NEW PLAN EXCEL REALTY TRUST INC
Form SC 14D9
March 08, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14D-9

SOLICITATION/RECOMMENDATION STATEMENT UNDER

SECTION 14(D)(4)

OF THE SECURITIES EXCHANGE ACT OF 1934

NEW PLAN EXCEL REALTY TRUST, INC.

(Name of Subject Company)

NEW PLAN EXCEL REALTY TRUST, INC.

(Name of Person Filing Statement)

Common Stock, par value $0.01 per share

(Title of Class of Securities)

648053106

(CUSIP Number of Class of Securities)

Steven F. Siegel, Esq.

Executive Vice President, General Counsel and Secretary

New Plan Excel Realty Trust, Inc.

420 Lexington Avenue

New York, New York 10170

(212) 869-3000

(Name, address and telephone number of person authorized to receive

notices and communications on behalf of the person filing statement)

WITH COPIES TO:

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o Check the box if the filing relates solely to preliminary communications made before the commencement of a tender offer.

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ITEM 1. SUBJECT COMPANY INFORMATION

Name and Address

The name of the subject company to which this solicitation/recommendation statement on Schedule 14D-9 relates is New Plan Excel Realty Trust, Inc., a Maryland corporation, and is referred to in this solicitation/recommendation statement as *New Plan*, *we*, *us*, *our*, or the *company* The address of our principal executive office is 420 Lexington Avenue, New York, New York 10170, and the telephone number of our principal executive office is (212) 869-3000.

Securities

The title of the class of equity securities to which this solicitation/recommendation statement relates is New Plan s common stock, par value $0.01 per share, or *common shares*. As of February 27, 2007, there were 103,610,637 common shares issued and outstanding.

ITEM 2. IDENTITY AND BACKGROUND OF FILING PERSON

Name and Address

We are both the subject company and the entity filing this solicitation/recommendation statement and our full name, business address and business telephone number are set forth above under Item 1. Our internet address is *www.newplan.com*. Information contained on our website does not constitute a part of this solicitation/recommendation statement. The website address is an inactive text reference and is not intended to be an actual link to the website.

Tender Offer

This solicitation/recommendation statement relates to the tender offer by Super MergerSub Inc., which we refer to as the *purchaser*, a Maryland corporation and an affiliate of Centro Properties Limited, or *Centro*, pursuant to which the purchaser is offering to purchase for cash all outstanding common shares at a price of $33.15 per share, net to the seller in cash, or the *offer price*, without interest and less any required withholding taxes, as more fully described in the tender offer statement on Schedule TO, or *tender offer statement*, and related exhibits filed by the purchaser with the Securities and Exchange Commission, or the *Commission*, on March 8, 2007. The tender offer is being conducted by the purchaser upon the terms and subject to the conditions set forth in the offer to purchase (together with any amendments or supplements hereto, the *offer to purchase*) and in the related letter of transmittal (together with any amendments or supplements thereto, the *letter of transmittal* and, together with the offer to purchase, the *tender offer*).

The tender offer is being made in connection with the Agreement and Plan of Merger, dated as of February 27, 2007 (together with any amendments or supplements thereto, the *merger agreement*), that we and Excel Realty Partners, L.P., a partnership of which we are, indirectly through a wholly owned subsidiary, the sole general partner and in which we own a controlling interest (*DownREIT Partnership*), have entered into with the purchaser, Super IntermediateCo LLC, a Maryland limited liability company and the purchaser s parent entity (*parent*), and Super DownREIT MergerSub LLC, a Delaware limited liability company that is wholly owned by parent (*DownREIT MergerSub* and, together with parent and the purchaser, the *purchaser parties*), pursuant to which, after the completion of the tender offer and the satisfaction or waiver of certain conditions, the purchaser will be merged with and into us and we will survive the merger (the *merger*). Following the merger, we, as the surviving corporation, will continue to exist as an indirect wholly owned subsidiary of the parent until liquidated or dissolved. Immediately prior to the effective time of the merger, or the *merger effective time*, each outstanding common share (other than common shares that the purchaser or we or any of our subsidiaries own) will automatically be converted into, and canceled in exchange for, the right to receive an amount in cash equal to the offer price (the *merger consideration*), without interest and subject to any required withholding taxes, payable to the holder of such common share. In connection with the tender offer and the merger, pursuant to the merger agreement, DownREIT MergerSub or an affiliate of DownREIT MergerSub will be merged with and into the DownREIT Partnership, with the DownREIT Partnership being the surviving limited partnership in a merger transaction that we refer to in this solicitation/recommendation statement as the *DownREIT Partnership merger*, and together with the merger, the *mergers*.

The initial offering period for the tender offer will end at 12:00 midnight, New York City time, on Wednesday, April 4, 2007, unless the purchaser extends the tender offer. The purchaser will announce any decision to extend the tender offer period in a press release stating the new expiration date of the tender offer no later than 9:00 a.m., New York City time, on the first business day after the previously scheduled expiration date.

About the Purchaser Parties

The purchaser is a Maryland corporation formed by Centro for purposes of the transactions contemplated by the merger agreement, including the tender offer. The parent is a Maryland limited liability company and the parent entity of the purchaser formed by Centro for purposes of the transactions contemplated by the merger agreement. The DownREIT MergerSub is a Delaware limited liability company that is wholly owned by the parent and formed by Centro for the purpose of effecting the DownREIT Partnership merger. The address of the principal executive offices of the purchaser, the parent and the DownREIT MergerSub are c/o Centro Properties Limited, Corporate Offices, Third Floor, The Glen Shopping Centre, 235 Springvale Road, Glen Waverley, Victoria, Australia 3150, where their telephone number is 03 8847 0000.

Centro is a retail investment organization specializing in the ownership, management and development of retail shopping centers. Centro manages both listed and unlisted retail property and has an extensive portfolio of shopping centers across Australia, New Zealand and the United States. Centro s funds under management exceed AUS$15.8 billion. The principal executive offices of Centro are located at Corporate Offices, Third Floor, The Glen Shopping Centre, 235 Springvale Road, Glen Waverley, Victoria, Australia 3150, where its telephone number is 03 8847 0000.

Additional Information About the Tender Offer, the Merger Agreement and Related Matters

Additional general information about the tender offer can be found in Item 3 and Item 8 of this solicitation/recommendation statement. In addition, a copy of the merger agreement is filed as Exhibit (e)(1) to, and is incorporated by reference in, this solicitation/recommendation statement.

Both the offer to purchase and the letter of transmittal have been filed by the purchaser as exhibits to the tender offer statement, and are filed as Exhibits (a)(2) and (a)(3), respectively, to this solicitation/recommendation statement and are being mailed with this solicitation/recommendation statement. More detailed terms of the tender offer, the process of acceptance for payment and payment for the common shares, procedures for tendering the common shares, withdrawal rights, and the description of the merger agreement and related documents are described and contained in Sections 1, 2, 3 and 4 and in the subsection entitled Merger Agreement in Section 11 of the offer to purchase and are incorporated herein by reference. A form of letter of transmittal, which is attached to this solicitation/recommendation statement as Exhibit (a)(3), is incorporated herein by reference.

ITEM 3. PAST CONTACTS, TRANSACTIONS, NEGOTIATIONS AND AGREEMENTS

Except as described below or incorporated by reference into this solicitation/recommendation statement, to our knowledge, as of the date of this solicitation/recommendation statement, there are no agreements, arrangements or understandings relevant to the tender offer, the mergers or the merger agreement, and no actual or potential conflicts of interest, between us and our affiliates, on one hand, and (i) our executive officers, directors or affiliates or (ii) the purchaser or its executive officers, directors or affiliates, on the other hand.

Arrangements with Our Executive Officers and Directors

Certain members of our senior management, including our executive officers (as defined below), and members of our board of directors may be deemed to have interests in the transactions contemplated by the merger agreement that are in addition to or different from their interests as our stockholders generally. Our board of directors was aware of these interests, and considered them among other matters in approving the tender offer, the mergers, the merger agreement and the other transactions contemplated therein.

Cash Consideration Payable to our Executive Officers and Directors Pursuant to the Tender Offer and the Merger

Unrestricted Common Shares. If our directors and executive officers were to tender any common shares that they own for purchase pursuant to the tender offer, they would receive the same cash consideration on the same terms and conditions as our other stockholders. As of February 27, 2007, our directors and executive officers collectively owned 2,630,856 common shares, in the aggregate, excluding options, restricted common shares and deferred share units. If our directors and executive officers were to tender all of their common shares for purchase pursuant to the tender offer and those common shares were accepted for purchase and purchased by the purchaser, our directors and executive officers would receive an aggregate of approximately $87.0 million in cash, without interest and less any required withholding taxes.

Options and Restricted Common Shares. Pursuant to the terms of the merger agreement, each incentive stock option and nonqualified option to purchase common shares, including those held by our directors and executive officers, issued and outstanding under our 2003 Stock Incentive Plan (or any of the prior plans or stand alone option agreements merged into such plan), immediately prior to the merger effective time will be fully vested and exercisable. At the merger effective time, each option not theretofore exercised will be canceled in exchange for the right to receive a cash payment, less any applicable withholding taxes, equal to the product of the number of common shares subject to the option immediately prior to the merger effective time and the excess, if any, of $33.15 over the exercise price of such option.

In addition, each restricted common share that is outstanding, including those held by our directors and executive officers, immediately prior to the merger effective time will automatically become fully vested and free of any forfeiture restrictions immediately prior to the merger effective time and will be considered an outstanding common share for all purposes, including the right to receive the merger consideration of $33.15 per share.

As of February 27, 2007, our directors and executive officers collectively owned (i) options to purchase 3,348,174 common shares, in the aggregate, with exercise prices ranging from $11.35 to $33.03, and (ii) 175,714 restricted common shares, in the aggregate.

Summary of Cash Consideration Payable with Respect to Unrestricted Common Shares, Options and Restricted Common Shares to our Directors and Executive Officers. The following table sets forth, as of February 27, 2007, for each of our directors and executive officers, the cash consideration that such individual would receive if (i) such director or executive officer were to tender all of the common shares that he or she owns in connection with the tender offer and (ii) all options and restricted common shares held by such director or executive offer were cashed out at the merger effective time.

Name and Title	Number of Unrestricted Common Shares Owned	Value of Common Shares Owned(1)	Number of Options Held	Value of Options(2)	Number of Restricted Common Shares Held	Value of Restricted Common Shares(3)
Executive Officers						
Glenn Rufrano *Chief Executive Officer*	416,545	$ 13,808,467	1,417,745	$ 21,951,213	60,067	$ 1,991,221
John Roche *Executive Vice President* *Chief Financial Officer*	837	$ 27,747	319,059	$ 3,278,231	28,163	$ 933,603
Steven Siegel *Executive Vice President* *General Counsel*	7,587	$ 251,509	369,464	$ 5,008,026	17,840	$ 591,396
Leonard Brumberg *Executive Vice President* *Portfolio Management*	17,139	$ 568,158	444,219	$ 6,400,171	17,840	$ 591,396
Dean Bernstein *Executive Vice President Acquisitions/ Dispositions*	40,972	$ 1,358,222	343,781	$ 4,635,437	17,045	$ 565,042
Michael Carroll *Executive Vice President* *Real Estate Operations*	24,876	$ 824,639	226,082	$ 2,366,775	19,859	$ 658,326
Directors						

The purchase price was allocated to the assets acquired and liabilities assumed based upon the estimated fair values as of the date of acquisition, as follows (in thousands):

Proved property	$ 501,938
Unproved property	189,500
Gas Plants	51,200
Working capital acquired, net	11,256
Asset retirement obligation	(13,635)
Deferred income tax liability	(37,630)

Cash consideration	$ 702,629

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BP plc (BP)

In June 2006, the Company acquired BP s remaining producing properties on the Outer Continental Shelf of the Gulf of Mexico. The original purchase price was reduced from $1.3 billion for 18 producing fields to $845 million because other interest owners exercised their preferential rights to purchase five of the 18 fields. The purchase price consisted of $747 million of proved property, $42 million of unproved property and $56 million of facilities. The settlement price on the date of closing of $821 million was adjusted primarily for revenues and expenditures occurring between the closing date and the effective date of the acquisition. The effective date of the purchase was April 1, 2006. The acquired properties include 13 producing fields (nine of which are operated) with estimated proved reserves of 19.5 MMbbls of liquid hydrocarbons and 148 Bcf of natural gas. Apache financed the purchase with cash on hand and commercial paper.

ROC Oil Company Limited (ROC)

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

Pan American Fuequina S.R.L. (Pan American)

During the third quarter of 2006, Apache acquired additional interests in (and now operates) seven concessions in the Tierra del Fuego Province from Pan American for total consideration of $429 million. The total cash consideration allocated below includes working capital balances purchased, asset retirement obligations assumed and an obligation to deliver specific gas volumes in the future. Apache financed the purchase with cash on hand and commercial paper.

