APACHE CORP
Form 10-K
February 28, 2014
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2013

or

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

For the transition period from to

Commission file number 1-4300

APACHE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**41-0747868**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.625 par value	**New York Stock Exchange, Chicago Stock Exchange and NASDAQ National Market**
Preferred Stock Purchase Rights	**New York Stock Exchange and Chicago Stock Exchange**
Apache Finance Canada Corporation 7.75% Notes Due 2029 Irrevocably and Unconditionally Guaranteed by Apache Corporation	**New York Stock Exchange**

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

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

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

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

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

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

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company ¨

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

Aggregate market value of the voting and non-voting common equity held by non-affiliates of registrant as of June 30, 2013	$ 32,641,836,810
Number of shares of registrant s common stock outstanding as of January 31, 2014	394,724,983

Documents Incorporated By Reference

Portions of registrant s proxy statement relating to registrant s 2014 annual meeting of stockholders have been incorporated by reference in Part II and Part III of this annual report on Form 10-K.

Table of Contents

TABLE OF CONTENTS

DESCRIPTION

Table of Contents

DEFINITIONS

All defined terms under Rule 4-10(a) of Regulation S-X shall have their statutorily prescribed meanings when used in this report. As used in this document:

3-D means three-dimensional.

4-D means four-dimensional.

b/d means barrels of oil or natural gas liquids per day.

bbl or bbls means barrel or barrels of oil.

bcf means billion cubic feet of natural gas.

boe means barrel of oil equivalent, determined by using the ratio of one barrel of oil or NGLs to six Mcf of gas.

boe/d means boe per day.

Btu means a British thermal unit, a measure of heating value.

LIBOR means London Interbank Offered Rate.

LNG means liquefied natural gas.

Mb/d means Mbbls per day.

Mbbls means thousand barrels of oil.

Mboe means thousand boe.

Mboe/d means Mboe per day.

Mcf means thousand cubic feet of natural gas.

Mcf/d means Mcf per day.

MMbbls means million barrels of oil.

MMboe means million boe.

MMBtu means million Btu.

MMBtu/d means MMBtu per day.

MMcf means million cubic feet of natural gas.

MMcf/d means MMcf per day.

NGL or NGLs means natural gas liquids, which are expressed in barrels.

NYMEX means New York Mercantile Exchange.

oil includes crude oil and condensate.

PUD means proved undeveloped.

SEC means United States Securities and Exchange Commission.

Tcf means trillion cubic feet of natural gas.

U.K. means United Kingdom.

U.S. means United States.

With respect to information relating to our working interest in wells or acreage, net oil and gas wells or acreage is determined by multiplying gross wells or acreage by our working interest therein. Unless otherwise specified, all references to wells and acres are gross.

Table of Contents

PART I

ITEMS 1 AND 2. *BUSINESS AND PROPERTIES*

This Annual Report on Form 10-K and the documents incorporated herein by reference contain forward-looking statements based on expectations, estimates, and projections as of the date of this filing. These statements by their nature are subject to risks, uncertainties, and assumptions and are influenced by various factors. As a consequence, actual results may differ materially from those expressed in the forward-looking statements. See the risk factors set forth in Item 1A of this Form 10-K and Part II, Item 7A Quantitative and Qualitative Disclosures About Market Risk Forward-Looking Statements and Risk of this Form 10-K.

General

Apache Corporation, a Delaware corporation formed in 1954, is an independent energy company that explores for, develops, and produces natural gas, crude oil, and natural gas liquids. We currently have exploration and production interests in six countries: the U.S., Canada, Egypt, Australia, the U.K. North Sea (North Sea), and Argentina. Apache also pursues exploration interests in other countries that may over time result in reportable discoveries and development opportunities. We treat all operations as one line of business.

Our common stock, par value $0.625 per share, has been listed on the New York Stock Exchange (NYSE) since 1969, on the Chicago Stock Exchange (CHX) since 1960, and on the NASDAQ National Market (NASDAQ) since 2004. On June 5, 2013, we filed certifications of our compliance with the listing standards of the NYSE and the NASDAQ, including our principal executive officer s certification of compliance with the NYSE standards. Through our website, www.apachecorp.com, you can access, free of charge, electronic copies of the charters of the committees of our Board of Directors, other documents related to our corporate governance (including our Code of Business Conduct and Governance Principles), and documents we file with the SEC, including our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, as well as any amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. Included in our annual and quarterly reports are the certifications of our principal executive officer and our principal financial officer that are required by applicable laws and regulations. Access to these electronic filings is available as soon as reasonably practicable after we file such material with, or furnish it to, the SEC. You may also request printed copies of our committee charters or other governance documents free of charge by writing to our corporate secretary at the address on the cover of this report. Our reports filed with the SEC are made available to read and copy at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C., 20549. You may obtain information about the Public Reference Room by contacting the SEC at 1-800-SEC-0330. Reports filed with the SEC are also made available on its website at www.sec.gov. From time to time, we also post announcements, updates, and investor information on our website in addition to copies of all recent press releases. Information on our website or any other website is not incorporated by reference into, and does not constitute a part of, this Annual Report on Form 10-K.

