Bill 2016, providing tax relief to exploration and production (E&P) companies operating in the U.K. North Sea. Under the enacted legislation, the U.K. PRT rate was reduced to zero from the previously enacted 35 percent rate in effect from January 1, 2016. PRT expense ceased prospectively from that date. During the first quarter of 2017, the Company fully impaired the aggregate remaining value of the recoverable PRT decommissioning asset of \$8 million that would have been realized from future abandonment activities. The recoverable value of the PRT decommissioning asset was estimated using the income approach. The expected future cash flows used in the determination were based on anticipated spending and timing of planned future abandonment activities for applicable fields, considering all available information at the date of review. Apache has classified this fair value measurement as Level 3 in the fair value hierarchy.

Oil and Gas Property

The Company follows the successful efforts method of accounting for its oil and gas property. Under this method of accounting, exploration costs such as exploratory geological and geophysical costs, delay rentals, and exploration overhead are expensed as incurred. If an exploratory well provides evidence to justify potential development of reserves, drilling costs associated with the well are initially capitalized, or suspended, pending a determination as to whether a commercially sufficient quantity of proved reserves can be attributed to the area as a result of drilling. This determination may take longer than one year in certain areas depending on, among other things, the amount of hydrocarbons discovered, the outcome of planned geological and engineering studies, the need for additional appraisal drilling activities to determine whether the discovery is sufficient to support an economic development plan, and government sanctioning of development activities in certain international locations. At the end of each quarter, management reviews the status of all suspended exploratory well costs in light of ongoing exploration activities; in particular, whether the Company is making sufficient progress in its ongoing exploration and appraisal efforts or, in the case of discoveries requiring government sanctioning, whether development negotiations are underway and proceeding as planned. If management determines that future appraisal drilling or development activities are unlikely to occur, associated suspended exploratory well costs are expensed.

Acquisition costs of unproved properties are assessed for impairment at least annually and are transferred to proved oil and gas properties to the extent the costs are associated with successful exploration activities. Significant undeveloped leases are assessed individually for impairment based on the Company's current exploration plans. Unproved oil and gas properties with individually insignificant lease acquisition costs are amortized on a group basis over the average lease term at rates that provide for full amortization of unsuccessful leases upon lease expiration or abandonment. Costs of expired or abandoned leases are charged to exploration expense, while costs of productive leases are transferred to proved oil and gas properties. Costs of maintaining and retaining unproved properties, as well as amortization of individually insignificant leases and impairment of unsuccessful leases, are included in exploration costs in the statement of consolidated operations.

Costs to develop proved reserves, including the costs of all development wells and related equipment used in the production of crude oil and natural gas, are capitalized. Depreciation of the cost of proved oil and gas properties is calculated using the unit-of-production (UOP) method. The UOP calculation multiplies the percentage of estimated proved reserves produced each quarter by the carrying value of those reserves. The reserve base used to calculate depreciation for leasehold acquisition costs and the cost to acquire proved properties is the sum of proved developed reserves and proved undeveloped reserves. The reserve base used to calculate the depreciation for capitalized costs for exploratory and development wells is the sum of proved developed reserves only. Estimated future dismantlement, restoration and abandonment costs, net of salvage values, are included in the depreciable cost.

Oil and gas properties are grouped for depreciation in accordance with ASC 932 "Extractive Activities—Oil and Gas." The basis for grouping is a reasonable aggregation of properties with a common geological structural feature or stratigraphic condition, such as a reservoir or field.

When circumstances indicate that proved oil and gas properties may be impaired, the Company compares unamortized capitalized costs to the expected undiscounted pre-tax future cash flows for the associated assets grouped at the lowest level for which identifiable cash flows are independent of cash flows of other assets. If the expected undiscounted pre-tax future cash flows, based on Apache's estimate of future crude oil and natural gas prices, operating costs, anticipated production from proved reserves and other relevant data, are lower than the unamortized capitalized cost, the capitalized cost is reduced to fair value. Fair value is generally estimated using the income approach described in ASC 820. If applicable, the Company utilizes prices and other relevant information generated by market transactions involving assets and liabilities that are identical or comparable to the item being measured as the basis for determining fair value. The expected future cash flows used for impairment reviews and related fair value calculations are typically based on judgmental assessments of future production volumes, commodity prices, operating costs, and capital investment plans, considering all available information at the date of review. These assumptions are applied to develop future cash flow projections that are then discounted to estimated fair value, using a discount rate believed to be consistent with those applied by market participants. Apache has classified these fair value measurements as Level 3 in the fair value hierarchy.

The following table represents non-cash impairments of the carrying value of the Company's proved and unproved property for the third quarters and first nine months of 2018 and 2017:

	For the Quarter Ended September 30, 2017	For the Nine Months Ended September 30, 2018	2017
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(In millions)

Oil and Gas Property:

Proved	\$ —	\$ —	\$ —
Unproved	49 160	86	214

On the statement of consolidated operations, unproved leasehold impairments are recorded in exploration expense, and all other impairments of proved and unproved properties based on fair value assessments are recorded separately in impairments.

Revenue Recognition

On January 1, 2018, Apache adopted ASU 2014-09, "Revenue from Contracts with Customers (ASC 606)," using the modified retrospective method. The Company elected to evaluate all contracts at the date of initial application. While there was no impact to the opening balance of retained earnings as a result of the adoption, certain items previously netted in revenue are now recognized as "Gathering, transmission, and processing" in the Company's statement of consolidated operations. The amounts reclassified are immaterial to the financial statements, and prior comparative periods have not been restated and continue to be reported under the accounting standards in effect for those periods. Adoption of the new standard is not anticipated to have a material impact on the Company's net earnings on an ongoing basis.

The Company applies the provisions of ASC 606 for revenue recognition to contracts with customers. Sales of crude oil, natural gas, and NGLs are included in revenue when production is sold to a customer in fulfillment of performance obligations under the terms of agreed contracts. Performance obligations primarily comprise delivery of oil, gas, or NGLs at a delivery point, as negotiated within each contract. Each barrel of oil, million Btu (MMBtu) of natural gas, or other unit of measure is separately identifiable and represents a distinct performance obligation to which the transaction price is allocated. Performance obligations are satisfied at a point in time once control of the product has been transferred to the customer. The Company considers a variety of facts and circumstances in assessing the point of control transfer, including but not limited to: whether the purchaser can direct the use of the hydrocarbons, the transfer of significant risks and rewards, the Company's right to payment, and transfer of legal title. In each case, the term between delivery and when payments are due is not significant.

Apache markets its own United States (U.S.) natural gas and crude oil production based on market-priced contracts. Typically, these contracts are adjusted for quality, transportation, and other market-reflective differentials. Since the Company's production may fluctuate as a result of operational issues, it is occasionally necessary to purchase third-party oil and gas to fulfill sales obligations and commitments. Sales proceeds related to third-party purchased oil and gas are determined to be revenue from a customer. Proceeds for these volumes totaled \$124 million and \$326 million for the third quarter and first nine months of 2018, respectively. Associated purchase costs for these volumes totaled \$109 million and \$308 million for the third quarter and first nine months of 2018, respectively. Proceeds and costs are both recorded as "Other" under "Revenues and Other" in the statement of consolidated operations.

Internationally, Apache sells its North Sea crude oil under contracts with a market-based index price. Natural gas from the North Sea Beryl field is processed through the SAGE gas plant. The gas is sold to a third party at the St. Fergus entry point of the national grid on a National Balancing Point index price basis. Apache's gas production in Egypt is sold primarily under an industry-

pricing formula, 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, plus an upward adjustment for liquids content. The Company's Egypt oil production is sold at prices equivalent to the export market.