The purchase price was allocated to the assets acquired and liabilities assumed based upon the estimated fair values as of the date of acquisition, as follows (in thousands):

Proved property	$ 302,638
Unproved property	132,000
Working capital acquired, net	8,929
Asset retirement obligation	(1,511)
Assumed obligation	(46,000)
Cash consideration	$ 396,056

<u>2005 Acquisitions and Divestitures</u>

There were no material acquisitions or divestitures during the nine-month period ended September 30, 2005.

2. HEDGING AND DERIVATIVE INSTRUMENTS

Apache uses a variety of strategies to manage its exposure to fluctuations in crude oil and natural gas commodity prices. The Company s hedging approach allows management to enter into hedges in connection with capital investments, including selected acquisitions. The success of an acquisition is significantly influenced by the Company s ability to achieve targeted production at forecasted prices over the long term, and commodity hedges effectively reduce price risk on a portion of the acquired production. During the third quarter of 2006, the Company s Board of Directors authorized management to enter into additional derivative contracts on a portion of production generated from the 2006 drilling program. Hedge positions entered into for the drilling program were designed to protect the underlying investment economics of the program.

Apache has entered into, and designated as cash flow hedges, various fixed-price swaps, option collars, and put contracts. These positions have a maximum duration through 2008, and involve six counterparties all rated A+ or

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better by established credit rating agencies. If applicable, the Company nets its realized gains against realized losses when settling its derivative contracts with counterparties.

As of September 30, 2006, the total outstanding positions of Apache s natural gas and crude oil cash flow hedges were as follows:

Production Period	Instrument Type	Total Volumes (MMBtu/Bbl/GJ)	Weighted Average Floor/Ceiling	Fair Value Asset/ (Liability) (In thousands)
2006	Gas Collars	8,280,000	$ 5.50 / 6.66	$ 1,398
	Gas Fixed	951,000	5.82	144
	Gas Put Option	7,360,000	6.81	11,187
	Oil Collars	1,085,600	32.07 / 40.66	(25,488)
	Oil Fixed-Price Swap	778,000	68.34	3,068
	Oil Put Option	386,400	28.00	
2007	Gas Collars	77,495,000	$ 6.94 / 8.99	$ 12,972
	Gas Collars (Canada)	3,650,000	6.52 / 8.52	2,685
	Gas Fixed-Price Swap	1,761,000	5.57	(3,298)
	Oil Collars	6,473,500	59.78 / 70.62	(26,554)
	Oil Fixed-Price Swap	4,458,000	70.29	9,608
2008	Gas Collars	49,410,000	$ 7.46 / 10.17	$ 28,376
	Gas Collars (Canada)	3,660,000	6.52 / 8.49	1,690
	Oil Collars	4,575,000	69.00 / 80.39	17,118
	Oil Fixed-Price Swap	4,392,000	69.21	1,625

U.S. natural gas and crude oil prices in the above table are settled against the NYMEX index, except for 23,725,000 and 23,790,000 MMBtu of gas collars in 2007 and 2008, respectively, which are settled against the Panhandle Eastern Pipe Line index, and have been valued using actively quoted prices and quotes obtained from reputable third-party financial institutions. The above prices represent a weighted average of several contracts entered into on a per million British thermal units (MMBtu) or per barrel (Bbl) basis for gas and oil derivatives, respectively.

The Canadian natural gas prices shown in the above table are converted to US dollars utilizing September 30, 2006 exchange rates. They are settled against the AECO Index, and valued using actively quoted prices and quotes obtained from reputable third-party financial institutions. The above prices represent a weighted average of several contracts entered into on a per gigajoule (GJ) basis.

In March 2006, the Company purchased $10.50 call options spanning the August through November 2006 period on 100,000 MMBtu per day for $6.3 million. The options were purchased to mitigate price exposure on prior hedged volumes in the event of significant potential natural gas price spikes during the 2006 U.S. Gulf Coast hurricane season. The options are marked to market each period and any gains or losses are reflected in Revenue and Other: Other on the Statement of Consolidated Operations. As of September 30, 2006, the remaining two months of the call option had a minimal fair market value.

A reconciliation of the components of accumulated other comprehensive income (loss) in the Statement of Consolidated Shareholders Equity related to Apache s commodity derivative activity is presented in the table below:

	Gross	**After tax**
	(In thousands)	
Unrealized gain (loss) on derivatives on December 31, 2005	$ (398,229)	$ (256,858)
Net losses realized into earnings	118,327	76,321
Net change in derivative fair value	312,699	201,834
Unrealized gain (loss) on derivatives on September 30, 2006	$ 32,797	$ 21,297

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Based on market prices as of September 30, 2006, the Company recorded an unrealized gain in other comprehensive income (loss) of $33 million ($21 million after tax), primarily representing commodity derivative hedges. Gains and losses on the Company s commodity hedges in accumulated other comprehensive income will be realized in future earnings contemporaneously with the related sales of natural gas and crude oil production applicable to specific hedges. Based on market prices as of September 30, 2006, the Company would expect to realize a loss of $33 million in the next 12 months on these hedges assuming no changes in commodity prices, and a $66 million gain beyond the twelve-month period. Actual gains and losses will be realized based on the settlement date. These contracts, designated as hedges, qualified and continue to qualify for hedge accounting in accordance with Statement of Financial Accounting Standards (SFAS) No. 133, as amended.

3. DEBT

During the first nine months of 2006, the Company s debt-to-capitalization ratio increased to 22 percent from 17 percent on December 31, 2005, as a result of an increase in commercial paper outstanding following $2.4 billion of acquisitions. The Company s outstanding debt includes notes and debentures maturing in the years 2007 through 2096.

The Company has available a $1.95 billion commercial paper program which enables Apache to borrow funds for up to 270 days at competitive interest rates. As of September 30, 2006, Apache had $1.41 billion of commercial paper outstanding. Apache s weighted-average interest rate for commercial paper was 5.06 percent and 2.92 percent for the first nine months of 2006 and 2005, respectively. If the Company is unable to issue commercial paper following a significant credit downgrade or dislocation in the market, the Company s U.S. credit facilities are available as a 100-percent backstop. The Company was in compliance with the terms of the credit facilities as of September 30, 2006.

In May 2006, the Company amended its existing five-year revolving U.S. credit facility which was scheduled to mature on May 28, 2009. The amendment: (a) extended the maturity to May 28, 2011, (b) increased the size of the facility from $750 million to $1.5 billion, and (c) reduced the facility fees from .08% to .06% and reduced the margin over LIBOR on loans from .27% to .19%. The lenders also extended the maturity dates of the $150 million Canadian facility, the $150 million Australian facility and $385 million of the $450 million U.S. credit facility, for an additional year to May 12, 2011 from May 12, 2010. The Company also increased commercial paper availability to $1.95 billion from $1.20 billion.

In August 2006, the Company extended the maturity of another $25 million in commitments under the $450 million U.S. credit facility for an additional year. As a result, $410 million will mature on May 12, 2011, and $40 million will mature on May 12, 2010.

4. STOCK-BASED COMPENSATION

On May 3, 2006, the Company s stockholders approved a new stock option plan and 1.7 million options were subsequently awarded to substantially all employees. The estimated fair value per option determined on the date of grant was $24.57. The terms and underlying valuation assumptions of the grant are consistent with prior-year awards and are expensed on a straight-line basis over the four-year vesting term.

5. CAPITAL STOCK

On April 19, 2006, the Company announced that its Board of Directors authorized the purchase of up to 15 million shares of the Company s common stock representing a market value of approximately $1 billion on the date of the announcement. The Company may buy shares from time to time on the open market, in privately negotiated transactions, or a combination of both. The timing and amounts of any purchases will be at the discretion of Apache s management. The Company initiated the purchase program on May 1, 2006, after the Company s first-quarter 2006 earnings information was disseminated in the market. Through September 30, 2006, the Company purchased 2,500,000 shares at an average price of $69.74 per share.

During the third quarters of 2006 and 2005, Apache paid $33 million and $26 million, respectively, in dividends on its common stock. For the nine months ended September 30, 2006 and 2005, the Company paid $99 million and $79

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million, respectively. The increase in the amounts paid for the 2006 third quarter and nine-month periods relative to their respective 2005 period reflects a slight increase in common shares outstanding and a 25 percent increase in the Company s quarterly common stock dividend rate, effective with the November 2005 payment. On September 13, 2006, the Company announced that its Board of Directors voted to increase the quarterly cash dividend on its common stock to 15 cents per share from 10 cents per share, effective with the November 2006 payment. In addition, for the three-month and nine-month periods ended September 30, 2006 and 2005, Apache paid a total of $1.4 million and $4.3 million, respectively, in dividends on its Series B Preferred Stock issued in August 1998.

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6. NET INCOME PER COMMON SHARE

A reconciliation of the components of basic and diluted net income per common share is presented in the table below:

	For the Quarter Ended September 30,					
	2006			2005		
	Income	Shares	Per Share	Income	Shares	Per Share
	(In thousands, except per share amounts)					
Basic:						
Income attributable to common stock	$ 645,644	329,643	$ 1.96	$ 685,575	329,219	$ 2.08
Effect of Dilutive Securities:						
Stock options and other		3,212			4,945	
Diluted:						
Income attributable to common stock, including assumed conversions	$ 645,644	332,855	$ 1.94	$ 685,575	334,164	$ 2.05

	For the Nine Months Ended September 30,					
	2006			2005		
	Income	Shares	Per Share	Income	Shares	Per Share
	(In thousands, except per share amounts)					
Basic:						
Income attributable to common stock	$ 2,027,350	329,971	$ 6.14	$ 1,831,248	328,615	$ 5.57
Effect of Dilutive Securities:						
Stock options and other		3,431			4,987	
Diluted:						
Income attributable to common stock, including assumed conversions	$ 2,027,350	333,402	$ 6.08	$ 1,831,248	333,602	$ 5.49

7. SUPPLEMENTAL CASH FLOW INFORMATION

The following table provides supplemental disclosure of cash flow information:

For the Nine Months Ended

	September 30, 2006	September 30, 2005
	(In thousands)	
Cash paid during the period for:		
Interest (net of amounts capitalized)	$ 91,539	$ 69,173
Income taxes (net of refunds)	784,258	816,221

For the nine-month period ended September 30, 2006, approximately 86 percent of the Company s income tax cash payments relate to the 2006 income period. For the nine-month period ended September 30, 2005, approximately 91 percent was related to the 2005 income period.

8. PENSION AND POST-RETIREMENT BENEFITS

Apache has a non-contributory defined benefit pension plan that provides retirement benefits for certain United Kingdom (U.K.) North Sea employees meeting established age and service requirements. The pension plan is closed to new employees. Apache also has a post-retirement benefit plan which provides benefits for substantially all of its U.S. employees. The post-retirement benefit plan provides medical benefits up until age 65 and is contributory.

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Net Periodic Cost

The following table presents the net periodic benefit cost for the three-month and nine-month periods ended September 30, 2006 and 2005:

	Pension Benefits				Other Postretirement Benefits			
	Quarter Ended September 30,		Nine Months Ended September 30,		Quarter Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005	2006	2005	2006	2005
	(In thousands)							
Components of net periodic benefit cost:								
Service cost	$ 1,822	$ 1,540	$ 5,305	$ 4,778	$ 338	$ 350	$ 1,138	$ 1,049
Interest cost	1,323	1,093	3,851	3,392	174	204	674	610
Expected return on plan assets (gain)/loss	(1,457)	(1,181)	(4,243)	(3,664)				
Amortization of transition obligation					8	11	33	33
Amortization of actuarial (gain)/loss					42	82	217	248
Net periodic benefit cost	$ 1,688	$ 1,452	$ 4,913	$ 4,506	$ 562	$ 647	$ 2,062	$ 1,940

Employer Contributions

As previously disclosed in our year-end 2005 financial statements for the year ended December 31, 2005, we expect to contribute $5 million to the pension plan and $321,000 to the post-retirement benefit plan in 2006. As of September 30, 2006, approximately $3.5 million of contributions have been made to the plans.