Properties to which we refer in this document may be held by subsidiaries of Apache Corporation. References to Apache or the Company include Apache Corporation and its consolidated subsidiaries unless otherwise specifically stated.

Growth Strategy

Apache s mission is to grow a profitable global exploration and production company in a safe and environmentally responsible manner for the long-term benefit of our shareholders. Apache s long-term perspective has many dimensions, which are centered on the following core strategic components:

- diverse portfolio of core assets
- conservative capital structure
- rate of return focus

Table of Contents

Throughout the cycles of our industry, these strategies have underpinned our ability to deliver long-term production and reserve growth and achieve competitive returns on invested capital for the benefit of our shareholders. We have increased reserves 23 out of the last 28 years and production 32 out of the past 35 years, a testament to our consistency over the long-term.

Apache pursues growth opportunities through exploration and development drilling, supplemented by occasional strategic acquisitions and portfolio highgrading through asset divestitures. At the end of 2012 and the beginning of 2013, Apache undertook a strategic review of our portfolio with the ultimate goal of keeping the right mix of assets that generate strong returns and excess cash flow and drive more predictable production growth to create shareholder value. In May 2013, Apache announced that it would divest approximately $4 billion in assets and use the proceeds to pay down debt and repurchase Apache common shares. Apache surpassed these goals, divesting approximately $7 billion of assets, paying down $2.6 billion in debt, and repurchasing $1 billion in Apache common shares during 2013. Significant transactions since announcing our strategic repositioning initiatives include:

Argentina Divestiture On February 12, 2014, Apache subsidiaries announced an agreement to sell all of its operations in Argentina to YPF Sociedad Anónima (YPF) for cash consideration of $800 million plus the assumption of $52 million of bank debt. The transaction is expected to close in the first quarter of 2014.

Egypt Sinopec Partnership On November 14, 2013, Apache announced the completion of the sale of a one-third minority participation in its Egypt oil and gas business to a subsidiary of Sinopec International Petroleum Exploration and Production Corporation (Sinopec). Apache received cash consideration of $2.95 billion. This noncontrolling interest is recorded separately in the Company s financial statements.

Gulf of Mexico Shelf Divestiture On September 30, 2013, Apache completed the sale of its Gulf of Mexico Shelf operations and properties to Fieldwood Energy LLC (Fieldwood), an affiliate of Riverstone Holdings. Under the terms of the agreement, Apache received cash consideration of $3.7 billion, and Fieldwood assumed $1.5 billion of discounted asset abandonment liabilities. Additionally, Apache retained 50 percent of its ownership interest in both exploration blocks and in horizons below production in developed blocks, and access to existing infrastructure.

Canadian Divestitures In the third and fourth quarters of 2013, Apache completed three separate divestitures of oil and gas producing properties in Canada for total cash consideration of $326 million before customary post-closing adjustments.

Our growth portfolio going forward will be centered on (i) increasing onshore North American liquids production that provides for more predictable and attractive rates of return, (ii) generating excess cash flow from our international operations, and (iii) continuing longer-term growth initiatives, which include our Wheatstone and Kitimat LNG projects. In 2013, we demonstrated the effectiveness of our transition towards North American Onshore liquids growth, with all four of our onshore North American regions increasing liquids production and by replacing more than our worldwide production through our exploration and development activities.

For a more in-depth discussion of our growth strategy, 2013 results, and the Company s capital resources and liquidity, please see Part II, Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-K.

Table of Contents

Geographic Area Overviews

During 2013, we had exploration and production interests in six countries: the U.S., Canada, Egypt, Australia, the U.K. North Sea, and Argentina. Apache also pursues exploration interests in other countries that may over time result in reportable discoveries and development opportunities.

The following table sets out a brief comparative summary of certain key 2013 data for each of our operating areas. Additional data and discussion is provided in Part II, Item 7 of this Form 10-K.

	Production (In MMboe)	Percentage of Total Production	Production Revenue (In millions)	Year-End Estimated Proved Reserves (In MMboe)	Percentage of Total Estimated Proved Reserves	Gross Wells Drilled	Gross Productive Wells Drilled
United States	121.1	44%	$ 6,902	1,347	51%	1,179	1,148
Canada	39.2	14	1,224	462	17	143	135
Total North America	160.3	58	8,126	1,809	68	1,322	1,283
Egypt[1]	54.4	19	3,917	271	10	210	181
Australia	20.6	7	1,140	326	12	12	11
North Sea	26.8	10	2,728	150	6	19	17
Argentina	15.6	6	491	90	4	28	28
Total International	117.4	42	8,276	837	32	269	237
Total	277.7	100%	$ 16,402	2,646	100%	1,591	1,520

(1) Includes production volumes, revenues, and reserves attributable to a noncontrolling interest in Egypt.