The Company's Egyptian operations are conducted pursuant to production sharing contracts under which contractor partners pay all operating and capital costs for exploring and developing the concessions. A percentage of the production, generally up to 40 percent, is available to contractor partners to recover these operating and capital costs over contractually defined periods. The balance of the production is split among the contractor partners and the Egyptian General Petroleum Corporation (EGPC) on a contractually defined basis. Additionally, the contractor partner's income taxes, which remain the liability of the contractor partners under domestic law, are paid by EGPC on behalf of the contractor partners out of EGPC's production entitlement. Income taxes paid to the Arab Republic of Egypt on behalf of Apache as contract partner are recognized as oil and gas sales revenue and income tax expense and reflected as production and estimated reserves. Revenues related to Egypt's tax volumes are considered revenue from a non-customer.

For the third quarter of 2018, revenues from customers and non-customers were \$1.9 billion and \$198 million, respectively. For the first nine months of 2018, revenues from customers and non-customers were \$5.4 billion and \$534 million, respectively.

Apache records trade accounts receivable for its unconditional rights to consideration arising under sales contracts with customers. The carrying value of such receivables, net of the allowance for doubtful accounts, represents estimated net realizable value. The Company routinely assesses the collectability of all material trade and other receivables. The Company accrues a reserve on a receivable when, based on the judgment of management, it is probable that a receivable will not be collected and the amount of any reserve may be reasonably estimated.

Receivables from contracts with customers, net of allowance for doubtful accounts, totaled \$1.3 billion and \$1.1 billion as of September 30, 2018 and December 31, 2017, respectively.

Apache has concluded that disaggregating revenue by geographic area and by product appropriately depicts how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors. Refer to Note 11—Business Segment Information for a disaggregation of revenue by each product sold.

Practical Expedients and Exemptions

Apache does not disclose the value of unsatisfied performance obligations for contracts with an original expected length of one year or less or contracts for which variable consideration is allocated entirely to a wholly unsatisfied performance obligation.

Apache will utilize the practical expedient to expense incremental costs of obtaining a contract if the expected amortization period is one year or less. Costs to obtain a contract with expected amortization periods of greater than one year will be recorded as an asset and will be recognized in accordance with ASC 340, "Other Assets and Deferred Costs." Currently, the Company does not have contract assets related to incremental costs to obtain a contract.

New Pronouncements Issued But Not Yet Adopted

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, "Leases (Topic 842)," requiring lessees to recognize lease assets and lease liabilities for most leases classified as operating leases under previous GAAP. The guidance is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted; however, the Company does not intend to early adopt. In January 2018, the FASB issued ASU 2018-01, which permits an entity an optional election to not evaluate under ASU 2016-02 those existing or expired land easements that were not previously accounted for as leases prior to the adoption of ASU 2016-02. In July 2018, the FASB issued ASU 2018-11, which adds a transition option permitting entities to apply the provisions of the new standard at its adoption date instead of the earliest comparative period presented in the consolidated financial statements. Under this transition option, comparative reporting would not be required, and the provisions of the standard would be applied prospectively to leases in effect at the date of adoption. Apache intends to elect both transitional practical expedients.

In the normal course of business, the Company enters into various lease agreements for real estate, aircraft, and equipment related to its exploration and development activities that are currently accounted for as operating leases. To track these lease arrangements and facilitate compliance with this ASU, the Company is in the process of

implementing a third-party lease accounting software solution and designing processes and internal controls. The Company continues to evaluate contracts, train departments affected by the standard, and monitor updates to the standard to determine the impact this ASU will have on its consolidated financial statements. At this time, the Company cannot reasonably estimate the financial impact this will have on its consolidated financial statements; however, the Company believes adoption and implementation of this ASU will significantly impact its balance sheet, resulting in an increase in both assets and liabilities relating to its leasing activities.

In June 2018, the FASB issued ASU 2018-07, “Improvements to Nonemployee Share-Based Payment Accounting,” to simplify the accounting for share-based transactions by expanding the scope of Topic 718 from only being applicable to share-based payments to employees to also include share-based payment transactions for acquiring goods and services from nonemployees. As a result, the same guidance that provides for employee share-based payments, including most of the requirements related to classification and measurement, applies to nonemployee share-based payment arrangements. ASU 2018-07 is effective for financial statements issued for annual periods beginning after December 15, 2018 and interim periods within those annual periods. Early adoption is permitted. The Company anticipates adopting this guidance for the first quarter of 2019 and does not expect it to have a material impact on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, “Disclosure Framework: Changes to the Disclosure Requirements for Fair Value Measurement,” which changes the disclosure requirements for fair value measurements by removing, adding, and modifying certain disclosures. ASU 2018-13 is effective for financial statements issued for annual periods beginning after December 15, 2019, and interim periods within those annual periods. Early adoption is permitted. The company is currently evaluating the impact of adoption of this ASU on its related disclosures and does not expect it to have a material impact on its financial statements.

In August 2018, the FASB issued ASU 2018-14, “Disclosure Framework: Changes to the Disclosure Requirements for Defined Benefit Plans,” which eliminates, modifies, and adds disclosure requirements for defined benefit plans. The ASU is effective for financial statements issued for fiscal years ending after December 15, 2020. Early adoption is permitted. The Company is currently evaluating the impact of adoption of this ASU on its related disclosures and does not expect it to have a material impact on its financial statements.

In August 2018, the FASB issued ASU 2018-15, “Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract.” This pronouncement clarifies the requirements for capitalizing implementation costs in cloud computing arrangements and aligns them with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. This pronouncement is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted, including adoption in any interim period for which financial statements have not been issued. The Company is currently evaluating the impact of adoption of this ASU on its consolidated financial statements and does not expect it to have a material impact.

2. ACQUISITIONS AND DIVESTITURES

2018 Activity

U.S. Divestitures

On August 8, 2018, Apache and Kayne Anderson Acquisition Corp. (KAAC) announced an agreement pursuant to which Apache will contribute Apache’s Alpine High midstream assets into a newly formed limited partnership, Altus Midstream LP. Upon closing, KAAC will contribute to the partnership approximately \$952 million in cash, less anticipated transaction expenses and any amount associated with potential KAAC share redemptions. The partnership will be jointly owned by Apache and KAAC. Apache will own an estimated 71 percent ownership interest in Altus Midstream LP, adjusted accordingly for any KAAC share redemptions, and expects to fully consolidate the entity in its consolidated financial statements, with the corresponding noncontrolling interest of third-party ownership reflected separately in the financial statements. The transaction is subject to approval by KAAC shareholders, as well as other customary closing conditions. Closing is expected in the fourth quarter of 2018. Upon closing, KAAC will be renamed Altus Midstream Company.

During the first nine months of 2018, Apache completed the sale of certain non-core assets, primarily in the Permian region, in multiple transactions for cash proceeds of \$51 million. The Company recognized gains of approximately \$10 million during the first nine months of 2018 upon the closing of these transactions.

Leasehold and Property Acquisitions

During the third quarter and first nine months of 2018, Apache completed \$48 million and \$86 million, respectively, of leasehold and property acquisitions primarily in its U.S. onshore and Egypt regions.

2017 Activity

Canada Divestitures

On June 30, 2017, Apache completed the sale of its Canadian assets at Midale and House Mountain, located in Saskatchewan and Alberta, for aggregate cash proceeds of approximately \$228 million. The Company recognized a \$52 million loss during the second quarter of 2017 in association with this sale.

During the third quarter of 2017, Apache announced the sale of its subsidiary Apache Canada Ltd. (ACL) and complete exit of its Canadian operations for aggregate cash proceeds of approximately \$478 million. The Company recognized a \$74 million gain upon closing of these transactions in the third quarter of 2017.

A summary of the assets and liabilities at closing of the August transactions is detailed below:

	(In millions)
ASSETS	
Current assets	\$ 110
Property, plant & equipment	1,132
Total Assets	\$ 1,242
LIABILITIES	
Current liabilities, excluding asset retirement obligation	\$ 120
Asset retirement obligation	780
Other long-term liabilities	46
Total Liabilities	\$ 946

The net carrying value of the assets disposed included a currency translation loss of \$109 million, which was recorded in “Accumulated Other Comprehensive Loss” on the Company’s consolidated balance sheet at December 31, 2016. The currency translation loss was recognized as a reduction of the net gain on sale during the third quarter of 2017 upon closing of the transactions.