9. BUSINESS SEGMENT INFORMATION

Apache has six reportable segments: the United States, Canada, Egypt, Australia, the U.K. and Argentina. The Company divested its interest in China effective July 1, 2006. The Company evaluates segment performance based on profits and losses from oil and gas operations before income and expense items incidental to oil and gas operations and income taxes. Apache s reportable segments are managed separately because of their geographic locations. Historical results for China are encapsulated under the Other International category. Financial information by reportable segment is presented below:

	United States	Canada	Egypt	Australia	U.K. North Sea	Argentina	Other International	Total
				(In thousands)				
For the Quarter Ended September 30, 2006								
Oil and Gas Production Revenues	$ 810,597	$ 341,436	$ 424,592	$ 115,063	$ 306,620	$ 58,715	$ 15,792	$ 2,072,815
Operating Income (1)	$ 372,908	$ 147,817	$ 327,314	$ 52,970	$ 133,489	$ 12,469	$ 11,241	$ 1,058,208
Other Income (Expense):								
Gain on China divestiture								173,545
Other								15,121
General and administrative								(53,781)
Financing costs, net								(41,986)
Income Before Income Taxes								$ 1,151,107
For the Nine Months Ended September 30, 2006								
Oil and Gas Production Revenues	$ 2,240,339	$ 1,075,002	$ 1,261,234	$ 319,242	$ 1,036,662	$ 103,251	$ 72,510	$ 6,108,240

Operating Income (1)	$ 1,106,487	$ 531,739	$ 974,141	$ 152,037	$ 438,146	$ 20,504	$ 44,313	$ 3,267,367
Other Income (Expense):								
Gain on China divestiture								173,545
Other								40,316
General and administrative								(151,644)
Financing costs, net								(96,308)
Income Before Income Taxes								3,233,276
Total Assets	$ 11,167,383	$ 5,551,767	$ 2,401,477	$ 1,250,440	$ 1,715,446	$ 1,338,912	$ 500	$ 23,425,925
For the Quarter Ended September 30, 2005								
Oil and Gas Production Revenues	$ 761,167	$ 375,310	$ 378,194	$ 122,423	$ 378,977	$ 5,163	$ 30,510	$ 2,051,744
Operating Income (1)	$ 439,330	$ 230,741	$ 293,410	$ 62,216	$ 182,520	$ 1,712	$ 17,169	$ 1,227,098
Other Income (Expense):								
Other								9,308
General and administrative								(50,047)
Financing costs, net								(26,847)
Income Before Income Taxes								$ 1,159,512
For the Nine Months Ended								

September 30, 2005								
Oil and Gas Production Revenues	$ 2,154,921	$ 962,188	$ 984,452	$ 300,008	$ 932,901	$ 11,822	$ 106,636	$ 5,452,928
Operating Income (1)	$ 1,222,036	$ 562,314	$ 738,838	$ 152,786	$ 470,090	$ 4,172	$ 55,795	$ 3,206,031
Other Income (Expense):								
Other								29,643
General and administrative								(152,460)
Financing costs, net								(90,160)
Income Before Income Taxes								$ 2,993,054
Total Assets	$ 7,852,092	$ 4,567,754	$ 2,425,911	$ 1,212,946	$ 1,628,267	$ 52,311	$ 113,816	$ 17,853,097

1) Operating Income consists of oil and gas production revenues less depreciation, depletion and amortization, asset retirement obligation accretion, lease operating costs, gathering and transportation costs, and severance and other taxes.

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10. ASSET RETIREMENT OBLIGATIONS

The following table describes changes to the Company s asset retirement obligation (ARO) liability for the quarter ended September 30, 2006 (in thousands):

Asset retirement obligation as of December 31, 2005	$ 1,455,915
Liabilities incurred	252,131
Liabilities settled	(202,767)
Revisions	231,984
Accretion expense	64,268
Asset retirement obligation as of September 30, 2006	$ 1,801,531

Liabilities incurred of $252 million relate to abandonment obligations assumed in connection with various acquisitions closed during the period and obligations related to current drilling activity. Liabilities settled during the period primarily relate to properties plugged and abandoned or sold during the period.

During the third quarter, the Company increased its estimate $232 million for abandonment requirements related to offshore platforms destroyed during hurricanes Katrina and Rita. The revision was made because more complete information surrounding the damage, timing and cost estimates continues to be obtained from third parties and from actual costs incurred.

11. LITIGATION

Texaco China B.V.

In July 2006, one of the judges on the three judge panel hearing Apache s appeal of Texaco China B.V. s $71 million international arbitration award against Apache China Corporation LDC was recused from the matter. Because of the recusal, the appeal had to be reargued on October 4, 2006, and we are waiting for a final decision on Apache s appeal. The history of this matter is discussed in Note 10 of the financial statements in Apache s annual report on Form 10-K for our 2005 fiscal year.

Predator

In September 2006 the trial court rendered a judgment (the Judgment) in favor of Murphy Oil Corporation (Murphy) and Apache s claim against Predator and dismissed Predator s C$365 million counterclaim against Murphy and Apache. The parties entered into a settlement agreement not to appeal the judgement, thereby making the judgement final. As a result, Apache recognized approximately $11 million of revenue in the third quarter of 2006. The history of this matter is discussed in Note 10 of the financial statements in Apache s annual report on Form 10-K for our 2005 fiscal year.

Grynberg

In 1997, Jack J. Grynberg began filing lawsuits against other natural gas producers, gatherers, and pipelines claiming that the defendants have under paid royalty to the federal government and Indian tribes by mis-measurement of the volume and heating content of natural gas and are responsible for acts of others who mis-measured natural gas. In 2004, Grynberg filed suit against Apache making the same claims he had made previously against others in the industry. With the addition of Apache, there are more than 300 defendants to these actions. The Grynberg lawsuits have been consolidated through a federal Multi-District Litigation (MDL) action located in Wyoming federal court for discovery and pre-trial purposes. The defendants in the MDL, jointly and/or separately, filed motions to dismiss based upon certain statutory requirements Grynberg is required to prove to proceed with these qui tam lawsuits. On October 20, 2006, the multi-district Judge ruled in favor of Apache and other defendants on these motions to dismiss, dismissing Grynberg s lawsuit against Apache and others. The appeal period has not yet passed, and Apache does not know if Grynberg will appeal the ruling. Although Grynberg purports to be acting on behalf of the government, the federal government has declined to join in the cases. While an adverse judgment against Apache is possible, Apache does not believe the plaintiff s claims have merit and plans to vigorously pursue its defenses against these claims. Exposure related to this lawsuit is not currently determinable.

Egypt Tax Authority

On June 11, 2006, the ETA cancelled the last tax claim in its entirety, with no liability to Apache. All three ETA tax claims, have now been finally resolved in Apache s favor with no liability. The history of this matter is discussed in Note 10 of the financial statements in Apache s annual report on Form 10-K for our 2005 fiscal year.

Argentine Environmental Claims

In connection with the Pioneer acquisition, the Company acquired a subsidiary of Pioneer in Argentina (PNRA) that is involved in various administrative proceedings with environmental authorities in the Neuquén Province relating to permits for and discharges from operations in that province. PNRA is cooperating with the proceedings, although it from time to time challenges whether certain assessed fines, which could exceed $100,000, are appropriate. PNRA was named in a suit initiated against oil companies operating in the Neuquén basin entitled *Asociación de Superficiarios de la Patagonia v. YPF S.A., et. al.*, originally filed on August 21, 2003, in the Argentine National Supreme Court of Justice. The plaintiffs, a private group of landowners, have also named the national government and several provinces as third parties. The lawsuit alleges injury to the environment generally by the oil and gas industry. The plaintiffs principally seek from all defendants, jointly, (i) the remediation of the contaminated sites, of the superficial and underground waters, and of the soil that was degraded as a result of deforestation, (ii) if the remediation is not possible, payment of an indemnification for the material and moral damages in an unspecified amounts claimed from defendants operating in the Neuquén basin, of which PNRA is a small portion, (iii) adoption of all of the necessary measures to prevent future environmental damages, and (iv) the creation of a private restoration fund to provide coverage for remediation of potential future environmental damages. Much of the alleged damage relates to operations by the Argentine state oil company, which conducted oil and gas operations throughout Argentina prior to its privatization, which began in 1990. While the plaintiffs will seek to make all oil and gas companies operating in the Neuquén basin jointly liable for each others actions, PNRA will defend on an individual basis and attempt to require the plaintiffs to delineate damages by company. PNRA intends to defend itself vigorously in the case. It is not certain exactly how or what the court will do in this matter as it is the first of its kind. While it is possible PNRA may incur liabilities related to the environmental claims, no reasonable prediction can be made as PNRA s exposure related to this lawsuit is not currently determinable.

General

The Company is involved in other litigation and is subject to governmental and regulatory controls arising in the ordinary course of business. The Company has an accrued liability of approximately $3 million for other legal contingencies that are probable of occurring and can be reasonably estimated. It is management s opinion that the loss for any such other litigation matters and claims that are reasonably possible to occur will not have a material adverse affect on the Company s financial position or results of operations.

12. INCOME TAXES

During the third quarter of 2006, the U.K. formally enacted a previously announced 10 percent income tax increase retroactive to the beginning of 2006. As a result, the Company recorded a $92 million non-recurring charge for additional deferred taxes and for applying the rate to the first six months of 2006 taxable earnings. The impact on third-quarter 2006 income taxes was an increase of $13 million.

Also, during the second quarter of 2006, Canada enacted a combination of federal and provincial tax rate reductions that resulted in a non-recurring benefit of approximately $132 million for a reduction in deferred taxes. The lower rates reduced income tax expense $14 million for the nine-month period ending September 30, 2006.

13. NEW PRONOUNCEMENTS

In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN No. 48). The Interpretation clarifies the accounting for income taxes by prescribing a minimum recognition threshold that a tax position is required to meet before being recognized in the financial statements. FIN No. 48 also provides guidance on measurement, classification, interim accounting and disclosure. FIN No. 48 is effective for fiscal years beginning after December 15, 2006 and the Company is continuing to assess potential impacts this Interpretation might have on Apache s Consolidated Financial Statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is continuing to assess the potential impacts this statement might have on Apache s Consolidated Financial Statements and related footnotes.

Also in September 2006, the FASB issued Statement of Financial Accounting Standard No. 158 Employee s Accounting for Defined Benefit Plans and Other Postretirement Plans (SFAS 158). The statement requires employers to recognize any overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in Apache s Consolidated Financial Statements. Unrealized components of net periodic benefit costs are reflected in other comprehensive income, net of tax. SFAS 158 requires recognition of the funded status and related disclosures as of the end of the fiscal year ending after December 15, 2006. The Company does not believe that its Consolidated Financial Statements will be materially impacted by implementing this statement.

14. SUPPLEMENTAL GUARANTOR INFORMATION

Apache Finance Pty Ltd. (Apache Finance Australia) and Apache Finance Canada Corporation (Apache Finance Canada) are subsidiaries of Apache that have issuances of publicly traded securities and require the following condensed consolidating financial statements be provided as an alternative to filing separate financial statements.

Each of the companies presented in the condensed consolidating financial statements have been fully consolidated in Apache s consolidated financial statements. As such, the condensed consolidating financial statements should be read in conjunction with the financial statements of Apache Corporation and Subsidiaries and notes.

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APACHE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
For the Quarter Ended September 30, 2006

	Apache Corporation	Apache North America	Apache Finance Australia	Apache Finance Canada	All Other Subsidiaries of Apache Corporation	Reclassifications & Eliminations	Consolidated
				(In thousands)			
REVENUES AND OTHER:							
Oil and gas production revenues	$ 785,346	$	$	$	$ 1,340,264	$ (52,795)	$ 2,072,815
Equity in net income (loss) of affiliates	497,820	10,623	13,581	53,962	(12,329)	(563,657)	
Gain on China divestiture					173,545		173,545
Other	7,372				7,749		15,121
	1,290,538	10,623	13,581	53,962	1,509,229	(616,452)	2,261,481
OPERATING EXPENSES:							
Depreciation, depletion and amortization	210,025				277,517		487,542
Asset retirement obligation accretion	16,734				6,028		22,762
Lease operating costs	169,276				245,303	(52,795)	361,784
Gathering and transportation costs	7,366				17,449		24,815
Severance and other taxes	29,126				88,578		117,704
General and administrative	40,874				12,907		53,781
Financing costs, net	37,038		4,442	14,111	(13,605)		41,986
	510,439		4,442	14,111	634,177	(52,795)	1,110,374
INCOME (LOSS) BEFORE INCOME TAXES	780,099	10,623	9,139	39,851	875,052	(563,657)	1,151,107
Provision (benefit) for income taxes	133,035		(1,484)	(4,740)	377,232		504,043
NET INCOME	647,064	10,623	10,623	44,591	497,820	(563,657)	647,064
Preferred stock dividends	1,420						1,420

INCOME ATTRIBUTABLE TO COMMON STOCK	$ 645,644	$ 10,623	$ 10,623	$ 44,591	$ 497,820	$ (563,657)	$ 645,644

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APACHE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
For the Quarter Ended September 30, 2005