North America

Apache s North American asset base primarily comprises operations in the Permian Basin, the Anadarko basin in western Oklahoma and the Texas Panhandle, Gulf Coast onshore and offshore areas of the U.S., and in Western Canada. We also have leasehold acreage holdings in the Cook Inlet of Alaska and other areas where we are pursuing exploration opportunities. Over the past several years, the Company has acquired significant acreage positions in many attractive basins and plays across North America. This extensive portfolio expansion phase shifted during 2013 when we completed strategic divestitures to rebalance our portfolio to an asset mix that we believe will continue to generate strong returns, drive more predictable growth and deliver increased value to our shareholders. As part of this effort, Apache s drilling activity has focused on our North America onshore assets, which had liquids growth of 34 percent during 2013, primarily in the Permian Basin and Anadarko basin.

North America contributed approximately 58 percent of our worldwide production and 50 percent of our oil and gas production revenues for the year. At year-end 2013, North America held 68 percent of our estimated worldwide proved reserves including noncontrolling interests in Egypt.

United States

Overview We have access to significant liquid hydrocarbons across our 11.5 million gross acres in the U.S., approximately 75 percent of which is undeveloped. In 2013, 61 percent of our U.S. production and 67 percent of our U.S. year-end reserves were oil and natural gas liquids. Approximately 44 percent of Apache s worldwide equivalent 2013 production and 51 percent of our estimated proved reserves were in the U.S. To better control our development efforts across broad acreage positions within the U.S., during 2013 our assets were divided into five regions: Permian, Central, Gulf Coast Onshore, Gulf of Mexico Deepwater, and the Gulf of Mexico Shelf. In 2014, the Gulf of Mexico Shelf region and Gulf of Mexico Deepwater region have been combined into the Gulf of Mexico region.

Table of Contents

Permian Region Our Permian region controls over 3.3 million gross acres with exposure to numerous plays across the Permian Basin. Apache is one of the largest operators in the Permian Basin, with more than 13,500 producing wells in 155 fields, including 47 waterfloods and seven CO^2 floods. Total region production for 2013 was up over 17 percent sequentially as a result of an active drilling program where we ran an average of 42 rigs during the year. Production in the region has increased for 12 consecutive quarters. During the year, we drilled or participated in drilling 785 wells, of which 186 were horizontal. The Permian region s year-end 2013 estimated proved reserves were 910 MMboe, representing 14 percent growth over year-end 2012.

A key focus area of our activity during the year continued to be the multi-zone development of the Deadwood area. Deadwood is the most active of our plays in the Midland basin where we ran an average of nearly 10 rigs and drilled 189 wells. Our activity in the Deadwood area is primarily drilling vertical wells targeting the Wolfwood and the Fusselman zones.

Over the past several years, the region has been testing numerous formations and building a large inventory of horizontal opportunities in several plays across our acreage position. Our success has led the region to increase the number of horizontal drilling rigs being utilized throughout 2013, and now approximately half of our rigs are drilling horizontal wells. In 2013, we ramped up multi-rig development programs in several horizontal plays in the Midland basin, targeting the Wolfcamp and Cline Shales. We have also increased development activity in our Yeso area of New Mexico and across the Permian s Central Basin Platform. These extensive programs will carry into 2014 and drive the region s growth.

We continue to balance large development programs with exploration activity in several new areas. Given its acreage holdings, recent seismic data acquisitions and continued exploration efforts, the region has built a deep portfolio of drilling inventory and opportunities to sustain our activity for many years. For 2014, the Permian region plans to invest approximately $2.55 billion. The region s capital program covers planned expenditures for drilling, completions, recompletion projects, equipment upgrades, expansion of existing facilities and equipment, plugging and abandonment, seismic studies, and leasing additional acreage.

Central Region The Central region controls 1.8 million gross acres that are mostly held-by-production and includes more than 3,800 producing wells primarily in western Oklahoma and the Texas Panhandle. The region was Apache s first core area and has historically grown through low-risk, highly predictable exploitation. Over the last several years, the region has aggressively targeted oil and liquids-rich gas plays through horizontal drilling across its acreage holdings. Oil and liquids production expanded during 2013, with oil production growth of 61 percent and NGL production more than doubling compared to the prior year. Total region production in 2013 was 91 Mboe/d, of which 50 percent was oil and natural gas liquids. As of year-end, the Central region s estimated proved reserves totaled 304 MMboe, an increase of nearly 14 percent from year-end 2012.

The primary factor driving the region s growth in 2013 was an active drilling program where we ran an average of 24 rigs during the year, over a 30 percent increase from the prior year. We drilled or participated in drilling 322 wells during 2013, with 98 percent being completed as producers.

The vast majority of our drilling activity has been in the Anadarko basin, which consists of a series of thick, stacked formations of liquids-rich, low-permeability sandstones. The Company s significant acreage position in the basin provides a robust drilling inventory for the next several years across numerous horizontal liquids plays, notably the Granite Wash, Tonkawa, Marmaton, Cottage Grove, and Cleveland. In addition, in 2013 the region continued to invest in infrastructure facilities and contractually secure takeaway capacity.