Apache’s Canadian operations recorded pretax losses of \$12 million and \$141 million for the third quarter and first nine months of 2017, respectively.

U.S. Divestitures

During the first nine months of 2017, Apache completed the sale of certain non-core assets, consisting primarily of leasehold acreage in the Permian and Midcontinent/Gulf Coast regions, in multiple transactions for cash proceeds of \$783 million, subject to customary closing adjustments. A refundable deposit of \$40 million was received in the fourth quarter of 2016 in connection with certain of these transactions. The Company recognized gains of approximately \$594 million during the first nine months of 2017 in connection with these transactions.

Leasehold and Property Acquisitions

During the third quarter and first nine months of 2017, Apache purchased \$75 million and \$142 million, respectively, of leasehold and property acquisitions primarily in its U.S. onshore regions.

3. CAPITALIZED EXPLORATORY WELL COSTS

The Company’s capitalized exploratory well costs were \$300 million and \$350 million at September 30, 2018 and December 31, 2017, respectively. The decrease is primarily attributable to successful transfers of well costs and dry hole write-offs, partially offset by additional drilling activities during the period. No suspended exploratory well costs previously capitalized for greater than one year at December 31, 2017 were charged to dry hole expense during the nine months ended September 30, 2018; however, during the third quarter of 2018, Apache announced an agreement to sell certain of its unproved properties in the North Sea. Exploratory well costs of approximately \$70 million that have been capitalized greater than one year are included in the divestiture, which is anticipated to be completed prior to year-end.

Projects with suspended exploratory well costs capitalized for a period greater than one year since the completion of drilling are those identified by management as exhibiting sufficient quantities of hydrocarbons to justify potential development. Management is actively pursuing efforts to assess whether reserves can be attributed to these projects.

4. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Objectives and Strategies

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 to manage fluctuations in cash flows resulting from changes in commodity prices. Apache has elected not to designate any of its derivative contracts as cash flow hedges.

Counterparty Risk

The use of derivative instruments exposes the Company to credit loss in the event of nonperformance by the counterparty. 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, 2018, Apache had derivative positions with 15 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.

Derivative Instruments

As of September 30, 2018, Apache had the following open crude oil derivative positions:

Production Period	Settlement Index	Put Options ⁽¹⁾	
		Mbbls	Weighted Average Strike Price
October—December 2018	Dated Brent	3,680	\$56.00
October—December 2018	NYMEX WTI	2,760	\$53.00

(1) The remaining unamortized premium paid as of September 30, 2018, was \$12 million.

Production Period	Settlement Index	Collars			Call Options ⁽²⁾	
		Mbbls	Weighted Average Floor Price	Weighted Average Ceiling Price	Mbbls	Strike Price
October—December 2018	NYMEX WTI	1,702	\$45.00	\$57.00	1,702	\$60.03

(2) The remaining unamortized premium paid as of September 30, 2018, was \$3 million.

As of September 30, 2018, Apache had the following open crude oil financial basis swap contracts:

Production Period	Settlement Index	Mbbls	Weighted Average Price Differential
October—December 2018	Midland-WTI/Cushing-WTI	1,380	\$(9.23)
January—September 2019	Midland-WTI/Cushing-WTI	7,371	\$(8.60)
October—December 2019	Midland-WTI/Cushing-WTI	1,380	\$(3.72)

As of September 30, 2018, Apache had the following open natural gas derivative positions:

Production Period	Settlement Index	Fixed-Price Swaps	
		MMBtu	Weighted Average Fixed Price
October—December 2018	NYMEX Henry Hub	16,790	\$2.96

As of September 30, 2018, Apache had the following open natural gas financial basis swap contracts:

Production Period	Settlement Index	MMBtu (in 000's)	Weighted Average Price Differential
October—December 2018	NYMEX Henry Hub/Waha	17,940	\$(0.53)
January—March 2019	NYMEX Henry Hub/Waha	1,350	\$(0.54)
January—June 2019	NYMEX Henry Hub/Waha	32,580	\$(0.53)
January—December 2019	NYMEX Henry Hub/Waha	14,600	\$(0.45)

Fair Value Measurements

Apache's commodity derivative instruments consist of variable-to-fixed price commodity swaps, options, and collars. 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 on a recurring basis, utilizing commodity futures pricing for the underlying commodities provided by a reputable third party, a Level 2 fair value measurement.

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, 2018						
Assets:						
Commodity Derivative Instruments	\$ 84	\$	\$	\$ 84	\$(36)	\$ 48
Liabilities:						
Commodity Derivative Instruments	\$ 41	\$	\$	\$ 41	\$(36)	\$ 5
December 31, 2017						
Assets:						
Commodity Derivative Instruments	\$ 67	\$	\$	\$ 67	\$(43)	\$ 24
Liabilities:						
Commodity Derivative Instruments	\$ 107	\$	\$	\$ 107	\$(43)	\$ 64

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

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, 2018		December 31, 2017	
	(In millions)			
Current Assets: Prepaid assets and other	\$ 46		\$ 8	
Other Assets: Deferred charges and other	2		16	
Total Assets	\$ 48		\$ 24	
Current Liabilities: Other current liabilities	\$ 4		\$ 64	
Noncurrent Liabilities: Other	1		—	
Total Liabilities	\$ 5		\$ 64	

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:

	For the Quarter Ended September 30, 2018		For the Nine Months Ended September 30, 2017	
	(In millions)			
Realized gain (loss):				
Derivative settlements	\$7	\$23	\$(110)	\$23
Amortization of call and put premium	(14)	(50)	(24)	(50)
Unrealized gain (loss)	(16)	(83)	88	(42)
Derivative instrument gain (losses), net	\$(23)	\$(110)	\$(46)	\$(69)

Derivative instrument gains and losses are recorded in "Derivative instrument losses, net" under "Revenues and Other" in the Company's statement of consolidated operations. Unrealized gains and losses for derivative activity recorded in the statement of consolidated operations are reflected in the statement of consolidated cash flows separately as "Unrealized derivative instrument (gain) loss, net" in "Adjustments to reconcile net income to net cash provided by operating activities."

5. OTHER CURRENT LIABILITIES

The following table provides detail of the Company's other current liabilities as of September 30, 2018 and December 31, 2017:

	September 30, 2018		December 31, 2017	
	(In millions)			
Accrued operating expenses	\$79		\$ 72	
Accrued exploration and development	660		680	
Accrued gathering, transmission, and processing	67		122	
Accrued compensation and benefits	147		115	
Accrued interest	99		145	
Accrued income taxes	89		55	
Current asset retirement obligation	38		43	

Other	134	141
Total other current liabilities	\$1,313	\$ 1,373

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6. 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, 2018:

	(In millions)
Asset retirement obligation at December 31, 2017	\$ 1,835
Liabilities incurred	27
Liabilities settled	(39)
Accretion expense	81
Revisions in estimated liabilities	1
Asset retirement obligation at September 30, 2018	1,905
Less current portion	(38)
Asset retirement obligation, long-term	\$ 1,867

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. Non-cash impairments of the carrying value of the Company's oil and gas properties, gains and losses on the sale of assets, statutory tax rate changes, and other significant or unusual items are recognized as discrete items in the quarter in which they occur.

During the third quarter of 2018, Apache's effective income tax rate was primarily impacted by an increase in the amount of valuation allowance against its U.S. deferred tax assets. During the third quarter of 2017, Apache's effective income tax rate was primarily impacted by gains on the sale of oil and gas properties, a \$30 million current tax benefit associated with U.S. federal income tax credits, a deferred tax asset associated with its realizable capital loss on the sale of ACL, and a decrease in the Company's deferred tax liability associated with its investment in foreign subsidiaries. For more information regarding the sale of ACL, please refer to Note 2—Acquisitions and Divestitures. Apache's 2018 year-to-date effective income tax rate was primarily impacted by an increase in the amount of valuation allowance against its U.S. deferred tax assets. Apache's 2017 year-to-date effective income tax rate was primarily impacted by the decrease in deferred taxes associated with its investments in foreign subsidiaries, gains on the sale of oil and gas properties, non-cash impairments of the Company's PRT decommissioning asset, the current tax benefit associated with U.S. federal income tax credits, and the sale of ACL.