	Apache Corporation	Apache North America	Apache Finance Australia	Apache Finance Canada	All Other Subsidiaries of Apache Corporation	Reclassifications & Eliminations	Consolidated
				(In thousands)			
REVENUES AND OTHER:							
Oil and gas production revenues	$ 757,281	$	$	$	$ 1,397,113	$ (102,650)	$ 2,051,744
Equity in net income (loss) of affiliates	410,091	10,979	13,952	62,111	(12,345)	(484,788)	
Other	4,413				4,895		9,308
	1,171,785	10,979	13,952	62,111	1,389,663	(587,438)	2,061,052
OPERATING EXPENSES:							
Depreciation, depletion and amortization	139,719				217,440		357,159
Asset retirement obligation accretion	7,967				5,560		13,527
Lease operating costs	136,530				246,115	(102,650)	279,995
Gathering and transportation costs	7,090				16,481		23,571
Severance and other taxes	28,496				121,898		150,394
General and administrative	42,658				7,389		50,047
Financing costs, net	17,912		4,512	14,110	(9,687)		26,847
	380,372		4,512	14,110	605,196	(102,650)	901,540
INCOME (LOSS) BEFORE INCOME TAXES	791,413	10,979	9,440	48,001	784,467	(484,788)	1,159,512
Provision (benefit) for income taxes	104,418		(1,539)	(4,738)	374,376		472,517
NET INCOME	686,995	10,979	10,979	52,739	410,091	(484,788)	686,995
Preferred stock dividends	1,420						1,420

INCOME ATTRIBUTABLE TO COMMON STOCK	$ 685,575	$ 10,979	$ 10,979	$ 52,739	$ 410,091	$ (484,788)	$ 685,575

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APACHE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
For the Nine Months Ended September 30, 2006

	Apache Corporation	Apache North America	Apache Finance Australia	Apache Finance Canada	All Other Subsidiaries of Apache Corporation	Reclassifications & Eliminations	Consolidated
				(In thousands)			
REVENUES AND OTHER:							
Oil and gas production revenues	$ 2,156,664	$	$	$	$ 4,128,917	$ (177,341)	$ 6,108,240
Equity in net income (loss) of affiliates	1,436,496	25,170	32,165	210,807	(35,108)	(1,669,530)	
Gain on China divestiture					173,545		173,545
Other	75,319		(38)		(34,965)		40,316
	3,668,479	25,170	32,127	210,807	4,232,389	(1,846,871)	6,322,101
OPERATING EXPENSES:							
Depreciation, depletion and amortization	540,507				761,050		1,301,557
Asset retirement obligation accretion	46,817				17,451		64,268
Lease operating costs	424,700				718,441	(177,341)	965,800
Gathering and transportation costs	22,977				53,751		76,728
Severance and other taxes	84,649				347,871		432,520
General and administrative	119,807				31,837		151,644
Financing costs, net	79,851		13,490	42,333	(39,366)		96,308
	1,319,308		13,490	42,333	1,891,035	(177,341)	3,088,825
INCOME (LOSS) BEFORE INCOME TAXES	2,349,171	25,170	18,637	168,474	2,341,354	(1,669,530)	3,233,276
Provision (benefit) for income taxes	317,561		(6,533)	(14,220)	904,858		1,201,666
NET INCOME	2,031,610	25,170	25,170	182,694	1,436,496	(1,669,530)	2,031,610

Preferred stock dividends	4,260						4,260
INCOME ATTRIBUTABLE TO COMMON STOCK	$ 2,027,350	$ 25,170	$ 25,170	$ 182,694	$ 1,436,496	$ (1,669,530)	$ 2,027,350

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APACHE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
For the Nine Months Ended September 30, 2005

	Apache Corporation	Apache North America	Apache Finance Australia	Apache Finance Canada	All Other Subsidiaries of Apache Corporation	Reclassifications & Eliminations	Consolidated
				(In thousands)			
REVENUES AND OTHER:							
Oil and gas production revenues	$ 2,128,566	$	$	$	$ 3,582,523	$ (258,161)	$ 5,452,928
Equity in net income (loss) of affiliates	1,120,922	23,103	32,056	171,971	(37,061)	(1,310,991)	
Other	40,859				(11,216)		29,643
	3,290,347	23,103	32,056	171,971	3,534,246	(1,569,152)	5,482,571
OPERATING EXPENSES:							
Depreciation, depletion and amortization	447,770				607,813		1,055,583
Asset retirement obligation accretion	23,674				16,342		40,016
Lease operating costs	360,626				666,131	(258,161)	768,596
Gathering and transportation costs	22,656				50,873		73,529
Severance and other taxes	72,112			1	237,060		309,173
General and administrative	127,950				24,510		152,460
Financing costs, net	58,140		13,537	42,330	(23,847)		90,160
	1,112,928		13,537	42,331	1,578,882	(258,161)	2,489,517
INCOME (LOSS) BEFORE INCOME TAXES	2,177,419	23,103	18,519	129,640	1,955,364	(1,310,991)	2,993,054
Provision (benefit) for income taxes	341,911		(4,584)	(14,223)	834,442		1,157,546
NET INCOME	1,835,508	23,103	23,103	143,863	1,120,922	(1,310,991)	1,835,508
Preferred stock dividends	4,260						4,260

INCOME ATTRIBUTABLE TO COMMON STOCK	$ 1,831,248	$ 23,103	$ 23,103	$ 143,863	$ 1,120,922	$ (1,310,991)	$ 1,831,248

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APACHE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
For the Nine Months Ended September 30, 2006

	Apache Corporation	Apache North America	Apache Finance Australia	Apache Finance Canada	All Other Subsidiaries of Apache Corporation	Reclassifications & Eliminations	Consolidated
				(In thousands)			
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 1,321,464	$	$ (15,095)	$ (21,550)	$ 2,114,193	$	$ 3,399,012
CASH FLOWS FROM INVESTING ACTIVITIES:							
Additions to property and equipment	(1,425,216)				(1,271,796)		(2,697,012)
Acquisition of BP p.l.c. properties	(821,282)						(821,282)
Acquisition of Pioneer s Argentine operations					(704,809)		(704,809)
Acquisition of Amerada Hess properties	(229,095)						(229,095)
Acquisition of Pan American Fueguina S.R.L. properties					(396,056)		(396,056)
Additions to gas gathering, transmission and processing facilities	(55,410)				(147,801)		(203,211)
Proceeds from China divestiture					264,081		264,081
Proceeds from sale of Egyptian properties					409,197		409,197
Investment in subsidiaries, net	42,727	(12,525)			(36,477)	6,275	
Other, net	(17,230)				(290,936)		(308,166)
NET CASH USED IN INVESTING	(2,505,506)	(12,525)			(2,174,597)	6,275	(4,686,353)

ACTIVITIES

CASH FLOWS FROM FINANCING ACTIVITIES:							
Debt borrowings	1,495,981		2,569	1,828	(26,582)	57,640	1,531,436
Payments on debt	(73,300)				(1,960)		(75,260)
Dividends paid	(103,264)						(103,264)
Common stock activity	23,453	12,525	12,525	19,721	19,144	(63,915)	23,453
Treasury stock activity, net	(169,671)						(169,671)
Cost of debt and equity transactions	(1,370)						(1,370)
Other	14,079						14,079
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,185,908	12,525	15,094	21,549	(9,398)	(6,275)	1,219,403
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,866		(1)	(1)	(69,802)		(67,938)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3,785		2	1	225,072		228,860
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 5,651	$	$ 1	$	$ 155,270	$	$ 160,922

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APACHE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
For the Nine Months Ended September 30, 2005

	Apache Corporation	Apache North America	Apache Finance Australia	Apache Finance Canada	All Other Subsidiaries of Apache Corporation	Reclassifications & Eliminations	Consolidated
				(In thousands)			
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 1,220,137	$	$ (13,725)	$ (19,785)	$ 1,973,469	$	$ 3,160,096
CASH FLOWS FROM INVESTING ACTIVITIES:							
Additions to property and equipment	(767,872)				(1,968,394)		(2,736,266)
Investment in subsidiaries, net	(50,210)	(12,525)			(33,312)	96,047	
Other, net	58,137				(52,901)		5,236
NET CASH USED IN INVESTING ACTIVITIES	(759,945)	(12,525)			(2,054,607)	96,047	(2,731,030)
CASH FLOWS FROM FINANCING ACTIVITIES:							
Long-term borrowings	112,189		1,200	502	36,124	(37,617)	112,398
Payments on long-term debt	(507,900)				(829)		(508,729)
Dividends paid	(83,046)						(83,046)
Common stock activity	18,646	12,525	12,525	19,281	14,099	(58,430)	18,646
Treasury stock activity, net	5,802						5,802
Cost of debt and equity transactions	(838)						(838)
Other	12,292						12,292
NET CASH PROVIDED BY FINANCING ACTIVITIES	(442,855)	12,525	13,725	19,783	49,394	(96,047)	(443,475)

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	17,337			(2)	(31,744)		(14,409)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	597		2	3	110,491		111,093
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 17,934	$	$ 2	$ 1	$ 78,747	$	$ 96,684

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APACHE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATING BALANCE SHEET
As of September 30, 2006

	Apache Corporation	Apache North America	Apache Finance Australia	Apache Finance Canada	All Other Subsidiaries of Apache Corporation	Reclassification & Eliminations	Consolidated
	(In thousands)						
ASSETS							
CURRENT ASSETS:							
Cash and cash equivalents	$ 5,651	$	$ 1	$	$ 155,270	$	$ 160,922
Receivables, net of allowance	784,980				780,626		1,565,606
Inventories	28,498				256,500		284,998
Drilling advances and other	277,777				90,928		368,705
	1,096,906		1		1,283,324		2,380,231
PROPERTY AND EQUIPMENT, NET	9,786,274				10,851,415		20,637,689
OTHER ASSETS:							
Intercompany receivable, net	996,415		(6,330)	(255,995)	(734,090)		
Goodwill, net					189,252		189,252
Equity in affiliates	7,382,839	326,321	563,721	1,839,285	(1,201,898)	(8,910,268)	
Deferred charges and other	113,441			4,064	101,248		218,753
	$ 19,375,875	$ 326,321	$ 557,392	$ 1,587,354	$ 10,489,251	$ (8,910,268)	$ 23,425,925
LIABILITIES AND SHAREHOLDERS EQUITY							
CURRENT LIABILITIES:							
Accounts payable	$ 372,106	$	$	$	$ 255,306	$	$ 627,412
Other accrued expenses	983,132		(1,765)	61,144	360,979		1,403,490
Current debt	1,422,400				36,517		1,458,917

	2,777,638		(1,765)	61,144	652,802		3,489,819
LONG-TERM DEBT	1,271,740		269,586	646,909	1,252		2,189,487
DEFERRED CREDITS AND OTHER NONCURRENT LIABILITIES:							
Income taxes	1,500,928		(36,750)	4,514	1,904,226		3,372,918
Advances from gas purchasers	50,798						50,798
Asset retirement obligation	1,030,942				428,399		1,459,341
Other	108,785				119,733		228,518
	2,691,453		(36,750)	4,514	2,452,358		5,111,575
COMMITMENTS AND CONTINGENCIES							
SHAREHOLDERS EQUITY	12,635,044	326,321	326,321	874,787	7,382,839	(8,910,268)	12,635,044
	$ 19,375,875	$ 326,321	$ 557,392	$ 1,587,354	$ 10,489,251	$ (8,910,268)	$ 23,425,925

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APACHE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATING BALANCE SHEET
As of September 30, 2005

	Apache Corporation	Apache North America	Apache Finance Australia	Apache Finance Canada	All Other Subsidiaries of Apache Corporation	Reclassifications & Eliminations	Consolidated
				(In thousands)			
ASSETS							
CURRENT ASSETS:							
Cash and cash equivalents	$ 17,934	$	$ 2	$ 1	$ 78,747	$	$ 96,684
Receivables, net of allowance	376,307				882,080		1,258,387
Inventories	28,131				170,305		198,436
Drilling advances and other	132,941				100,157		233,098
	555,313		2	1	1,231,289		1,786,605
PROPERTY AND EQUIPMENT, NET	7,062,999				8,682,486		15,745,485
OTHER ASSETS:							
Intercompany receivable, net	1,143,410		(2,242)	(254,180)	(886,988)		
Goodwill, net					189,252		189,252
Equity in affiliates	5,308,510	295,877	540,839	1,506,387	(1,199,457)	(6,452,156)	
Deferred charges and other	44,934			4,380	82,441		131,755
	$ 14,115,166	$ 295,877	$ 538,599	$ 1,256,588	$ 8,099,023	$ (6,452,156)	$ 17,853,097
LIABILITIES AND SHAREHOLDERS EQUITY							
CURRENT LIABILITIES:							
Accounts payable	$ 382,632	$	$	$	$ 344,014	$	$ 726,646
Other accrued expenses	701,765		(731)	53,086	662,224		1,416,344
Current debt					274		274

	1,084,397		(731)	53,086	1,006,512		2,143,264
LONG-TERM DEBT	1,271,334		269,355	646,844	4,252		2,191,785
DEFERRED CREDITS AND OTHER NONCURRENT LIABILITIES:							
Income taxes	1,004,087		(25,902)	4,766	1,364,632		2,347,583
Advances from gas purchasers	74,941						74,941
Asset retirement obligation	594,084				390,269		984,353
Oil and gas derivative instruments	213,574						213,574
Other	159,898				24,848		184,746
	2,046,584		(25,902)	4,766	1,779,749		3,805,197
COMMITMENTS AND CONTINGENCIES							
SHAREHOLDERS EQUITY	9,712,851	295,877	295,877	551,892	5,308,510	(6,452,156)	9,712,851
	$ 14,115,166	$ 295,877	$ 538,599	$ 1,256,588	$ 8,099,023	$ (6,452,156)	$ 17,853,097

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

These financial statements should be read in conjunction with the financial statements and the summary of significant accounting policies and notes included in the Company s most recent annual report on Form 10-K.