In addition, in 2011 Apache acquired 92,000 contiguous net acres in the Whittenburg basin, located approximately 70 miles west of our Anadarko basin properties. The region has operated two drilling rigs targeting vertical objectives in 2012 and 2013, completing 26 vertical wells into the Canyon Wash sand and achieving a peak production rate of 10 Mb/d and 16 MMcf/d. Apache has now turned its attention to the prolific Canyon lime and is currently drilling its first horizontal test.

Table of Contents

The Central region plans to run an average of 34 rigs during 2014 and invest approximately $1.75 billion for drilling, recompletions, equipment upgrades, and production enhancement projects.

Gulf Coast Regions Our Gulf Coast assets are primarily located in and along the Gulf of Mexico, in the areas onshore and offshore Texas, Louisiana, Alabama, and Mississippi. During 2013 the area was divided into three regions, which include the Gulf Coast Onshore, Gulf of Mexico Deepwater, and Gulf of Mexico Shelf. In 2014, the Gulf of Mexico Shelf region and Gulf of Mexico Deepwater region have been combined into the Gulf of Mexico region.

Apache s Gulf Coast Onshore region is known for its proven onshore and near-shore basins of Texas, Louisiana and Mississippi where it has a significant acreage position of approximately 1.3 million gross acres, including approximately 275,000 mineral fee acres. During the year, the region primarily drilled shallow and moderate-depth development wells and completed the construction of gathering and processing facilities in our Atchafalaya Bay development project. The region also continued evaluating deeper exploitation opportunities and several unconventional resource plays, which included drilling three Eagle Ford shale wells on our Southeast Texas acreage with plans to substantially increase activity in 2014. For the year, the region drilled or participated in drilling 43 wells and projects drilling approximately 90 wells in 2014.

In offshore waters greater than 500 feet deep, the Gulf of Mexico Deepwater region is a relatively underexplored and oil-prone area that provides exposure to significant reserve and production potential. The Company owns over 900,000 gross acres across nearly 170 blocks as of the end of 2013. The Deepwater region contributed approximately two percent of Apache s worldwide production with multiple projects and developments underway. The non-operated Lucius project, where Apache holds an 11.7 percent working interest, is currently under development with first production projected by year-end 2014. In addition, the large scale non-operated Heidelberg project was sanctioned in late 2012. Apache has a 12.5 percent working interest in this development with first production projected for 2016.

Apache s former Gulf of Mexico Shelf region, constituting Gulf assets in waters less than 500 feet deep, experienced a significant shift during 2013 as the region s producing base and associated infrastructure was sold to Fieldwood in September. As part of the transaction, Apache retained 50 percent of its ownership interest in all exploration blocks and in horizons below production in developed blocks, and access to existing infrastructure. These retained interests cover approximately 2.5 million gross acres across 515 offshore blocks. Several wells are expected to be drilled during 2014, and we expect future activities to provide a platform for continued exploration growth in this basin. Total region production in 2013 was 71 Mboe/d, reflecting nine months of Shelf production prior to the divestiture.

In 2014, Apache plans to invest approximately $550 million and $450 million in its Gulf Coast (formerly Gulf Coast Onshore) and Gulf of Mexico regions, respectively. The capital will be spent on drilling, recompletion, and development projects, equipment upgrades, production enhancement projects, seismic acquisitions, additional leasing activity, and plugging and abandonment of wells and platforms.

U.S. Marketing In general, most of our U.S. gas is sold at either monthly or daily market prices. Also, from time to time, the Company will enter into fixed physical sales contracts for durations of up to one-year. These physical sales volumes are typically sold at fixed prices over the term of the contract. Our natural gas is sold primarily to local distribution companies (LDCs), utilities, end-users, marketers, and integrated major oil companies. We strive to maintain a diverse client portfolio, which is intended to reduce the concentration of credit risk.

Apache primarily markets its U.S. crude oil to integrated major oil companies, marketing and transportation companies, and refiners based on a West Texas Intermediate (WTI) price, adjusted for quality, transportation and a market-reflective differential. The objective is to maximize the value of crude oil sold by identifying the best markets and most economical transportation routes available to move the product. Sales contracts are generally 30-day evergreen contracts that renew automatically until canceled by either party. These contracts provide for sales that are priced daily at prevailing market prices. Also, from time to time, the Company will enter into physical term sales contracts for durations up to five years. These term contracts typically have a firm transport commitment and often provide for the higher of prevailing market prices from multiple market hubs.

Table of Contents

Apache s NGL production is sold under contracts with prices based on local supply and demand conditions, less the costs for transportation and fractionation, or on a weighted-average sales price received by the purchaser.

Canada

Overview Apache entered the Canadian market in 1995 and currently holds nearly 5.4 million gross acres across the provinces of British Columbia, Alberta, and Saskatchewan. The region s large acreage position provides portfolio diversification as well as significant drilling opportunities. Our Canadian region provided approximately 14 percent of Apache s 2013 worldwide production.