On December 22, 2017, the Tax Cuts and Jobs Act (the Act) was signed into law. In 2018, the Internal Revenue Service (IRS) issued additional guidance related to the Act's deemed repatriation of foreign earnings (i.e., transition inclusion). In light of this new guidance, the Company continues to reevaluate the tax impact of the transition inclusion in 2017. Tax benefit associated with the change in transition inclusion is likely to be fully offset by a change in the Company's valuation allowance against its U.S. deferred tax assets. The Company has not revised any other 2017 provisional estimates under Staff Accounting Bulletin No. 118, but is continuing to gather information and awaits further guidance from the IRS, SEC and FASB on the Act.

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 currently under IRS audit for the 2014-2016 tax years and is also under audit in various states and foreign jurisdictions as part of its normal course of business.

8. DEBT AND FINANCING COSTS

The following table presents the carrying amounts and estimated fair values of the Company's outstanding debt as of September 30, 2018 and December 31, 2017:

	September 30, 2018		December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In millions)			
Commercial paper and committed bank facilities	\$—	\$—	\$—	\$—
Notes and debentures	8,203	8,293	8,484	9,244
Total Debt	\$8,203	\$8,293	\$8,484	\$9,244

The Company's debt is recorded at the carrying amount, net of related unamortized discount and deferred loan costs, on its consolidated balance sheet. When recorded, the carrying amount of the Company's commercial paper, committed bank facilities, and uncommitted bank 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).

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The following table presents the carrying value of the Company's debt as of September 30, 2018 and December 31, 2017:

	September 30, 2018	December 31, 2017
	(In millions)	
Debt before unamortized discount and deferred loan costs	\$8,299	\$ 8,580
Unamortized discount	(45)	(47)
Debt issuance costs	(51)	(49)
Total debt	8,203	8,484
Current maturities	(150)	(550)
Long-term debt	\$8,053	\$ 7,934

As of September 30, 2018, current debt included \$150 million of 7.625% senior notes due July 1, 2019. As of December 31, 2017, current debt included \$150 million of 7.0% senior notes due February 1, 2018 that matured and were timely repaid and \$400 million of 6.9% senior notes due September 15, 2018 that matured and were timely repaid.

On August 23, 2018, Apache closed an offering of \$1.0 billion in aggregate principal amount of senior unsecured 4.375% notes due October 15, 2028. The notes are redeemable at any time, in whole or in part, at Apache's option, subject to a make-whole premium. The net proceeds from the sale of the notes were used to purchase certain outstanding notes in cash tender offers, repay notes that matured in September 2018, and for general corporate purposes.

On August 24, 2018, the Company closed cash tender offers for certain outstanding notes. Apache accepted for purchase \$731 million aggregate principal amount of certain notes covered by the tender offers. Apache paid holders an aggregate of approximately \$828 million reflecting principal, the discount to par, early tender premium, and accrued and unpaid interest. The Company recorded a net loss of \$94 million on extinguishment of debt, including \$5 million of unamortized debt issuance costs and discount, in connection with the note purchases.

In March 2018, the Company entered into a revolving credit facility that matures in March 2023 (subject to Apache's two, one-year extension options) with commitments totaling \$4.0 billion. The Company can increase commitments up to \$5.0 billion by adding new lenders or obtaining the consent of any increasing existing lenders. The facility includes a letter of credit subfacility of up to \$3.0 billion, of which \$2.08 billion was committed as of September 30, 2018. The facility is for general corporate purposes and committed borrowing capacity fully supports Apache's commercial paper program. As of September 30, 2018, letters of credit aggregating approximately £129.1 million and no borrowings were outstanding under this facility. In connection with entry into this facility, Apache terminated \$3.5 billion and £900 million in commitments under two former credit facilities and wrote off \$4 million of associated debt issuance costs, which is included in "Financing costs, net" in the Company's consolidated statement of operations.

The Company's \$3.5 billion commercial paper program, which is subject to market availability, facilitates Apache borrowing funds for up to 270 days at competitive interest rates. As of September 30, 2018, the Company had no commercial paper outstanding.

Financing Costs, Net

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

	For the Quarter Ended September 30, 2018		For the Nine Months Ended September 30, 2017	
	(In millions)			
Interest expense	\$113	\$113	\$335	\$344
Amortization of deferred loan costs	2	3	8	7
Capitalized interest	(11)	(12)	(36)	(39)

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Loss on extinguishment of debt	94	—	94	1
Interest income	(6)	(3)	(16)	(13)
Financing costs, net	\$192	\$101	\$385	\$300

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9. COMMITMENTS AND CONTINGENCIES

Legal Matters

Apache is party to various legal actions arising in the ordinary course of business, including litigation and governmental and regulatory controls. As of September 30, 2018, the Company has an accrued liability of approximately \$39 million for all legal contingencies that are deemed to be probable of occurring and can be reasonably estimated. Apache's estimates are based on information known about the matters and its experience in contesting, litigating, and settling similar matters. Although actual amounts could differ from management's estimate, none of the actions are believed by management to involve future amounts that would be material to Apache's financial position, results of operations, or liquidity after consideration of recorded accruals. For material matters that Apache believes an unfavorable outcome is reasonably possible, the Company has disclosed the nature of the matter and a range of potential exposure, unless an estimate cannot be made at this time. It is management's opinion that the loss for any other litigation matters and claims that are reasonably possible to occur will not have a material adverse effect on the Company's financial position, results of operations, or liquidity.

For additional information on each of the Legal Matters described below, please see Note 10—Commitments and Contingencies to the consolidated financial statements contained in Apache's Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

Argentine Environmental Claims and Argentina Tariff

No material change in the status of the YPF Sociedad Anónima and Pioneer Natural Resources Company indemnities matters has occurred since the filing of Apache's Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

Louisiana Restoration

As more fully described in Apache's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, Louisiana surface owners often file lawsuits or assert claims against oil and gas companies, including Apache, claiming that operators and working interest owners in the chain of title are liable for environmental damages on the leased premises, including damages measured by the cost of restoration of the leased premises to its original condition, regardless of the value of the underlying property. From time to time restoration lawsuits and claims are resolved by the Company for amounts that are not material to the Company, while new lawsuits and claims are asserted against the Company. With respect to each of the pending lawsuits and claims, the amount claimed is not currently determinable or is not material, except as noted. Further, the overall exposure related to these lawsuits and claims is not currently determinable. While an adverse judgment against Apache is possible, Apache intends to actively defend these lawsuits and claims.

Starting in November of 2013 and continuing into 2018, several parishes in Louisiana have pending lawsuits against many oil and gas producers, including Apache. These cases have all been removed to federal court after having once been remanded back to state court. In these cases, the Parishes, as plaintiffs, allege that defendants' oil and gas exploration, production, and transportation operations in specified fields were conducted in violation of the State and Local Coastal Resources Management Act of 1978, as amended, and applicable regulations, rules, orders, and ordinances promulgated or adopted thereunder by the Parish or the State of Louisiana. Plaintiffs allege that defendants caused substantial damage to land and water bodies located in the coastal zone of Louisiana. Plaintiffs seek, among other things, unspecified damages for alleged violations of applicable law within the coastal zone, the payment of costs necessary to clear, re-vegetate, detoxify, and otherwise restore the subject coastal zone as near as practicable to its original condition, and actual restoration of the coastal zone to its original condition. While an adverse judgment against Apache might be possible, Apache intends to vigorously oppose these claims.

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 the fiscal year ended December 31, 2017.