Overview

Apache Corporation (Apache or the Company) reported third-quarter 2006 earnings of $646 million, compared to $686 million for the third quarter of 2005. The 2006-period earnings included a $174 million gain recognized in conjunction with divestment of operations in China and a $92 million one-time income tax charge for retroactive application of a new 10 percent oil and gas company supplemental tax enacted by the U.K. during the third quarter of 2006. Third-quarter 2006 results, relative to the comparable prior-year quarter, saw higher unit costs and a higher effective income tax rate with only marginal improvement in crude oil and natural gas revenues. Natural gas production averaged 1,707 million cubic feet per day (MMcf/d) with production up in all principal gas producing areas, highlighted by 133 MMcf/d rise in U.S. production and an additional 148 MMcf/d in Argentina. Crude oil production, which averaged 216,468 barrels per day (b/d), was 17,224 b/d below the comparable year-ago period, with over half of the decline related to an unexpected shutdown of the BP p.l.c. (BP) operated North Sea Forties pipeline and another 3,788 b/d related to the sale of Apache s China assets. Crude oil prices were up across the board, averaging $63.66 per barrel. Natural gas prices, which averaged $4.83 per thousand cubic feet (Mcf), were down in all major gas producing areas except Australia, which was flat on a comparative basis.

For the nine months ending September 30, 2006, the Company reported earnings of $2.0 billion, 11 percent more than the $1.8 billion reported for the 2005 period. The Company s 2006 period earnings included a $132 million income tax benefit related to retroactive application of a reduction in federal and provincial tax rates enacted by Canada in the second quarter of 2006, as well as the gain on the China divestiture and the U.K. tax charge discussed above. Cash provided by operating activities totaled $3.4 billion for the same period, $239 million ahead of 2005. Natural gas production averaged 1,545 MMcf/d, 271 MMcf/d more than 2005. Crude oil production averaged 221,538 b/d, 17,245 b/d below the comparable 2005 nine-month period. Crude oil price realizations averaged $61.85 for the first nine months of 2006, 21 percent more than the relevant 2005 period. Natural gas prices averaged $5.32 per Mcf, $.54 less than 2005.

During the third quarter of 2006, Apache became operator in Argentina s Tierra del Fuego Province following the Company s acquisition of additional interests from Pan American Fueguina S.R.L. (Pan American) for total consideration of $429 million. The Company also sold its interests in China in the third quarter to Australia-based ROC Oil Company Limited for $260 million, marking Apache s exit from China. These transactions, along with other 2006 acquisition and divestiture activity, are discussed in more detail below.

Other 2006 third-quarter and nine-month financial and operating results include:

Oil and gas production revenues totaled $2.1 billion for the third quarter of 2006, up slightly from the 2005 quarter. For the nine-month period oil and gas revenues totaled $6.1 billion, $655 million more than 2005.

Quarterly production rose to a record 513,006 barrels of oil equivalent per day (boe/d), 13 percent above the comparable year-ago period.

Third-quarter 2006 daily natural gas production was up 442 MMcf/d from last year, with U.S. and Argentina daily production up 133 MMcf and 148 MMcf, respectively. Our U.S. Gulf Coast region production was up 95 MMcf/d on successful drilling activity, hurricane restorations and the June 2006 BP acquisition. Central Region production rose 38 MMcf/d on successful drilling activity and the properties acquired from Amerada Hess in January 2006. Argentina s production increase reflects production acquired from Pioneer in April 2006 and Pan American late in the third quarter of 2006.

Australia s third-quarter 2006 natural gas production increased 66 MMcf/d to 204 MMcf/d compared to the prior-year equivalent quarter. The increase was related to production from the John Brookes field, which commenced production during the second half of 2005.

Natural gas production from Egypt s Khalda Concession Qasr field, which commenced during the third quarter of 2005, added 55 MMcf/d of natural gas to third-quarter 2006 production when compared to the 2005 third-quarter. Apache s net production in Egypt averaged 208 MMcf/d for the 2006 quarter.

Canada s production was up 49 MMcf/d from the prior-year quarter to 422 MMcf/d on production from new wells drilled under the ExxonMobil Grant Land agreement, wells drilled in the Nevis, Brownfield and Consort areas and royalty relief associated with gas cost allowance wells. The region also benefited from a one-time adjustment following settlement of its lawsuit against The Predator Corporation Ltd which involved the Ladyfern area of northeast British Columbia (refer to Note 11).

Third-quarter 2006 North Sea production was down 18,338 b/d primarily because of the unexpected shutdown of the Forties pipeline by BP and a Delta platform turnaround.

Australia s third-quarter oil production was down 26 percent to 12,249 b/d on natural decline.

Production from the Pioneer and Pan American acquisitions pushed Argentina s third-quarter 2006 oil production to 8,960 b/d, up 7,621 b/d from the prior year quarter.

U.S. Central region crude oil production averaged 30,595 b/d, a 4,594 barrel improvement over the prior-year comparative quarter. Production from the Amerada Hess properties acquired in January 2006 and productive drilling results drove the gains. U.S. Gulf Coast region third-quarter production was down 1,504 b/d on a comparative basis with drilling activity and acquisitions more than offset by downtime and natural decline.

Capital Expenditures:

Capital expenditures for the quarter, exclusive of acquisitions and capitalized interest, totaled $948 million, nine percent lower than the third quarter of 2005. Expenditures for exploration and development activity accounted for approximately 94 percent, or $889 million of the capital spending, $36 million less than the third quarter of 2005. The balance of capital spending was primarily for gathering, marketing and processing facilities and totaled $59 million, $53 million less than last year. For the nine-month period ending September 30, 2006, capital expenditures total $2.8 billion, $203 million of which was for gathering, marketing and processing facilities.

In the U.S., the Company spent $419 million on exploration and development activity, including production platforms and facilities. The Company drilled a total of 89 wells, 69 in the Central region and 20 in the Gulf Coast region.

Canada s exploration and development capital totaled $162 million, including recompletion activity and production facilities. The region drilled 55 wells during the quarter. They also spent $37 million on gas gathering, transmission and processing facilities.

Egypt drilled and completed 46 wells during the third quarter of 2006. Egypt s capital expenditures for exploration and development totaled $120 million, including drilling, recompletion activity and geological and geophysical expenditures. Gas gathering, transmission and processing facility expenditures totaled $18 million during the period.

The North Sea spent $97 million on exploration and development, including $56 million on platform and production facility modifications and recompletions. Two wells were drilled during the quarter.

Australia s $46 million of capital for exploration and development included five wells, as well as geological and geophysical activity.

In Argentina, the Company spent $43 million on exploration and development activity in the third quarter. The region drilled 25 wells and had an active recompletion program.

Acquisitions and Divestitures:

On January 5, 2006, the Company purchased Amerada Hess s interest in eight fields located in the Permian Basin of West Texas and New Mexico. The original purchase price was reduced from $404 million to $269 million because other interest owners exercised their preferential rights on a number of the properties. The settlement price on the date of closing of $239 million was adjusted primarily for revenues and expenditures occurring between the closing date and the effective date of the acquisition. Apache estimates that these fields had proved reserves of 27 million barrels (MMbbls) of liquid hydrocarbons and 27 billion cubic feet (Bcf) of natural gas as of year-end 2005.

On January 6, 2006, the Company completed the sale of its 55 percent interest in the deepwater section of Egypt s West Mediterranean Concession to Amerada Hess for $413 million. Apache did not have any oil and gas reserves recorded for these properties. Apache first announced this transaction on October 13, 2005.

On April 25, 2006, the Company acquired Pioneer s operations in Argentina for $675 million. The total cash consideration includes working capital balances purchased by the Company, asset retirement liabilities assumed and transaction costs. The properties are located in the Neuquén, San Jorge and Austral basins of Argentina and had estimated net proved reserves of approximately 22 MMbbls of liquid hydrocarbons and 297 Bcf of natural gas as of December 31, 2005. The properties include eight gas processing plants (five operated and three non-operated) and 112 miles of operated pipelines in the Neuquén Basin. Also included are 2,200 square miles of 3-D seismic data. Apache financed the purchase with cash on hand and commercial paper.

In June 2006, the Company acquired BP s remaining producing properties on the Outer Continental Shelf of the Gulf of Mexico. The original purchase price was reduced from $1.3 billion to $845 million because other interest owners exercised their preferential rights to purchase five of the original 18 producing fields. The settlement price on the date of closing of $821 million was adjusted primarily for revenues and expenditures occurring between the closing date and the effective date of the acquisition. The effective date of the purchase was April 1, 2006. The properties include 13 producing fields (nine of which are operated) with estimated proved reserves of 19.5 MMbbls of liquid hydrocarbons and 148 Bcf of natural gas. Apache financed the purchase with cash on hand and commercial paper.

On August 8, 2006, the Company sold its 24.5 percent interest in the Zhao Dong block offshore the People s Republic of China to Australia-based ROC Oil Company Limited for $260 million, marking Apache s exit from China. The transaction was effective July 1, 2006. The Company booked a $174 million gain on the transaction.

During the third quarter of 2006, Apache acquired additional interests in (and now operates) seven concessions in the Tierra del Fuego Province from Pan American for total consideration of $429 million. The total cash consideration allocated below includes working capital balances purchased, asset retirement obligations assumed and an obligation to deliver specific gas volumes in the future. Apache financed the purchase with cash on hand and commercial paper.

Impact of 2005 Hurricanes:

The hurricanes that struck the Gulf of Mexico in 2005 continue to impact the Company s U.S. Gulf Coast operations, both onshore and offshore Louisiana and Texas. As of September 30, 2006, the Company estimates that it will be able to restore an additional 18 million net cubic feet of natural gas per day and 7,000 net barrels of crude oil per day from currently shut-in production. Restoration activities will continue into 2007.

The Company estimates that costs for abandonment (including removal of wreckage), repairs and redevelopment will total $1.1 billion. The Company has collected $150 million for business interruption losses and expects to collect between $325 and $350 million for repairs, abandonment and redevelopment. The Company is also pursuing additional recoveries for removal of wreckage costs.

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Common Stock Purchases:

On April 19, 2006, the Company announced that its Board of Directors authorized the purchase of up to 15 million shares of the Company s common stock representing a market value of approximately $1 billion on the date of the announcement. The Company may buy shares from time to time on the open market, in privately negotiated transactions, or a combination of both. The timing and amounts of any purchases will be at the discretion of Apache s management. The Company initiated the program on May 1, 2006, after the Company s first-quarter 2006 earnings information was disseminated in the market. Through September 30, 2006, the Company purchased 2,500,000 shares at an average of $69.74 per share.

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Results of Operations

Revenues

The table below presents oil and gas production revenues, production and average prices received from sales of natural gas, oil and natural gas liquids.