In 2013, Apache drilled or participated in drilling 143 wells in Canada, with a continued focus on increasing oil and liquids-rich gas production. Reservoir modeling and horizontal drilling technology advanced several oil and liquids-rich gas plays in the Montney, Swan Hills, Viking, Bluesky, and Glauconite formations. Success with multi-stage fracture completions continues to increase the scope of oil and liquids-rich gas drilling opportunities.

We also furthered our region s shift toward an oil and liquids-rich gas asset portfolio through several strategic divestitures of primarily dry gas assets during 2013. In September we completed the sale of certain Alberta producing assets for approximately $214 million. The assets comprised 621,000 gross acres (530,000 net acres) and more than 2,700 wells in the Nevis, North Grant Lands, and South Grant Lands areas. In October 2013, we completed two additional sales of producing properties in Saskatchewan and Alberta for $112 million. The divested assets comprised approximately 4,000 operated and 1,300 non-operated wells, including our Hatton, St. Lina, Marten Hills, Snipe Lake, and Valhalla developments, as well as a portion of our Hawkeye producing properties. Combined, our 2013 divestitures totaled 13 percent of the region s production.

The Kitimat LNG project will allow us to monetize large unconventional natural gas resources in the Liard and Horn River basins in northern British Columbia. In February 2013, Apache completed a transaction with Chevron Canada Limited (Chevron Canada) under which each company became a 50 percent owner of the Kitimat LNG plant, the Pacific Trail Pipelines Limited Partnership (PTP), and 644,000 gross undeveloped acres in the Horn River and Liard basins. Chevron Canada will operate the LNG plant and pipeline while Apache Canada will continue to operate the upstream assets. The Kitimat plant has received all significant environmental approvals and a 20-year export license from the Canadian federal government. Although the project has not reached a final investment decision, we believe Chevron s experience in developing LNG projects and marketing expertise will assist in moving the development forward. In 2014, we plan to invest approximately $1.0 billion of capital in the Kitimat project, which includes the LNG plant as well as our upstream assets in the Horn River and Liard basins. With a 50 percent project participation, Apache is actively evaluating ways to right-size its level of participation in the Kitimat LNG project.

Additionally, the region plans to invest approximately $600 million in drilling and development projects, equipment upgrades, and production enhancement projects for our other upstream assets.

Marketing Our Canadian natural gas marketing activities focus on sales to utilities, end-users, integrated major oil companies, supply aggregators, and marketers. We maintain a diverse client portfolio, which is intended to reduce the concentration of credit risk in our portfolio. To diversify our market exposure, we transport natural gas under firm transportation contracts to delivery points into the United States. We sell the majority of our Canadian gas on a monthly basis at either first-of-the-month or daily AECO index prices. Also, from time to time, the Company will enter into fixed physical sales contracts for durations of up to one-year. These physical sales volumes are typically sold at fixed prices over the term of the contract.

Canadian crude oil production is sold to integrated major companies, refiners, and marketing companies based on a WTI price, adjusted for quality, transportation, and a market-reflective differential. The crude is transported by pipeline or truck within Western Canada to market hubs in Alberta and Manitoba where it is sold, allowing for a more diversified group of purchasers and a higher netback price. A portion of our trucked barrels

Table of Contents

are delivered and sold at rail terminals. We evaluate our transport options monthly to maximize our netback prices.

The region s NGL production is sold under contracts with prices based on local supply and demand conditions, less the costs for transportation and fractionation, or on a weighted-average sales price received by the purchaser.

International

Apache s international assets are located in Egypt, Australia, offshore the U.K. in the North Sea, and Argentina. In 2013, international assets contributed 42 percent of our production and 50 percent of our oil and gas revenues. At year-end 2013, 32 percent of our estimated proved reserves were located outside North America.

Egypt

Overview Our activity in Egypt began in 1994 with our first Qarun discovery well, and today we are one of the largest acreage holders in Egypt s Western Desert. At year-end, we held 9.8 million gross acres, with gross oil production of 198 Mb/d and gross natural gas production of 912 MMcf/d in 2013, or 90 Mb/d and 356 MMcf/d net to Apache s consolidated holdings. Although 3.0 million gross undeveloped acres expired in January 2014, we continue to pursue longer term extensions on areas we believe provide attractive growth opportunities. Of our remaining acreage, 72 percent is undeveloped, providing us with considerable exploration and development opportunities for the future.

Our operations in Egypt are conducted pursuant to production-sharing agreements in 24 separate concessions, under which the contractor partners pay all operating and capital expenditure costs for exploration and development. Development leases within concessions currently have expiration dates ranging from 2 to 25 years, with extensions possible for additional commercial discoveries or on a negotiated basis. A percentage of the production on development leases, usually up to 40 percent, is available to the contractor partners to recover operating and capital expenditure costs, with the balance generally allocated between the contractor partners and the Egyptian General Petroleum Corporation (EGPC) on a contractually defined basis. In 2013 Apache was granted 20 new development leases, representing one of our most successful years since our entry into Egypt.