Apollo Exploration Lawsuit

In a case captioned Apollo Exploration, LLC, Cogent Exploration, Ltd. Co. & SellmoCo, LLC v. Apache Corporation, Cause No. CV50538 in the 385th Judicial District Court, Midland County, Texas, plaintiffs alleged damages in excess of \$200 million (having previously claimed in excess of \$1.1 billion) relating to purchase and sale agreements, mineral leases, and areas of mutual interest agreements concerning properties located in Hartley, Moore, Potter, and

Oldham Counties, Texas. The Court granted motions filed by Apache reducing the plaintiffs' alleged damages to an amount that is not material to the Company. Apache believes that plaintiffs' claims lack merit and will vigorously oppose the claims. 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 the fiscal year ended December 31, 2017.

Australian Operations Divestiture Dispute

By a Sale and Purchase Agreement dated April 9, 2015 (SPA), the Company and its subsidiaries divested their remaining Australian operations to Quadrant Energy Pty Ltd (Quadrant). Closing occurred on June 5, 2015. In April 2017, Apache filed suit against Quadrant for breach of the SPA. In its suit, Apache seeks approximately \$80 million. In December 2017, Quadrant filed a defense of equitable set-off to Apache's claim and a counterclaim seeking approximately \$200 million in the aggregate. The Company believes that Quadrant's claims lack merit and will not have a material adverse effect on the Company's financial position, results of operation, or liquidity.

California Litigation

On July 17, 2017, in three separate actions, San Mateo County, California, Marin County, California, and the City of Imperial Beach, California, all filed suit individually and on behalf of the people of the state of California against over 30 oil, gas, and coal companies alleging damages as a result of global warming. Plaintiffs seek unspecified damages and abatement under various tort theories. On December 20, 2017, in two separate actions, the City of Santa Cruz, California and Santa Cruz County, California and in a separate action on January 22, 2018, the City of Richmond, California, filed similar lawsuits against many of the same defendants. The lawsuits were removed to federal court and then consolidated. Although the federal court remanded the lawsuits back to state court, it stayed its order of remand and certified the jurisdictional inquiry for appeal to the 9th Circuit Court of Appeals. Apache believes that the claims made against it are baseless and intends to vigorously defend these lawsuits.

Environmental Matters

As of September 30, 2018, the Company had an undiscounted reserve for environmental remediation of approximately \$4 million. The Company is not aware of any environmental claims existing as of September 30, 2018, that have not been provided for or that 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.

Commitments

During the third quarter of 2018, the Company executed a 10-year firm transportation agreement associated with the third-party Permian Highway Pipeline project to transport a minimum of 500,000 MMBtu per day at a fixed rate per MMBtu. The fees will commence when the pipeline accepts first commercial delivery, which is expected to begin service in late 2020, assuming timely receipt of regulatory approvals. Apache has entered into no other material commitments since the filing of Apache's Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

10. 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 months ended September 30, 2018 and 2017, is presented in the table below.

	For the Quarter Ended September 30,			
	2018		2017	
	Income	Shares Per Share	Income	Shares Per Share
	(In millions, except per share amounts)			
Basic:				
Income attributable to common stock	\$81 383	\$ 0.21	\$63 381	\$ 0.16
Effect of Dilutive Securities:				
Stock options and other	\$— 2	\$ —	\$— 2	\$ —
Diluted:				
Income attributable to common stock	\$81 385	\$ 0.21	\$63 383	\$ 0.16

11. 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, 2018, the Company had production in three reporting segments: the U.S., Egypt, and offshore the U.K. in the North Sea. Apache also has exploration interests in Suriname that may, over time, result in a reportable discovery and development opportunity. Financial information for each area is presented below:

	United States	Canada ⁽¹⁾	Egypt ^(2,3)	North Sea	Other International	Total
	(In millions)					
For the Quarter Ended September 30, 2018						
Oil revenues	\$583	\$ —	—\$ 669	\$ 303	\$ —	\$1,555
Natural gas revenues	125	—	86	30	—	241
Natural gas liquids revenues	171	—	4	5	—	180
Total Oil and Gas Production Revenues	\$879	\$ —	—\$ 759	\$ 338	\$ —	\$1,976
Operating Income (Loss) ⁽⁴⁾	\$147	\$ —	—\$ 438	\$ 114	\$ (1)	\$698
Other Income (Expense):						
Gain on divestitures, net						1
Derivative instrument losses, net						(23)
Other ⁽⁵⁾						29
General and administrative						(99)
Transaction, reorganization, and separation						(8)
Financing costs, net						(192)
Income Before Income Taxes						\$406
For the Nine Months Ended September 30, 2018						
Oil revenues	\$1,743	\$ —	—\$ 1,887	\$ 894	\$ —	\$4,524
Natural gas revenues	331	—	263	81	—	675
Natural gas liquids revenues	421	—	11	14	—	446
Total Oil and Gas Production Revenues	\$2,495	\$ —	—\$ 2,161	\$ 989	\$ —	\$5,645
Operating Income (Loss) ⁽⁴⁾	\$523	\$ —	—\$ 1,176	\$ 327	\$ (3)	\$2,023
Other Income (Expense):						
Gain on divestitures, net						10
Derivative instrument losses, net						(46)
Other ⁽⁵⁾						50
General and administrative						(330)
Transaction, reorganization, and separation						(20)
Financing costs, net						(385)
Income Before Income Taxes						\$1,302
Total Assets	\$14,389	\$ —	—\$ 4,404	\$ 3,033	\$ 44	\$21,870

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	United States	Canada ⁽¹⁾	Egypt ⁽²⁾	North Sea	Other International	Total
(In millions)						
For the Quarter Ended September 30, 2017						
Oil revenues	\$381	\$ 14	\$ 442	\$ 233	\$ —	\$1,070
Natural gas revenues	97	19	98	24	—	238
Natural gas liquids revenues	72	3	3	3	—	81
Total Oil and Gas Production Revenues	\$550	\$ 36	\$ 543	\$ 260	\$ —	\$1,389
Operating Income (Loss) ⁽⁶⁾	\$(114)	\$(1)	\$ 226	\$ 16	\$ (1)	\$ 126
Other Income (Expense):						
Gain on divestitures, net						296
Derivative instrument losses, net						(110)
General and administrative						(98)
Transaction, reorganization, and separation						(20)
Financing costs, net						(101)
Income Before Income Taxes						\$93
For the Nine Months Ended September 30, 2017						
Oil revenues	\$1,133	\$ 110	\$ 1,351	\$ 698	\$ —	\$3,292
Natural gas revenues	266	104	295	61	—	726
Natural gas liquids revenues	194	17	9	9	—	229
Total Oil and Gas Production Revenues	\$1,593	\$ 231	\$ 1,655	\$ 768	\$ —	\$4,247
Operating Income (Loss) ⁽⁶⁾	\$(71)	\$(33)	\$ 740	\$ 59	\$ (24)	\$671
Other Income (Expense):						
Gain on divestitures, net						616
Derivative instrument losses, net						(69)
Other						43
General and administrative						(307)
Transaction, reorganization, and separation						(14)
Financing costs, net						(300)
Income Before Income Taxes						\$640
Total Assets	\$13,105	\$ —	\$ 4,906	\$ 3,770	\$ 54	\$21,835

(1) Apache exited its Canadian operations in the third quarter of 2017.

(2) Includes a noncontrolling interest in Egypt.

(3) Includes revenue from non-customers of \$181 million, \$16 million, and \$1 million for oil, natural gas, and natural gas liquids, respectively, for the third quarter of 2018, and \$485 million, \$47 million, and \$2 million, for oil, natural gas, and natural gas liquids, respectively, for the first nine months of 2018.