	For the Quarter Ended September 30,			For the Nine Months Ended September 30,		
	2006	2005	Increase (Decrease)	2006	2005	Increase (Decrease)
Revenues (in thousands):						
Oil	$ 1,267,880	$ 1,261,192	0.53%	$ 3,740,472	$ 3,328,102	12.39%
Natural gas	758,726	761,399	(0.35%)	2,245,550	2,035,941	10.30%
Natural gas liquids	46,209	29,153	58.51%	122,218	88,885	37.50%
Total	$ 2,072,815	$ 2,051,744	1.03%	$ 6,108,240	$ 5,452,928	12.02%
Oil Volume Barrels per day:						
United States	67,996	64,906	4.76%	64,277	71,860	(10.55%)
Canada	20,509	21,974	(6.67%)	21,123	22,226	(4.96%)
Egypt	54,634	54,728	(0.17%)	55,756	54,110	3.04%
Australia	12,249	16,499	(25.76%)	12,146	15,323	(20.73%)
North Sea	49,375	67,713	(27.08%)	58,370	64,966	(10.15%)
Argentina	8,960	1,339	NM	5,632	1,074	NM
China	2,745	6,533	(57.98%)	4,234	9,224	(54.10%)
Total	216,468	233,692	(7.37%)	221,538	238,783	(7.22%)
Average Oil price Per barrel:						
United States	$ 58.39	$ 53.85	8.43%	$ 55.38	$ 47.72	16.05%
Canada	66.09	60.66	8.95%	62.30	52.12	19.53%
Egypt	66.88	60.38	10.77%	65.66	53.29	23.21%
Australia	73.80	66.52	10.94%	71.67	58.06	23.44%
North Sea	67.04	60.46	10.88%	64.68	52.33	23.60%
Argentina	46.41	39.18	18.45%	45.03	36.96	21.83%
China	62.53	50.76	23.19%	62.73	42.35	48.12%
Total	63.66	58.66	8.52%	61.85	51.05	21.16%
Natural Gas Volume Mcf per day:						
United States	719,324	586,111	22.73%	653,379	625,716	4.42%
Canada	422,397	373,079	13.22%	408,758	366,892	11.41%
Egypt	207,686	162,386	27.90%	213,097	154,839	37.62%

Australia	204,465	138,267	47.88%	181,143	120,759	50.00%
North Sea	1,738	2,384	(27.10%)	2,055	2,287	(10.14%)
Argentina	151,122	2,715	NM	86,275	3,142	NM
China						
Total	1,706,732	1,264,942	34.93%	1,544,707	1,273,635	21.28%
Average Natural Gas price Per Mcf:						
United States	$ 6.27	$ 7.73	(18.89%)	$ 6.62	$ 6.71	(1.34%)
Canada	5.38	7.17	(24.97%)	6.22	6.28	(0.96%)
Egypt	4.63	4.97	(6.84%)	4.50	4.67	(3.64%)
Australia	1.70	1.69	0.59%	1.65	1.73	(4.62%)
North Sea	13.20	10.57	24.88%	10.79	7.63	41.42%
Argentina	0.89	1.35	(34.07%)	0.91	1.14	(20.18%)
China						
Total	4.83	6.54	(26.15%)	5.32	5.86	(9.22%)
Natural Gas Liquids (NGL) Volume Barrels per day:						
United States	7,896	7,097	11.26%	8,088	8,529	(5.17%)
Canada	2,104	2,232	(5.73%)	2,169	2,187	(0.82%)
Argentina	2,083		NM	1,154		NM
Total	12,083	9,329	29.52%	11,411	10,716	6.49%
Average NGL Price Per barrel:						
United States	$ 42.19	$ 34.54	22.15%	$ 39.73	$ 31.10	27.75%
Canada	38.66	32.13	20.32%	36.83	27.59	33.49%
Argentina	42.15			40.31		
Total	41.57	33.97	22.37%	39.23	30.38	29.13%

NM not meaningful

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Crude Oil Revenues

Third-quarter 2006 consolidated crude oil revenues increased $7 million from the comparable 2005 quarter with a $5.00 per barrel increase in average realized oil price offsetting a seven percent decrease in average daily production. All segments reported increases in realized crude oil price, with the U.S. and Argentina also benefiting from production growth relative to the 2005 third-quarter. For the 2006 nine-month period, crude oil revenues increased $412 million from the comparable 2005 period reflecting a $10.80 per barrel increase in oil price, which offsets a seven percent decrease in daily production.

U.S. third-quarter 2006 crude oil revenues increased $44 million compared to the same quarter of 2005. This increase was the result of an eight percent increase in realized price and a five percent increase in crude oil production. The Central region was the primary contributor to increased production through the Amerada Hess, Bronco, Five State and JDT acquisitions in addition to an active drilling program. The Gulf Coast region reported increased production related to the BP acquisition that was offset by natural decline, facility downtime and the impact of hurricane damage. Nine-month period revenues increased $36 million period over period on a 16 percent increase in crude oil price realizations, which was offset by an 11 percent decrease in production.

Argentina contributed an additional $33 million in revenues for the third quarter of 2006 compared to the same quarter in 2005, which is related to a 7,621 b/d increase in production. The increase in crude oil production resulted from the acquisitions of Pioneer s Argentine operations in April 2006 and from Pan American which closed September 18, 2006. Argentina s nine-month period revenues were up $58 million from 2005, reflecting the impact of the Pioneer and Pan American acquisitions.

Egypt contributed additional revenues of $32 million in the third quarter of 2006 compared to the same quarter in 2005. This increase in revenue was attributable to an 11 percent increase in crude oil price while production remained relatively flat. Egypt s nine-month revenues improved $212 million over the 2005 period on a three percent increase in production complimented by a 23 percent increase in price.

Canada s third-quarter 2006 revenues increased $2 million over third-quarter 2005 on a nine percent increase in price, which was offset by a seven percent decrease in oil production. First nine months oil revenues were up $43 million relative to 2005, on a 20 percent improvement in price. Daily production for the first nine months of 2006 was five percent below 2005 levels.

Australia s third-quarter 2006 crude oil revenues decreased $18 million compared to third-quarter 2005. This decrease reflects 26 percent lower crude oil production, which is partially offset by an 11 percent increase in price. The production decreases generated lower revenues of $29 million that were offset by higher price realizations of $11 million. The production decline was driven by inefficiencies of gas lift compression experienced at the Legendre field, increased water cut at Legendre North 5H and natural decline of Harriet and Mohave oil fields and lower condensate liquids associated with lower production from the Linda and Rose gas fields. These declines were offset by production gains from the Zephyrus and Bambra fields, increased condensate production from the John Brookes field, successful Stag well work and optimization program. Revenues for the first nine months of 2006 were $5 million lower than the relevant 2005 period, reflecting a 21 percent decrease in production, which was offset by a 23 percent increase in price.

The North Sea s third-quarter 2006 crude oil revenues were $72 million lower than the comparable quarter of 2005, which is related to a 27 percent decrease in oil production partially offset by an 11 percent increase in price. The production decline was associated with a BP Forties pipeline system seven day shutdown in addition to an accelerated planned Forties Delta Platform turnaround. These production declines were partially offset by new wells. Nine-month period revenues improved $102 million from the comparable 2005 period on a 24 percent increase in price which offset the impact of a 10 percent decrease in production.

China s third-quarter 2006 revenues decreased $14 million compared to third-quarter 2005 with the disposition of all of our Zhao Dong block assets to ROC, which closed on August 8, 2006.

Approximately 11 percent and nine percent of our worldwide crude oil production was subject to financial derivative hedging for the third quarter and first nine months of 2006, compared to six percent for the comparable periods in 2005. Currently, all of our crude oil derivative positions have been designated against U.S. production.

These financial derivative instruments reduced our third-quarter 2006 and 2005 worldwide realized price $1.76 and $.99 per barrel, respectively. For the nine-month periods ending September 30, 2006 and 2005 these hedges

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reduced our average realized prices $1.60 and $.61 per barrel, respectively. (See Note 2, Hedging and Derivative Instruments, of this Form 10-Q for a summary of the current derivative positions and terms.)

Natural Gas Revenues

Third-quarter 2006 consolidated natural gas revenues decreased $3 million from the comparable prior-year quarter with a 35 percent increase in natural gas production adding $196 million to period revenues, offset by $199 million from a 26 percent decrease in realized natural gas price. Production in all of our major gas producing regions increased, with the U.S. reflecting a 23 percent rise in production and Argentina adding 148 MMcf/d. Natural gas prices were down in all major producing regions except Australia which was relatively flat period to period. For the nine-month period, consolidated natural gas revenues increased $210 million from the comparable 2005 period, reflecting a 21 percent increase in production and a nine percent decrease in price realizations.

Egypt added $14 million to third-quarter 2006 consolidated natural gas revenues compared to the same quarter of 2005. Egypt s production increased 28 percent while price realizations were seven percent lower than the 2005 quarter. Egypt s production growth was primarily attributed to the Khalda concession Qasr field. On a nine-month comparison, Egypt added $64 million to 2006 revenues on a 38 percent rise in production. A four percent decline in comparative prices period to period had minimal impact on revenues.

Argentina s 2006 third-quarter revenues were $12 million higher compared to the same quarter of 2005 because of the Pioneer and Pan American acquisitions. Gas revenues for the first nine months of 2006 were up $20 million when compared to 2005. Lower relative price realizations in both the three-month and nine-month 2006 periods had minimal impact on 2006 third-quarter and nine-month comparative natural gas revenues.

Australia s third-quarter 2006 natural gas revenues were $10 million higher than the respective prior-year period resulting from a 48 percent rise in production, mainly focused in the John Brookes field. Australia contributed an additional $24 million to 2006 first nine months gas revenues when compared to 2005. The added revenues related to a 50 percent rise in production, mainly from the John Brookes field. The nine-month 2006 Australian natural gas price averaged five percent less than the first nine months of 2005.

U.S. third-quarter 2006 natural gas revenues were $2 million lower than the same quarter of 2005. Third-quarter production increased 23 percent adding $77 million to revenues, offset by a 19 percent decrease in natural gas prices lowering revenues by $79 million. Production in our Gulf Coast region was up 27 percent primarily because of the BP acquisition and new drills while the Central region also reported a 17 percent increase in production from a successful drilling and recompletion program and acquisitions. U.S. natural gas revenues for the 2006 nine-month period were $35 million higher than the relevant 2005 period, with a four percent increase in production offsetting a one percent decrease in price realizations.

Canada s third-quarter 2006 natural gas revenues decreased $37 million over the comparable quarter of 2005 from a 25 percent decrease in realized price, partially offset by a 13 percent increase in gas production. The production increase resulted from drilling and development activity on the acreage farmed in from ExxonMobil, increased Gas Cost Allowance royalty relief and a lawsuit settlement at Ladyfern. Canada contributed $65 million higher gas revenues for the nine-month period compared to 2005 on an 11 percent increase in production.

Although a majority of our worldwide gas sales contracts are indexed to prevailing market prices, approximately seven percent and nine percent of our third-quarter 2006 and 2005 U.S. natural gas production, respectively, was subject to long-term, fixed-price physical contracts. Approximately eight percent of our U.S. natural gas production for the first nine months of 2006 was subject to long-term, fixed price physical contracts down from nine percent in the prior year. These fixed-price contracts reduced third-quarter 2006 and 2005 worldwide realized prices $.07 and $.16 per Mcf, respectively and 2006 and 2005 nine-month worldwide realized prices $.11 and $.13 per Mcf, respectively. Additionally, nearly all of our Australian natural gas production is subject to long-term, fixed-price supply contracts that are periodically adjusted for changes in Australia s consumer price index. Since these contracts are denominated in Australian dollars, the resulting revenues are impacted by changes in the value of the Australian dollar relative to the U.S. dollar. In Argentina, our natural gas is sold into three separate markets; 1) the residential market, where prices are regulated by the Argentine government; 2) the commercial market for small industrial companies and electrical generation, where prices, although higher than for the residential market, are also controlled by the Argentine government; and 3) the negotiated market for large industrial users, where prices fluctuate throughout the year based on supply and demand. Delivery requirements into the residential and commercial markets are determined proportionately among all industry participants. Regulated pricing on a portion of our gas market in Argentina lessens price volatility.

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In addition to fixed price physical contracts, approximately 10 percent and eight percent of our worldwide natural gas production was subject to financial derivative hedges for the third-quarter and nine-month periods of 2006, compared to seven percent and 10 percent for the comparable periods in 2005. At the close of this quarter, all of our natural gas derivative positions had been designated against available production. These derivative financial instruments reduced our third-quarter 2006 and 2005 consolidated realized prices $.02 and $.12 per Mcf, respectively. Our average realized prices for the first nine-month periods of 2006 and 2005 were reduced $.07 and $.06 per Mcf, respectively. (See Note 2, Hedging and Derivative Instruments, of this Form 10-Q for a summary of our current derivative positions and terms.)

Costs

The table below presents a comparison of Apache s expenses on an absolute dollar basis and an equivalent unit of production (boe) basis. This discussion may reference either expenses on a boe basis or expenses on an absolute dollar basis, or both, depending on their relevance.

	For the Quarter Ended September 30,				For the Nine Months Ended September 30,			
	2006	2005	2006	2005	2006	2005	2006	2005
	(In millions)		(Per boe)		(In millions)		(Per boe)	
Depreciation, depletion and amortization (DD&A):								
Oil and gas property and equipment	$ 456	$ 333	$ 9.68	$ 7.97	$ 1,215	$ 991	$ 9.08	$ 7.86
Other assets	31	24	.65	.58	86	65	.64	.51
Asset retirement obligation accretion	23	14	.48	.32	64	40	.48	.32
Lease operating costs	362	280	7.67	6.71	966	769	7.21	6.10
Gathering and transportation costs	25	24	.53	.56	77	74	.58	.58
Severance and other taxes	117	150	2.49	3.60	433	309	3.23	2.45
General and administrative expense	54	50	1.14	1.20	152	152	1.13	1.21
Financing costs, net	42	27	.89	.65	96	90	.72	.72
Total	$ 1,110	$ 902	$ 23.53	$ 21.59	$ 3,089	$ 2,490	$ 23.07	$ 19.75

Depreciation, Depletion and Amortization (DD&A)

Third-quarter 2006 full-cost DD&A expense of $456 million was $123 million higher than the comparative quarter of 2005. The Company s 2006 third-quarter full-cost DD&A rate increased $1.71 to $9.68 per boe, from the same quarter last year, reflecting rising acquisition costs, higher abandonment cost estimates, rising industry-wide drilling and finding costs, especially in the U.S. and Canada, and incremental future development costs associated with recent acquisitions and newly identified development projects. The increase in costs, including increased estimates of future development costs, is related to increased demand for drilling and associated services, a consequence of both higher oil and gas prices and additional demand resulting from the ongoing need to repair damage caused by hurricanes Katrina and Rita in the third quarter of 2005. The increase in third-quarter 2006 DD&A, relative to the 2005 quarter, was mitigated by a decline in Egypt resulting from the January 2006 sale of Egypt s deepwater acreage.