Our growth in Egypt has been driven by an ongoing drilling program, and we have historically been one of the most active drillers in the Western Desert. During 2013, we drilled 181 development and injection wells and 54 exploration wells. Approximately 60 percent of our exploration wells were successful, further expanding our presence in the westernmost concessions and unlocking additional opportunities in existing plays. A key component of the region s success has been the ability to acquire and evaluate 3-D seismic surveys that enable our technical teams to consistently high-grade existing prospects and identify new targets across multiple pay horizons in the Cretaceous, Jurassic, and deeper Paleozoic formations.

Apache has also made a strategic decision to advance the application of horizontal drilling technology to unlock new plays in Egypt. During the year, we drilled our first well of a multi-well horizontal drilling program in the Abu Gharadig field. During December, this well produced an average of 1,681 b/d and 3 MMcf/d from a 1,970 foot lateral. This well was one of eight horizontal wells initiated during 2013 to test the technology s ability to increase recoveries in a variety of conventional and unconventional reservoirs. Additional horizontal drilling is planned in the Abu Gharadig and surrounding fields in 2014.

In November 2013, Apache announced the completion of the sale of a one-third minority interest in its Egypt oil and gas business to Sinopec. After customary closing adjustments, Apache received cash consideration of $2.95 billion. At year-end 2013, our Egypt region s estimated proved reserves were 271 MMboe, of which 90

7

Table of Contents

MMboe is attributable to Sinopec s noncontrolling interest. Our estimated proved reserves in Egypt are reported under the economic interest method and exclude the host country s share of reserves.

Heading into 2014, the region will continue an active drilling program and plans to invest approximately $1.4 billion, including approximately $460 million attributable to Sinopec s noncontrolling interest, for drilling, recompletion projects, development projects, and seismic acquisition.

Marketing Our gas production is sold to EGPC 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 region averaged $2.99 per Mcf in 2013.

Oil from the Khalda Concession, the Qarun Concession, and other nearby Western Desert blocks is sold to third parties in the export market or to EGPC when called upon to supply domestic demand. Oil sales are exported from or sold at one of two terminals on the northern coast of Egypt. Oil production that is presently sold to EGPC is sold on a spot basis priced at Brent with a monthly EGPC official differential applied.

Egypt political unrest In February 2011, former Egyptian president Hosni Mubarak stepped down, and the Egyptian Supreme Council of the Armed Forces took power, announcing that it would remain in power until presidential and parliamentary elections could be held. In June 2012, President Mohamed Morsi of the Muslim Brotherhood s Freedom and Justice Party was elected as Egypt s new president.

In July 2013, the Egyptian military removed President Morsi from power and installed Egypt s Chief Justice, Adly Mansour, as acting president of a temporary government, which announced that it would seek to schedule parliamentary and presidential elections in early to mid-2014. In January 2014, Egyptians voted on and overwhelmingly approved a new constitution, and Mr. Mansour announced that the presidential election will be held prior to the parliamentary elections. While the date of the presidential election has not been announced, it is expected to be held by mid-April 2014.

Apache s operations, located in remote locations in the Western Desert, have not experienced production interruptions, and we have continued to receive development lease approvals for our drilling program. However, a further deterioration in the political, economic, and social conditions or other relevant policies of the Egyptian government, such as changes in laws or regulations, export restrictions, expropriation of our assets or resource nationalization, and/or forced renegotiation or modification of our existing contracts with EGPC could materially and adversely affect our business, financial condition, and results of operations.

Apache purchases multi-year political risk insurance from the Overseas Private Investment Corporation (OPIC) and other highly rated international insurers covering a portion of its investments in Egypt. In the aggregate, these insurance policies, subject to the policy terms and conditions, provide approximately $856 million of coverage to Apache for losses arising from confiscation, nationalization, and expropriation risks, with a $149 million sub-limit for currency inconvertibility.

In addition, Apache has a separate policy with OPIC, which provides $300 million of coverage for losses arising from (1) non-payment by EGPC of arbitral awards covering amounts owed Apache on past due invoices and (2) expropriation of exportable petroleum in the event that actions taken by the government of Egypt prevent Apache from exporting our share of production. In October 2012, the Multilateral Investment Guarantee Agency (MIGA), a member of the World Bank Group, announced that it was providing $150 million in reinsurance to OPIC for the remainder of the policy term. This provision of long-term reinsurance to OPIC will allow Apache to maintain the $300 million of insurance coverage through 2024.

Australia

Overview Apache s holdings in Australia are focused offshore Western Australia in the Carnarvon, Exmouth, and Browse basins, with production operations in the Carnarvon and Exmouth basins. We have

Table of Contents

operated in the Carnarvon basin since acquiring the gas processing facilities on Varanus Island and adjacent producing properties in 1993. In total, we control approximately 7.9 million gross acres offshore Western Australia through 30 exploration permits, 18 production licenses, and 9 retention leases. Approximately 89 percent of our acreage is undeveloped, and the region continues to actively pursue additional acreage opportunities.