(4) Operating income (loss) consists of oil and gas production revenues less lease operating expenses, gathering, transmission, and processing costs, taxes other than income, exploration costs, depreciation, depletion, and amortization, asset retirement obligation accretion, and impairments. The operating income of U.S. and North Sea includes leasehold and unproved impairments totaling \$39 million and \$10 million, respectively, for the third quarter of 2018. The operating income of U.S. and North Sea includes leasehold and unproved impairments totaling \$76 million and \$10 million, respectively, for the first nine months of 2018.

(5) Included in Other are sales proceeds related to U.S. third-party purchased oil and gas totaling \$124 million and \$326 million for the third quarter and first nine months of 2018, respectively, which are determined to be revenue from customers.

(6) The operating income (loss) of U.S. includes leasehold impairments totaling \$160 million for the third quarter of 2017. The operating income (loss) of U.S., Canada, and North Sea includes leasehold and other asset impairments totaling \$212 million, \$2 million, and \$8 million, respectively, for the first nine months of 2017.

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

The following discussion relates to Apache Corporation and its consolidated subsidiaries and should be read in conjunction with the Company's consolidated financial statements and accompanying notes included under Part I, Item 1, "Financial Statements" of this Quarterly Report on Form 10-Q, as well as the Company's consolidated financial statements, accompanying notes and Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

Overview

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. Apache currently has exploration and production operations in three geographic areas: the United States (U.S.), Egypt, and offshore the United Kingdom (U.K.) in the North Sea (North Sea). Apache also has exploration interests in Suriname that may, over time, result in a reportable discovery and development opportunity. In the third quarter of 2017, Apache completed the sale of its Canadian operations.

Apache reported third quarter net income of \$81 million, or \$0.21 per common share, an increase of \$18 million, or \$0.05 per common share, from the third quarter of 2017. The increase was driven by higher crude oil and natural gas liquid (NGL) price realizations and production, which more than offset the decrease related to a \$296 million gain from asset sales benefiting the third quarter of 2017 and a \$94 million charge for early extinguishment of debt in the third quarter of 2018.

Daily equivalent production in the third quarter of 2018 averaged 476 Mboe/d, an increase of 6 percent from the comparative prior-year quarter. Excluding asset divestitures, daily equivalent production increased 12 percent driven by the activity in the Permian Basin, including continued development of the Company's Alpine High field and infrastructure. Realized oil prices have been considerably higher than budgeted this year, particularly Dated Brent, which has provided increased operating cash flow to reinvest in the Company's core development areas without a material impact on its balance sheet.

The Company generated \$2.7 billion in cash from operating activities during the first nine months of 2018, a 55 percent increase from the comparable prior-year period, and ended the quarter with \$593 million of cash on hand. During the quarter, the Company took several steps to improve its debt portfolio: issuing \$1.0 billion in aggregate principal amount of senior unsecured notes, concurrently repurchasing \$731 million in aggregate principal amount of certain other outstanding notes, and paying off an additional \$400 million of maturing debt in September. These transactions extended debt maturities, reduced the Company's cost of debt, modernized its standard debenture terms, and, in conjunction with the repayment of \$150 million of maturing debt in February, reduced debt by \$281 million from 2017 year-end levels. During the quarter, the Company also re-initiated share repurchase activity under its existing authorization, which had 6.9 million shares remaining at the end of the quarter. In late October, the Company's Board of Directors authorized the purchase of an additional 40 million shares of the Company's common stock.

Apache achieved an important milestone during the third quarter with the announcement of Altus Midstream Company. This transaction enables Apache to maintain control of the midstream infrastructure buildout and establishes an entity capable of funding all future midstream investment at a lower cost of capital. For further information regarding this transaction, refer to "Operating Highlights" below.

Operating Highlights

Key operational highlights for the quarter include:

United States

U.S. onshore equivalent production increased 32 percent from the third quarter of 2017, a reflection of the success of the Midland Basin drilling program and the commencement and continued production ramp-up of the Company's Alpine High development.

Third-quarter equivalent production from the Permian region, which accounts for 82 percent of Apache's total U.S. production, increased 38 percent from the third quarter of 2017, driven by the Alpine High discovery and strong performance in the Midland Basin. Crude oil production in the region increased 16 percent between the comparative

quarters.

In August 2018, the Company announced an agreement with Kayne Anderson Acquisition Corp. (KAAC) to create Altus Midstream Company (Altus Midstream).

Upon closing of the transaction, KAAC will contribute approximately \$952 million of cash, less anticipated transaction costs and any amount associated with potential shareholder redemptions, into a newly formed

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limited partnership, Altus Midstream LP, for an approximate 29 percent noncontrolling interest, adjusted accordingly for any KAAC share redemptions. The cash will fund future development of the Alpine High midstream assets. Upon closing, Apache will contribute its Alpine High midstream assets, and Altus Midstream or its subsidiaries will hold options to acquire a noncontrolling equity participation in five planned long-haul pipelines from the Permian Basin to various points along the Texas Gulf Coast including the previously announced Gulf Coast Express, Salt Creek NGL Line, EPIC Crude, Shin Oak, and Permian Highway Pipeline projects.

In exchange for such contributions, Apache will receive an approximate 71 percent controlling ownership interest in Altus Midstream, adjusted accordingly for any KAAC share redemptions.

The transaction is subject to approval by KAAC shareholders, as well as other customary closing conditions. Closing is expected in the fourth quarter of 2018.

- Drilling and infrastructure development activities continue at Alpine High; specifically:

First production from the Alpine High play was achieved in early May 2017. Net production for the third quarter of 2018 averaged approximately 48.8 Mboe/d, up from 19.8 Mboe/d for the fourth quarter of 2017.

During the third quarter of 2018, Apache invested \$120 million in Alpine High infrastructure, with development ongoing. Inception-to-date investment in Alpine High infrastructure as of quarter-end was \$1.1 billion.

International

The Egypt region averaged 12 rigs and drilled or participated in drilling 26 gross wells during the third quarter of 2018. Gross production remained relatively flat and cash flows for the region increased compared to the third quarter of 2017 despite a 3 percent decrease in net equivalent production, a result of the impact of higher Brent oil prices on cost recovery volumes as a function of the Company's production sharing contracts.

The North Sea region average daily production decreased 15 percent from the third quarter of 2017 primarily as a result of natural decline. Production is expected to increase in the fourth quarter, as the Company brought its fourth development well online in the Callater field in September and plans to accelerate initial production at Garten from the first quarter of 2019 to the fourth quarter of 2018, only seven months after its discovery.

Results of Operations

Oil and Gas Revenues

The table below presents the third-quarter and year-to-date 2018 and 2017 revenues by geographic region and each region's percent contribution to revenues.

	For the Quarter Ended September 30,						For the Nine Months Ended September 30,					
	2018		2017		2018		2017		2018		2017	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
	Value	Contribution	Value	Contribution	Value	Contribution	Value	Contribution	Value	Contribution	Value	Contribution
	(\$ in millions)											
Total Oil Revenues:												
United States	\$583	37	%	\$381	36	%	\$1,743	39	%	\$1,133	35	%
Canada	—	—		14	1	%	—	—		110	3	%
North America	583	37	%	395	37	%	1,743	39	%	1,243	38	%
Egypt ⁽¹⁾	669	43	%	442	41	%	1,887	41	%	1,351	41	%
North Sea	303	20	%	233	22	%	894	20	%	698	21	%
International ⁽¹⁾	972	63	%	675	63	%	2,781	61	%	2,049	62	%
Total ⁽¹⁾	\$1,555	100	%	\$1,070	100	%	\$4,524	100	%	\$3,292	100	%
Total Natural Gas Revenues:												
United States	\$125	52	%	\$97	41	%	\$331	49	%	\$266	37	%
Canada	—	—		19	8	%	—	—		104	14	%
North America	125	52	%	116	49	%	331	49	%	370	51	%
Egypt ⁽¹⁾	86	36	%	98	41	%	263	39	%	295	41	%
North Sea	30	12	%	24	10	%	81	12	%	61	8	%
International ⁽¹⁾	116	48	%	122	51	%	344	51	%	356	49	%
Total ⁽¹⁾	\$241	100	%	\$238	100	%	\$675	100	%	\$726	100	%
Total Natural Gas Liquids (NGL) Revenues:												
United States	\$171	95	%	\$72	89	%	\$421	94	%	\$194	85	%
Canada	—	—		3	4	%	—	—		17	7	%
North America	171	95	%	75	93	%	421	94	%	211	92	%
Egypt ⁽¹⁾	4	2	%	3	4	%	11	3	%	9	4	%
North Sea	5	3	%	3	3	%	14	3	%	9	4	%
International ⁽¹⁾	9	5	%	6	7	%	25	6	%	18	8	%
Total ⁽¹⁾	\$180	100	%	\$81	100	%	\$446	100	%	\$229	100	%
Total Oil and Gas Revenues:												
United States	\$879	44	%	\$550	40	%	\$2,495	44	%	\$1,593	38	%
Canada	—	—		36	2	%	—	—		231	5	%
North America	879	44	%	586	42	%	2,495	44	%	1,824	43	%
Egypt ⁽¹⁾	759	39	%	543	39	%	2,161	38	%	1,655	39	%
North Sea	338	17	%	260	19	%	989	18	%	768	18	%
International ⁽¹⁾	1,097	56	%	803	58	%	3,150	56	%	2,423	57	%
Total ⁽¹⁾	\$1,976	100	%	\$1,389	100	%	\$5,645	100	%	\$4,247	100	%