DD&A expense for the first nine months of 2006 totaled $1.2 billion, $224 million more than 2005. The full-cost DD&A rate averaged $9.08 per boe, $1.22 higher than 2005. The same factors driving the increase in the 2006 third-quarter rate drove the increase in the nine-month period rate.

Lease Operating Costs (LOE)

LOE increased $82 million from the third quarter of last year to $362 million in the 2006 third quarter. On a per unit basis, 2006 third-quarter LOE was up $.96 from the 2005 quarter to $7.67 per boe. LOE for the nine months ended September 30, 2006 totaled $966 million, $197 million more than 2005. Unit costs for the nine-month period were $7.21 per boe compared to $6.10 in 2005. Rising production mitigated the impact of industry-wide increases in service costs by spreading the higher costs across more units of production.

The increases in the per unit rates for both periods were attributable to higher service costs associated with rising commodity prices, driving increases in repair and maintenance costs, ad valorem costs, contract labor, and the impact of a weaker U.S. dollar on Canadian LOE. Historically, electricity, fuel and ad valorem costs have been directly impacted by rising commodity prices. Other service costs have historically risen as a result of increased activity, and hence demand, in high commodity price environments.

On a regional basis, the U.S. added $.35 to the 2006 third-quarter consolidated rate, most of which was related to workover activity and offshore repair and maintenance projects, the North Sea $.70, Canada $.35 and China $.02.

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Lower production, higher repair and maintenance costs and higher fuel and service costs drove the increase in the North Sea. Canada s impact was driven by the impact of a weaker U.S. dollar on Canadian LOE, higher relative repair and maintenance costs and higher chemicals, power, fuel and labor costs, while China s increase was a result of a decline in production volumes as partner advances were fully recovered in the second half of 2005, thereby reducing the Company s net entitlement. Argentina lowered the third-quarter consolidated rate $.30 per boe on the production added from the April 2006 Pioneer acquisition, while Australia and Egypt lowered the rate $.15 and $.01 per boe, respectively. Australia s impact was related to the production from the John Brookes field which more than offset the impact of higher maintenance and insurance costs. Egypt s impact was attributed to production increases from the Qasr field in the Khalda Concession which more than offset the processing fees associated with the Qasr gas, higher fuel costs and contract labor.

For the nine-months ended September 30, 2006, the U.S. added $.60, Canada $.39, the North Sea $.32, and China $.06 to the consolidated boe rate. Argentina, Australia and Egypt lowered the consolidated rate $.13, $.09 and $.03 per boe, respectively.

For a more detailed discussion of production, refer to Results of Operations Revenues of this Management s Discussion and Analysis of Financial Condition and Results of Operations.

Gathering and Transportation Costs

Gathering and transportation costs were flat quarter over quarter and increased four percent for the first nine months of 2006 compared to the same period in 2005. The following table presents gathering and transportation costs paid directly by Apache to third-party carriers for each of the periods presented.

	For the Quarter Ended September 30,		For the Nine Months Ended September 30,	
	2006	2005	2006	2005
	(In millions)			
U.S	$ 8	$ 7	$ 23	$ 23
Canada	8	8	26	24
North Sea	6	8	19	21
Egypt	3	1	8	5
Argentina			1	
China				1
Total Gathering and Transportation	$ 25	$ 24	$ 77	$ 74

For both periods presented, these costs related to the transportation of crude oil and natural gas in our North American operations, transportation of crude oil in the North Sea and transportation of crude oil from Egypt.

Severance and Other Taxes

Third-quarter 2006 severance and other taxes totaled $118 million, $32 million less than the prior-year quarter. For the nine-month period, severance and other taxes totaled $433 million compared to $309 million in the year-earlier period. A detail of these taxes follows:

	For the Quarter Ended September 30,		For the Nine Months Ended September 30,	
	2006	2005	2006	2005
	(In millions)			
Severance taxes	$ 34	$ 43	$ 96	$ 103
U.K. PRT	74	99	305	188

Canadian taxes	5	6	14	15
Other	5	2	18	3
Total Severance and Other Taxes	$ 118	$ 150	$ 433	$ 309

U.K. Petroleum Revenue Tax (PRT) is assessed on net profits from subject fields in the North Sea. The decrease in third-quarter 2006 PRT, compared to the 2005 quarter, was attributable to a 19 percent decrease in revenues and an 11 percent decrease in deductible costs. The increase in PRT for the nine-month period was related to an 11 percent increase in revenues and a 20 percent decrease in deductible costs.

Severance taxes are incurred in the U.S. and Australia. U.S. severance taxes were flat period over period. Australia s third-quarter 2006 severance taxes were down $11 million when compared to the third quarter of 2005. The lower comparative taxes were associated with a decline in taxes which were assessed on fewer production volumes at the Legendre and Harriet fields. For the nine-month period ending September 30, 2006, U.S. severance taxes rose $12 million on higher price-driven revenues, while Australia s severance taxes declined $19 million as discussed under quarterly comparisons.

Other taxes for the 2006 nine-month period were $15 million more than 2005 primarily because of additional state franchise taxes in the U.S. related to expanding operations, increases in other miscellaneous taxes and $5 million of newly enacted special profits charges levied on petroleum revenues by the Chinese government. During the third-quarter of 2006 Apache sold its interest in China.

General and Administrative Expense

Third-quarter 2006 general and administrative expense (G&A) totaled $54 million, $4 million more than the third quarter of 2005. The higher costs were related to growth in our international areas, including the Argentina acquisitions, and higher insurance costs. The higher costs were partly offset by lower stock-based compensation. Apache s cash-based SAR s program is expensed based on changes in the Company s stock price and resulted in greater expense in the 2005 period when compared to 2006. G&A expense for the 2006 nine-month period totaled $152 million, flat compared to the same period of 2005 with the additional costs associated with acquisitions and increasing insurance costs offset by lower stock-based compensation costs, as explained above.

Provision for Income Taxes

Third-quarter 2006 provision for income tax expense totaled $504 million, $32 million more than the 2005 third quarter. The third-quarter 2006 effective rate of 43.8 percent was impacted by a new 10 percent oil and gas company supplemental tax enacted by the U.K. during the third quarter of 2006, including a $92 million income tax charge associated with retroactive application of the rate increase. Also, the impact of a reduction in federal and provincial tax rates enacted by Canada during the second quarter of 2006 impacted the third-quarter s effective rate when compared to the 2005 third-quarter rate of 40.8 percent.

Nine-month 2006 income tax expense of $1.2 billion was $44 million more than the 2005 comparable period. The effective rate for the 2006 period was 37.2 percent comparable to the 38.7 percent effective rate in the 2005 nine-month period. The impact of the 2006 Canadian income rate reductions more than offset the impact of the new U.K. supplemental tax and foreign exchange movement.

The effective income tax rates for both the 2006 third-quarter and nine-month period were impacted by the gain recognized in conjunction with the divestment of operations in China. The Company intends to permanently reinvest earnings of its foreign subsidiaries and as such, has not recorded U.S. income tax expense on any undistributed foreign earnings, including the gain from the China sale.

Capital Resources and Liquidity

Financial Indicators

	September 30, 2006	December 31, 2005
Millions of dollars except as indicated		
Cash	$ 161	$ 229
Current ratio	.68	.99
Total debt	$ 3,648	$ 2,192
Shareholders equity	$ 12,635	$ 10,541
Percent of total debt to capitalization	22%	17%

Floating-rate debt/total debt	40%

Overview

Apache s primary uses of cash are exploration, development and acquisition of oil and gas properties, costs and expenses necessary to maintain continued operations, repayment of principal and interest on outstanding debt and payment of dividends.

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The Company funds its exploration and development activities primarily through net cash provided by operating activities (cash flow) and budgets capital expenditures based on projected cash flow. Cash flow, both in the short-term and long-term, is impacted by highly volatile oil and natural gas prices, production levels and industry trends impacting operating expenses and drilling costs. Future cash flows are also dependent on our ability to continue to acquire or find high-margin reserves at competitive prices. For these reasons, we only forecast, for internal use by management, an annual cash flow. Longer term cash flow and capital spending projections are not used by management to operate our business. The annual cash flow forecasts are revised monthly in response to changing market conditions and production projections. Apache routinely adjusts capital expenditure budgets throughout the year in response to the adjusted cash flow forecasts and market trends in drilling and acquisitions costs.

The Company has historically utilized internally generated cash flow, committed and uncommitted credit facilities, and access to both debt and equity capital markets for all other liquidity and capital resources needs. Apache s ability to access the debt capital market is supported by its investment grade credit ratings. Apache s senior unsecured debt is currently rated investment grade by Moody s, Standard and Poor s and Fitch with ratings of A3, A- and A, respectively. Because of the liquidity and capital resources alternatives available to Apache, including internally generated cash flows, Apache s management believes that its short-term and long-term liquidity is adequate to fund operations, including its capital spending program, repayment of debt maturities and any amounts that may ultimately be paid in connection with contingencies.

Given the Company s current capital resource and liquidity position, an announcement was made in April 2006 that the Board of Directors authorized the purchase of up to 15 million shares of the Company s common stock, valued at approximately $1 billion when first announced. Shares may be purchased either in the open market or through privately negotiated transactions. The Company anticipates that any purchases will be made with excess cash flows and short-term borrowing, but the Company is not obligated to acquire any specific number of shares. The Company initiated the program on May 1, 2006, after the Company s first-quarter 2006 earnings information was disseminated in the market. Through September 30, 2006, the Company repurchased 2,500,000 of the shares at an average price of $69.74 per share.

The Company s ratio of current assets to current liabilities was .68 on September 30, 2006, compared to .99 on December 31, 2005. The decrease in the ratio was the result of an increase in current liabilities of $1.3 billion partially offset by a $218 million increase in current assets. The increase in current liabilities from the end of 2005 was principally driven by the issuance of commercial paper to fund acquisitions although variations in other current liability categories impacted the ultimate change. The increase in current assets for the same period primarily related to receivables, inventories and prepaid assets, with variations in other current asset categories impacting the overall change.

Net Cash Provided by Operating Activities

Apache s net cash provided by operating activities for the first nine months of 2006 totaled $3.4 billion, up from $3.2 billion for the same period in 2005. The increase in 2006 cash flow was attributed to higher net income, which was driven by increased production revenues in the period as discussed in Results of Operations under Item 2, Management s Discussion and Analysis of Financial Condition and Results of Operations in this Form 10-Q.

Historically, fluctuations in commodity prices have been the primary reason for the Company s short-term changes in cash flow from operating activities. Sales volume changes have also impacted cash flow in the short-term, but have not been as volatile as commodity prices. Apache s long-term cash flow from operating activities is dependent on commodity prices, reserve replacement, and the level of costs and expenses required for continued operations. Normal fluctuations in operating asset and liability balances also impacted net cash from operating activities.

Debt

During the first nine months of 2006, the Company s debt-to-capitalization ratio increased to 22 percent from 17 percent on December 31, 2005, as a result of an increase in commercial paper outstanding following $2.4 billion of acquisitions. The Company s outstanding debt includes notes and debentures maturing in the years 2007 through 2096.

The Company has available a $1.95 billion commercial paper program which enables Apache to borrow funds for up to 270 days at competitive interest rates. As of September 30, 2006, Apache had $1.41 billion of commercial paper outstanding. The weighted-average interest rate for commercial paper was 5.06 percent and 2.92 percent for the first nine months of 2006 and 2005, respectively. If the Company is unable to issue commercial paper following a significant credit downgrade or dislocation in the market, the Company s U.S. credit facilities are available as a 100-percent backstop. The Company was in compliance with the terms of the credit facilities as of September 30, 2006.

In May 2006, the Company amended its existing five-year revolving U.S. credit facility which was scheduled to mature on May 28, 2009. The amendment: (a) extended the maturity to May 28, 2011, (b) increased the size of the facility from $750 million to $1.5 billion, and (c) reduced the facility fees from .08% to .06% and reduced the margin over LIBOR on loans from .27% to .19%. The lenders also extended the maturity dates of the $150 million Canadian facility, the $150 million Australian facility and $385 million of the $450 million U.S. credit facility, for an additional year to May 12, 2011 from May 12, 2010. The Company also increased commercial paper availability to $1.95 billion from $1.20 billion.