During 2013, the region had net production of 19 Mb/d and 223 MMcf/d, contributing 7 percent of Apache s worldwide consolidated production revenue, 7 percent of worldwide consolidated production and 12 percent of year-end consolidated proved reserves. Production compared to the prior year was 12 percent lower primarily as a result of natural decline in the Pyrenees and Van Gogh oil fields.

Partially offsetting production declines from Pyrenees and Van Gogh was production through the BHP Billiton-operated Macedon gas plant, which commenced operations in the third quarter of 2013. The $1.5 billion natural gas facility, Western Australia s fourth domestic gas hub, has a production capacity of approximately 200 MMcf/d. Gas is delivered to the facility via a 60-mile pipeline from four completed subsea gas wells in the Macedon field. Apache has successfully marketed production in the Macedon field under long-term contracts at prices higher than historical realizations. We have a 28.57 percent non-operating working interest in the field and gas plant. Apache has a participating interest in three of the four domestic gas hubs in Australia.

The region participated in drilling 12 offshore wells during 2013, of which 4 were exploration or appraisal wells, compared to 15 wells drilled in 2012. Over the past decade, the region s exploration activity has established a significant pipeline of projects that are expected to contribute to production growth as they are brought online in the coming years.

Development of the Coniston oil field project, which lies just north of the Van Gogh field, continued toward projected first production in 2014. The field will be produced via subsea completions tied back to the Ningaloo Vision Floating Production Storage and Offloading Vessel (FPSO) at Van Gogh. Required modifications to the FPSO and the final phase of subsea installation work is planned for the first half of 2014. Apache has a 52.5 percent working interest in the field.

The region also continued development of the Balnaves field, an oil discovery located near the Brunello gas field. Development well drilling commenced in the third quarter of 2013, and the project is expected to begin production by the third quarter of 2014 utilizing a leased FPSO vessel. Apache has a 65 percent working interest in the project.

In 2013, further advances were made on the region s largest development effort, which is the Chevron-operated Wheatstone LNG project (Wheatstone). The first phase of the Wheatstone project will comprise two LNG processing trains with a combined capacity of approximately 8.9 million metric tons per annum (mtpa), a domestic gas plant, and associated infrastructure. Apache has a 13 percent interest in the project and expects to invest approximately $4 billion over five years for the field and LNG facility development. Apache will supply gas to Wheatstone from its operated Julimar and Brunello complex. The 65 percent interest in the Julimar development project is expected to generate average net sales to Apache of approximately 140 MMcf/d of gas (equivalent to 1.07 million mtpa of LNG) at prices pegged to world oil markets, 22 MMcf/d of sales gas into the domestic market, and 3,250 barrels of condensate per day. First production is projected for the end of 2016.

These development projects require significant capital investments above those for traditional drilling programs. During 2014, the region plans to invest approximately $800 million for drilling, recompletion projects, development projects, equipment upgrades, production enhancement projects, and seismic acquisition. Approximately $1.4 billion of additional 2014 capital will be invested in the Wheatstone development project.

Marketing Western Australia has historically had a local market for natural gas with a limited number of buyers and sellers resulting in sales under mostly long-term, fixed-price contracts, many of which contain periodic price revision clauses based on either the Australian consumer price index or a commodity linkage. As of December 31, 2013, Apache had 21 active gas contracts in Australia with expiration dates ranging from August 2014 to December 2026. Recent increases in demand and higher development costs have increased the prices required from the local market in order to support the development of new supplies. As a result, market prices negotiated on recent contracts are substantially higher than historical levels.

We directly market all of our Australian crude oil production into Australian domestic and international markets at prices generally indexed to Dated Brent benchmark crude oil prices plus premiums, which typically result in sales well above crude sold at WTI-based prices.

During 2013 Apache finalized binding Sales and Purchase Agreements with two Asian customers for the delivery of approximately 25 percent of Apache s net LNG offtake from Wheatstone.

North Sea

Overview Apache entered the North Sea in 2003 after acquiring an approximate 97 percent working interest in the Forties field (Forties). Apache has actively invested in the region and has established a large inventory of drilling prospects through successful exploration programs and the interpretation of acquired 3-D and 4-D seismic data. Building upon its success in Forties, Apache in 2012 acquired Mobil North Sea Limited (Mobil North Sea), providing the region with additional exploration and development opportunities across numerous fields, including operated interests in the Beryl, Nevis, Nevis South, Skene, and Buckland fields and non-operated interests in the Maclure, Scott, and Telford fields. In total, Apache has interests in approximately 1.2 million gross acres in the U.K. North Sea.