(1) Includes revenues attributable to a noncontrolling interest in Egypt.

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Production

The table below presents the third-quarter and year-to-date 2018 and 2017 production and the relative increase or decrease from the prior period.

	For the Quarter Ended September 30,			For the Nine Months Ended September 30,		
	2018	Increase (Decrease)	2017	2018	Increase (Decrease)	2017
Oil Volume – b/d						
United States	103,538	14 %	90,883	102,830	15 %	89,228
Canada	—	NM	3,441	—	NM	8,881
North America	103,538	10 %	94,324	102,830	5 %	98,109
Egypt ⁽¹⁾⁽²⁾	97,129	4 %	93,749	96,201	(1) %	97,447
North Sea	42,769	(14) %	49,945	45,076	(9) %	49,274
International	139,898	(3) %	143,694	141,277	(4) %	146,721
Total	243,436	2 %	238,018	244,107	— %	244,830
Natural Gas Volume – Mcf/d						
United States	651,782	61 %	404,486	563,299	49 %	378,625
Canada	—	NM	107,524	—	NM	175,787
North America	651,782	27 %	512,010	563,299	2 %	554,412
Egypt ⁽¹⁾⁽²⁾	331,681	(12) %	378,426	338,813	(13) %	389,533
North Sea	41,455	(17) %	50,057	41,932	(2) %	42,800
International	373,136	(13) %	428,483	380,745	(12) %	432,333
Total	1,024,918	9 %	940,493	944,044	(4) %	986,745
NGL Volume – b/d						
United States	60,239	23 %	49,149	56,886	18 %	48,063
Canada	—	NM	2,183	—	NM	3,780
North America	60,239	17 %	51,332	56,886	10 %	51,843
Egypt ⁽¹⁾⁽²⁾	753	(18) %	916	939	2 %	917
North Sea	1,008	(17) %	1,219	1,092	5 %	1,044
International	1,761	(18) %	2,135	2,031	4 %	1,961
Total	62,000	16 %	53,467	58,917	10 %	53,804
BOE per day ⁽³⁾						
United States	272,406	31 %	207,447	253,599	27 %	200,396
Canada	—	NM	23,544	—	NM	41,959
North America	272,406	18 %	230,991	253,599	5 %	242,355
Egypt ⁽²⁾	153,163	(3) %	157,737	153,609	(6) %	163,286
North Sea ⁽⁴⁾	50,686	(15) %	59,507	53,157	(7) %	57,451
International	203,849	(6) %	217,244	206,766	(6) %	220,737
Total	476,255	6 %	448,235	460,365	(1) %	463,092

(1) Gross oil, natural gas, and NGL production in Egypt for the third quarter and nine-month period of 2018 and 2017 were as follows:

	For the Quarter Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Oil (b/d)	208,889	201,151	205,822	196,781
Natural Gas (Mcf/d)	766,128	818,350	775,405	813,880
NGL (b/d)	1,161	1,526	1,450	1,514

(2) Includes production volumes per day attributable to a noncontrolling interest in Egypt for the third quarter and nine-month period of 2018 and 2017 of:

	For the Quarter		For the Nine	
	Ended		Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Oil (b/d)	32,385	31,275	32,077	32,573
Natural Gas (Mcf/d)	110,777	126,459	113,164	130,263
NGL (b/d)	251	305	313	306

(3) The table shows production on a barrel of oil equivalent basis (boe) in which natural gas is converted to an equivalent barrel of oil based on a 6:1 energy equivalent ratio. This ratio is not reflective of the price ratio between the two products.

(4) Average sales volumes from the North Sea for the third quarter of 2018 and 2017 were 51,765 boe/d and 57,207 boe/d, respectively, and 53,985 boe/d and 57,963 boe/d for the first nine months of 2018 and 2017, respectively.

Sales volumes may vary from production volumes as a result of the timing of liftings in the Beryl field.

NM — Not meaningful

Pricing

The table below presents third-quarter and year-to-date 2018 and 2017 pricing and the relative increase or decrease from the prior period.

	For the Quarter Ended September 30,			For the Nine Months Ended September 30,		
	2018	Increase (Decrease)	2017	2018	Increase (Decrease)	2017
Average Oil Price - Per barrel						
United States	\$61.20	34 %	\$45.68	\$62.08	33 %	\$46.54
Canada	—	NM	42.23	—	NM	45.25
North America	61.20	34 %	45.56	62.08	34 %	46.42
Egypt	74.92	46 %	51.23	71.85	41 %	50.78
North Sea	75.01	41 %	53.11	71.32	39 %	51.35
International	74.95	44 %	51.87	71.68	41 %	50.97
Total	69.12	40 %	49.34	67.65	38 %	49.15
Average Natural Gas Price - Per Mcf						
United States	\$2.09	(20) %	\$2.62	\$2.15	(17) %	\$2.58
Canada	—	NM	1.90	—	NM	2.17
North America	2.09	(15) %	2.47	2.15	(12) %	2.45
Egypt	2.85	1 %	2.81	2.85	3 %	2.77
North Sea	7.78	48 %	5.27	7.07	34 %	5.27
International	3.40	10 %	3.10	3.31	10 %	3.02
Total	2.56	(7) %	2.75	2.62	(3) %	2.70
Average NGL Price - Per barrel						
United States	\$30.84	96 %	\$15.77	\$27.15	84 %	\$14.75
Canada	—	NM	15.80	—	NM	16.39
North America	30.84	96 %	15.77	27.15	83 %	14.87
Egypt	45.92	26 %	36.47	40.67	13 %	35.98
North Sea	54.73	103 %	26.92	47.16	55 %	30.51
International	50.96	64 %	31.02	44.16	34 %	33.07
Total	31.42	92 %	16.38	27.74	79 %	15.53

NM — Not meaningful

Third-Quarter 2018 compared to Third-Quarter 2017

Crude Oil Revenues Crude oil revenues for the third quarter of 2018 totaled \$1.6 billion, a \$485 million increase from the comparative 2017 quarter. A 40 percent increase in average realized prices increased third-quarter 2018 revenues by \$429 million compared to the prior-year quarter, while 2 percent higher average daily production increased revenues by \$56 million. Crude oil accounted for 79 percent of oil and gas production revenues and 51 percent of worldwide production in the third quarter of 2018. Crude oil prices realized in the third quarter of 2018 averaged \$69.12 per barrel, compared with \$49.34 per barrel in the comparative prior-year quarter.