In August 2006, the Company extended the maturity of another $25 million in commitments under the $450 million U.S. credit facility for an additional year. As a result, $410 million will mature on May 12, 2011, and $40 million will mature on May 12, 2010.

As of September 30, 2006, available borrowing capacity under our total credit facilities was $839 million and the Company had $161 million of cash and cash equivalents on hand.

Oil and Gas Capital Expenditures

The Company funded its exploration and production capital expenditures, including gathering, transportation and marketing facilities and capitalized interest of $2.9 billion in both nine-month periods of 2006 and 2005 primarily with internally generated cash flow of $3.4 billion and $3.2 billion, respectively.

The following table presents a summary of the Company s capital expenditures for each of our reportable segments for the nine month periods ended September 30, 2006 and 2005.

	For the Nine Months Ended September 30,	
	2006	2005
	(In thousands)	
Exploration and development:		
United States	$ 1,108,793	$ 803,297
Canada	721,989	854,032
Egypt	330,599	262,315
Australia	115,540	174,809
North Sea	255,219	399,836
Argentina	63,621	18,414
Other International	12,288	18,791
	$ 2,608,049	$ 2,531,494
Capitalized Interest	$ 46,183	$ 42,653
Gas gathering, transmission and processing facilities	$ 203,210	$ 319,243
Acquisitions:		

Oil and gas properties	$ 2,358,774	$ 35,826

Cash Dividend Payments

The Company has paid cash dividends on its common stock for 41 consecutive years through 2005. Future dividend payments will depend on the Company s level of earnings, financial requirements and other relevant factors. Common dividends paid during the three-month and nine-month periods ending September 30, 2006, rose to $33 million and $99 million, respectively, reflecting a slight increase in common shares outstanding and a 25 percent higher common stock dividend rate. The Company increased its quarterly cash dividend 50 percent, to 15 cents per share from 10 cents per share, effective with the November 2006 dividend payment. During the three-month and

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nine-month periods ending September 30, 2006, Apache paid $1.4 million and $4.3 million, respectively, in dividends on its Series B Preferred Stock issued in August 1998.

Contractual Obligations

We are subject to various financial obligations and commitments in the normal course of operations. These contractual obligations represent known future cash payments that we are required to make and relate primarily to commercial paper outstanding, long-term debt, operating leases, pipeline transportation commitments and international commitments. The Company expects to fund these contractual obligations with cash generated from operating activities.

Apache is also subject to various contingent obligations that become payable only if certain events or rulings were to occur. The inherent uncertainty surrounding the timing of and monetary impact associated with these events or rulings prevents any meaningful accurate measurement, which is necessary to assess the impact on future liquidity. Such obligations include environmental contingencies and potential settlements resulting from litigation. Apache s management feels that it has adequately reserved for its contingent obligations. The Company has reserved approximately $15 million for environmental remediation. The Company has also reserved approximately $7 million for various legal liabilities, in addition to $71 million, (plus accrued interest of $8.8 million) for the Texaco China B.V. litigation.

The Company s future liquidity could be impacted in the event of a significant downgrade of its credit ratings by Moody s, Standard and Poor s, and Fitch; however, we do not believe that such a sharp downgrade is reasonably likely. The Company s credit facilities do not require the Company to maintain a minimum credit rating. In addition, generally under our commodity hedge agreements, Apache may be required to post margin or terminate outstanding positions if the Company s credit ratings decline significantly. The negative covenants associated with our debt are outlined in greater detail in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, Capital Resources and Liquidity, Debt in the Company s 2005 Form 10-K.

Off-Balance Sheet Arrangements

Apache does not currently utilize any off-balance sheet arrangements with unconsolidated entities to enhance liquidity and capital resource positions.

ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Commodity Risk

The major market risk exposure is in the pricing applicable to our oil and gas production. Realized pricing is primarily driven by the prevailing worldwide price for crude oil and spot prices applicable to our United States and Canadian natural gas production. Prices received for oil and gas production have been and remain volatile and unpredictable. Average monthly oil price realizations, including the impact of fixed-price contracts and hedges, ranged from a low of $56.24 per barrel to a high of $68.59 per barrel during the first nine months of 2006. Average monthly gas price realizations, including the impact of fixed-price contracts and hedges, ranged from a monthly low of $4.61 per Mcf to a monthly high of $8.05 per Mcf during the same period. Based on the Company s worldwide oil production levels, a $1.00 per barrel change in the weighted-average realized price of oil would increase or decrease nine-month 2006 revenues by $61 million. Based on the Company s worldwide gas production levels, a $.10 per Mcf change in the weighted-average realized price of gas would increase or decrease nine-month 2006 revenues by $40 million.

Apache has historically only hedged long-term oil and gas prices related to a portion of its expected production associated with acquisitions. As such, the Company s use of hedging activity remains at a correspondingly low level. However, Apache hedged a portion of its expected production associated with the Company s 2006 drilling program. In the first nine months of 2006, financial derivative hedges represented approximately eight percent of the total worldwide natural gas production and nine percent of the total worldwide crude oil production. Hedges in place are related to U.S. and Canadian production and represent approximately 10 percent of worldwide production for natural gas and crude oil for the remainder of 2006.

On September 30, 2006, the Company had open natural gas derivative positions with a fair value of $55 million. A 10 percent increase in natural gas prices would decrease the fair value by $54 million. A 10 percent decrease in prices would increase the fair value by $55 million. The Company also had open oil derivative positions with a fair

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value of $(21) million on September 30, 2006. A 10 percent increase in crude oil prices would decrease the fair value by $117 million. A 10 percent decrease in prices would increase the fair value by $120 million. See Note 2, Hedging and Derivative Instruments of this Form 10-Q, for notional volumes associated with the Company s derivative contracts.

Governmental Risk

On October 10, 2006, the Ministry of Economy of Argentina issued Resolution No. 776/2006, the effect of which is to lift the existing exemption and impose an export duty on hydrocarbons exported from Tierra del Fuego. The Customs Administration subsequently issued regulations deeming the assessment retroactive from the first date the duty applied in 2002. The Company is currently assessing the impact of this resolution on its future production in Tierra del Fuego. The Company is fully indemnified from sellers for periods prior to our ownership, which commenced in 2006.

Interest Rate Risk

The Company interest rate risk exposure increased during the third quarter of 2006 with the addition of $171.9 million in floating-rate debt. As of September 30, 2006, the Company s fixed interest debt represented 60 percent of total debt. As a result, Apache s annual interest costs in 2006 will fluctuate based on short-term interest rates on approximately 40 percent of our total debt outstanding as of September 30, 2006. The impact on cash flow of a 10 percent change in the floating interest rate would be approximately $2.0 million per quarter on September 30, 2006, debt balances.

Foreign Currency Risk

The Company s cash flow stream relating to certain international operations is based on the U.S. dollar equivalent of cash flows measured in foreign currencies. In Australia, oil production is sold under U.S. dollar contracts and natural gas production is sold under fixed-price Australian dollar contracts. Over half the costs incurred for Australian operations are paid in Australian dollars. In Canada, the majority of oil and natural gas production is sold under Canadian dollar contracts. The majority of the costs incurred are paid in Canadian dollars. The North Sea oil production is sold under U.S. dollar contracts and the majority of costs incurred are paid in British pounds. In contrast, all oil and natural gas production in Egypt is sold for U.S. dollars and the majority of the costs incurred are denominated in U.S. dollars. In Argentina, most payments and receipts are received and paid in Argentine pesos. However, most contracts are priced on U.S. dollar equivalents. Revenue and disbursement transactions denominated in Australian dollars, Canadian dollars, British pounds and Argentine pesos are converted to U.S. dollar equivalents based on the exchange rate as of the transaction date.

A 10 percent change in the Australian and Canadian dollars, the British pound and the Argentine pesos as of September 30, 2006, would result in a foreign currency net gain or loss of approximately $120 million. This is primarily driven from foreign currency effects on the Company s deferred tax liability positions in its international operations.

The information set forth under Commodity Risk, Interest Rate Risk and Foreign Currency Risk in Item 7A of our annual report on Form 10-K for the year ended December 31, 2005, is incorporated herein by reference. Information about market risks for the quarter ended September 30, 2006, does not differ materially from the disclosure in our 2005 Form 10-K, except as noted above.

Forward-Looking Statements and Risk

Certain statements in this report, including statements of the future plans, objectives, and expected performance of the Company, are forward-looking statements that are dependent upon certain events, risks and uncertainties that may be outside the Company s control, and which could cause actual results to differ materially from those anticipated. Some of these include, but are not limited to, the market prices of oil and gas, economic and competitive conditions, inflation rates, legislative and regulatory changes, financial market conditions, political and economic uncertainties of foreign governments, future business decisions, and other uncertainties, all of which are difficult to predict.

There are numerous uncertainties inherent in estimating quantities of proved oil and gas reserves and in projecting future rates of production and the timing of development expenditures. The total amount or timing of actual future production may vary significantly from reserves and production estimates. The drilling of exploratory wells can involve significant risks, including those related to timing, success rates and cost overruns. Lease and rig

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availability, complex geology and other factors can affect these risks. Although Apache may make use of futures contracts, swaps, options and fixed-price physical contracts to mitigate risk, fluctuations in oil and natural gas prices or a prolonged continuation of low prices, may adversely affect the Company s financial position, results of operations and cash flows.

ITEM 4 CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

G. Steven Farris, the Company s President, Chief Executive Officer and Chief Operating Officer, and Roger B. Plank, the Company s Executive Vice President and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2006, the end of the period covered by this report. Based on that evaluation and as of the date of that evaluation, these officers concluded that the Company s disclosure controls were effective, providing effective means to ensure that information we are required to disclose under applicable laws and regulations is recorded, processed, summarized and reported in a timely manner. We also made no significant changes in internal controls over financial reporting during the quarter ending September 30, 2006, that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

We periodically review the design and effectiveness of our disclosure controls, including compliance with various laws and regulations that apply to our operations both inside and outside the United States. We make modifications to improve the design and effectiveness of our disclosure controls, and may take other corrective action, if our reviews identify deficiencies or weaknesses in our controls.

Management s Report on Internal Control over Financial Reporting

The management report called for by Item 308(a) of Regulation S-K is incorporated herein by reference to Report of Management on Internal Control Over Financial Reporting, included on Page F-1 in Item 15 of the Company s 2005 Form 10-K.

The independent auditors attestation report called for by Item 308(b) of Regulation S-K is incorporated by reference to Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting, included on Page F-3 in Item 15 of the Company s 2005 Form 10-K.

Changes in Internal Control over Financial Reporting

There was no change in our internal controls over financial reporting during the period covered by this quarterly Report on Form 10-Q that materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information set forth in Note 10 to the Consolidated Financial Statements contained in the Company s annual report on Form 10-K for the year ended December 31, 2005 (filed with the SEC on March 14, 2006) and the updating of those matters in this quarterly report in Item 1 Financial Statements, is incorporated herein by reference.

ITEM 1A. RISK FACTORS

During the quarter ending September 30, 2006, there were no material changes from the risk factors as previously disclosed in the Company s Form 10-K for the year end December 31, 2005.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table presents information on shares of common stock repurchased by the Company during the quarter ended September 30, 2006:

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs*	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs*
July 1 to July 31, 2006		$	2,250,000	12,750,000
August 1 to August 31, 2006			2,250,000	12,750,000
September 1 to September 30, 2006	250,000	63.81	2,500,000	12,500,000
Total	250,000	$ 63.81		

* On April 19, 2006, the Company announced that its Board of Directors authorized the repurchase of up to 15 million shares of the Company s common stock. The Company may buy shares from time to time on the open market, in privately

negotiated transactions, or a combination of both. The timing and amounts of any repurchases will be at the discretion of Apache s management and will depend on a variety of factors, including the current market price of the Company s common stock and overall market conditions.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

None

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ITEM 6. EXHIBITS

12.1	Statement of computation of ratio of earnings to fixed charges and combined fixed charges and preferred stock dividends.
31.1	Certification of Chief Executive Officer.
31.2	Certification of Chief Financial Officer.
32.1	Certification of Chief Executive Officer and Chief Financial Officer.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	APACHE CORPORATION
Dated: November 8, 2006	/s/ ROGER B. PLANK
	Roger B. Plank Executive Vice President and Chief Financial Officer
Dated: November 8, 2006	/s/ REBECCA A. HOYT
	Rebecca A. Hoyt Vice President and Controller (Chief Accounting Officer)

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Exhibit Index

12.1	-	Statement of computation of ratio of earnings to fixed charges and combined fixed charges and preferred stock dividends.
31.1	-	Certification of Chief Executive Officer.
31.2	-	Certification of Chief Financial Officer.
32.1	-	Certification of Chief Executive Officer and Chief Financial Officer.