In 2013, the North Sea region produced 65 Mb/d and 51 MMcf/d, contributing 17 percent of Apache s worldwide consolidated production revenue, 10 percent of worldwide consolidated production, and 6 percent of year-end consolidated proved reserves. During the year we drilled 19 wells in the North Sea, of which 17 were productive. Apache s drilling success was highlighted with discoveries in the Tonto oil field. The Tonto-1 well, completed in April, had initial production of 10.3 Mb/d, and the Tonto-2 well, completed in September, had initial production of 8.3 Mb/d. Apache has a 100 percent working interest in the wells. The Tonto discovery follows Maule and Bacchus as the third new field brought online by Apache in the Forties area over the last three years. All three fields qualify for the U.K. s small field allowance, which provides economic incentives for operators to bring discoveries from small fields into production. During the fourth quarter the region continued to commission the Forties Alpha Satellite Platform, adjacent to the main Forties Alpha platform. This platform has been constructed to exploit new opportunities at Forties and provides an additional 18 drilling slots as well as power generation, fluid separation, and gas lift compression.

In 2014, the region plans to invest approximately $900 million on drilling, recompletion projects, development projects, equipment upgrades, production enhancement projects, and seismic acquisition, focusing on both the Beryl field and Forties area.

Marketing We have traditionally sold our North Sea crude oil under both term contracts and spot cargoes. The Forties term sales are composed of a market-based index price plus a premium, which reflects the higher market value for term arrangements. The prices received for Beryl spot cargoes are market driven and can trade at a premium to the market-based index.

Natural gas from the Beryl field is processed through the SAGE gas plant operated by Apache. 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. The condensate mix from the SAGE plant is processed further downstream. The split streams of propane and butane are sold on a monthly entitlement basis, and condensate is sold on a spot basis at the Braefoot Bay terminal using index pricing less transportation.

Table of Contents

Argentina

Overview We have had a continuous presence in Argentina since 2001 and have grown our holdings in the region through an active drilling program and targeted acquisitions. The region has active operations in the provinces of Neuquén, Rio Negro, and Tierra del Fuego. As of year-end 2013, Apache held interests in 31 concessions, exploration permits, and other interests totaling 3.3 million gross acres in three of the main Argentine hydrocarbon basins: Neuquén, Austral, and Cuyo. These concessions have varying expiration dates ranging from one year to over 15 years remaining, subject to potential extensions. In 2013, Argentina produced 6 percent of our worldwide consolidated production and held 4 percent of our year-end consolidated proved reserves.

On February 12, 2014, Apache announced an agreement to sell all of its operations in Argentina to YPF for cash consideration of $800 million plus the assumption of $52 million of bank debt as of June 30, 2013. The transaction is expected to close in the first quarter of 2014.

Marketing

Natural Gas Apache sells its natural gas in Argentina through three different pricing structures:

Gas Plus Program: This program was instituted by the Argentine government in 2008 to encourage investments for new gas supplies through the development of conventional and unconventional (tight sands) reserves. Under this program, Apache is allowed to sell gas from qualifying projects at prices that are above the regulated rates. During 2013, the average Gas Plus volume sold by Apache was 79.9 MMcf/d at an average price of $4.90 per Mcf.

Government-regulated pricing: The volumes we are required to sell at regulated prices are set by the Argentine government and vary based on seasonal factors and category. During 2013, we realized an average price of $0.78 per Mcf on government-regulated sales.

Unregulated market: In 2013, realizations on sales in the unregulated market averaged $3.69 per Mcf.

In 2013, we realized an average price of $2.96 per Mcf in the region.

Crude Oil The crude oil in Argentina is subject to an export tax which effectively limits the prices buyers are willing to pay for domestic sales. In 2013 there was an increase on the price of the crude paid by refiners, a combination of an increase of the sales price of fuels to end-users and the decrease of domestic production. Apache´s average sales price in Argentina during 2013 was $79.05 per barrel.

Other Exploration

New Ventures

Apache s global New Ventures team provides exposure to new growth opportunities by looking outside of the Company s traditional core areas and targeting higher-risk, high-reward exploration opportunities located in frontier basins as well as new plays in more mature basins. During 2014, we plan to invest approximately $75 million to further several projects and continue pursuing additional exploration opportunities.

Major Customers

In 2013, 2012, and 2011 purchases by Royal Dutch Shell plc and its subsidiaries accounted for 24 percent, 20 percent, and 11 percent, respectively, of the Company s worldwide oil and gas production revenues. In 2011, purchases by the Vitol Group accounted for 13 percent of the Company s worldwide oil and gas production revenues.

Table of Contents

Drilling Statistics

Worldwide in 2013 we participated in drilling 1,591 gross wells, with 1,520 (96 percent) completed as producers. Historically, our drilling activities in the U.S. have generally concentrated on exploitation and extension of existing producing fields rather than exploration. As a general matter, our operations outside of the U.S. focus on a mix of exploration and development wells. In addition to our completed wells, at year-end a number of wells had not yet reached completion: 160 in the U.S. (115.4 net); 17 in Egypt (17.0 net); and 2 in Argentina (0.3 net).

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

	Net Exploratory			Net Development			Total Net Wells		
	Productive	Dry	Total	Productive	Dry	Total	Productive	Dry	Total
2013									
United States	15.6	11.2	26.8	834.9					