Worldwide oil production increased 5.4 Mb/d to 243.4 Mb/d in the third quarter of 2018 from the comparative prior-year period, primarily a result of an increase in Apache's Permian region on the success of the Midland and Delaware basin drilling programs, partially offset by a decrease from natural decline in the North Sea.

Natural Gas Revenues Gas revenues for the third quarter of 2018 totaled \$241 million, a \$3 million increase from the comparative 2017 quarter. A 7 percent decrease in average realized prices decreased third-quarter revenues by \$17 million compared to the prior-year quarter, while 9 percent higher average daily production increased revenues by \$20 million. Natural gas accounted for 12 percent of Apache's oil and gas production revenues and 36 percent of its equivalent production during the third quarter of 2018.

Worldwide natural gas production increased 84 MMcf/d to 1,025 MMcf/d in the third quarter of 2018 from the comparative prior-year period, primarily a result of an increase in Apache's Permian region on the success of the Midland and Delaware basin drilling programs and the commencement of Alpine High production.

NGL Revenues NGL revenues for the third quarter of 2018 totaled \$180 million, a \$99 million increase from the comparative 2017 quarter. A 92 percent increase in average realized prices increased third-quarter 2018 revenues by approximately \$74 million compared to the prior-year quarter, while 16 percent higher average daily production increased revenues by approximately \$25 million. Approximately half of the increase in realized prices is the result of the reclassification of certain transportation charges from revenues to Gathering, Transmission, and Processing (GTP) expense as a result of the adoption of new revenue recognition accounting rules effective January 1, 2018. NGLs accounted for 9 percent of Apache's oil and gas production revenues and 13 percent of its equivalent production during the third quarter of 2018.

Worldwide production of NGLs increased 8.5 Mb/d to 62.0 Mb/d in the third quarter of 2018 from the comparative prior-year period, primarily a result of the commencement of Alpine High production.

Year-to-Date 2018 compared to Year-to-Date 2017

Crude Oil Revenues Crude oil revenues for the first nine months of 2018 totaled \$4.5 billion, a \$1.2 billion increase from the comparative 2017 period. A 38 percent increase in average realized prices increased 2018 oil revenues by \$1.2 billion compared to the prior-year period, while average daily production remained relatively flat. Crude oil accounted for 80 percent of oil and gas production revenues and 53 percent of worldwide production for the first nine months of 2018, compared to 78 percent and 53 percent, respectively, for the 2017 period. Crude oil prices realized in the first nine months of 2018 averaged \$67.65 per barrel, compared with \$49.15 per barrel in the comparative prior-year period.

Worldwide production decreased 0.7 Mb/d to 244.1 Mb/d in the first nine months of 2018 from the comparative prior-year period, primarily a result of a decrease from Apache's exit from Canada, partially offset by an increase in its Permian region on the success of the Midland and Delaware basin drilling programs.

Natural Gas Revenues Gas revenues for the first nine months of 2018 totaled \$675 million, a \$51 million decrease from the comparative 2017 period. A 3 percent decrease in average realized prices decreased 2018 natural gas revenues by \$20 million compared to the prior-year period, while 4 percent lower average daily production decreased revenues by \$31 million. Natural gas accounted for 12 percent of the Company's oil and gas production revenues and 34 percent of Apache's equivalent production for the first nine months of 2018, compared to 17 percent and 36 percent, respectively, for the 2017 period.

Worldwide natural gas production decreased 42.7 MMcf/d to 944 MMcf/d in the first nine months of 2018 from the comparative prior-year period, primarily a result of Apache's exit from Canada, partially offset by an increase from Alpine High production.

NGL Revenues NGL revenues for the first nine months of 2018 totaled \$446 million, a \$217 million increase from the comparative 2017 period. A 79 percent increase in average realized prices increased 2018 NGL revenues by \$179 million compared to the prior-year period, while a 10 percent increase in average daily production increased revenues by \$38 million. The increase in realized prices is primarily the result of the reclassification of certain transportation charges from revenues to GTP expense as a result of the adoption of new revenue recognition rules effective January 1, 2018. NGLs accounted for nearly 8 percent of the Company's oil and gas production revenues and 13 percent of Apache's equivalent production for the first nine months of 2018, compared to 5 percent and 11 percent, respectively, for the 2017 period.

Worldwide production of NGLs increased 5.1 Mb/d to 58.9 Mb/d in the first nine months of 2018 from the comparative prior-year period, primarily a result of an increase in Apache's Permian region on the success of the Midland and Delaware basin drilling programs and the commencement of Alpine High production, more than offsetting a decrease from Apache's exit from Canada.

Operating Expenses

The table below presents a comparison of Apache's expenses on an absolute dollar basis and a boe basis. Apache's discussion may reference expenses on a boe basis, on an absolute dollar basis or both, depending on their relevance. Operating expenses include costs attributable to a noncontrolling interest in Egypt.

	For the Quarter Ended				For the Nine Months Ended			
	September 30,		September 30,		September 30,		September 30,	
	2018	2017	2018	2017	2018	2017	2018	2017
	(In millions)(Per boe)				(In millions) (Per boe)			
Lease operating expenses ⁽¹⁾	\$382	\$353	\$8.69	\$8.62	\$1,087	\$1,059	\$8.63	\$8.37
Gathering, transmission, and processing ⁽¹⁾	92	44	2.10	1.03	260	151	2.06	1.19
Taxes other than income	58	46	1.31	1.12	162	117	1.29	0.93
Exploration	99	231	2.26	5.60	251	431	2.00	3.41
General and administrative	99	98	2.25	2.39	330	307	2.62	2.43
Transaction, reorganization, and separation	8	20	0.19	0.48	20	14	0.16	0.11
Depreciation, depletion, and amortization:								
Oil and gas property and equipment ⁽¹⁾	575	524	13.10	12.76	1,666	1,598	13.23	12.63
Other assets	35	35	0.79	0.83	105	109	0.83	0.86
Asset retirement obligation accretion	27	30	0.62	0.75	81	103	0.64	0.82
Impairments	10	—	0.24	—	10	8	0.08	0.06
Financing costs, net	192	101	4.38	2.45	385	300	3.06	2.38

(1) For expenses impacted by the timing of liftings in the North Sea, per-boe calculations are based on sales volumes rather than production volumes.

Lease Operating Expenses (LOE) LOE increased \$29 million and \$28 million for the third quarter and first nine months of 2018, respectively, on an absolute dollar basis relative to the comparable periods of 2017. On a per-unit basis, LOE increased 1 percent to \$8.69 per boe for the third quarter of 2018, and increased 3 percent to \$8.63 per boe for the first nine months of 2018 as compared to the prior-year periods. The increase on an absolute dollar basis for both comparative periods is primarily the result of general cost increases in a higher commodity price environment, partially offset by a decrease from the sale of Apache's Canadian operations in the third quarter of 2017.

Gathering, Transmission, and Processing GTP costs totaled \$92 million and \$260 million in the third quarter and first nine months of 2018, respectively, an increase of \$48 million from the third quarter of 2017 and \$109 million from the first nine months of 2017. The increase is primarily the result of the reclassification of certain transportation charges from revenues to GTP expense as a result of the adoption of new revenue recognition accounting rules effective January 1, 2018, as well as the ramp-up of midstream operations at Alpine High, partially offset by Apache's exit from Canada.

Taxes Other Than Income Taxes other than income totaled \$58 million and \$162 million for the third quarter and first nine months of 2018, an increase of \$12 million and \$45 million from the third quarter and first nine months of 2017, respectively. Third-quarter and year-to-date 2018 expense consists primarily of severance and ad valorem taxes, which combined increased \$12 million and \$30 million, respectively. The increase for both comparative periods is primarily the result of an increase in severance taxes on higher commodity prices and increased U.S. production driven by the ramp-up of operations at Alpine High. In addition, in the first nine months of 2017, Apache recognized a \$14 million benefit related to the U.K. Petroleum Revenue Tax (PRT). The U.K. PRT rate, historically assessed on qualifying fields in the U.K. North Sea, was reduced to zero during 2016.

