

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 1999

OR

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

For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-4300

APACHE CORPORATION

-----  
(Exact Name of Registrant as Specified in Its Charter)

Delaware  
-----  
(State or Other Jurisdiction of  
Incorporation or Organization)

41-0747868  
-----  
(I.R.S. Employer  
Identification Number)

Suite 100, One Post Oak Central  
2000 Post Oak Boulevard, Houston, TX  
-----  
(Address of Principal Executive Offices)

77056-4400  
-----  
(Zip Code)

Registrant's Telephone Number, Including Area Code: (713) 296-6000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES      X      NO  
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Number of shares of Registrant's common stock, outstanding as of September 30, 1999.....114,083,242

## PART I - FINANCIAL INFORMATION

## ITEM 1 - FINANCIAL STATEMENTS

APACHE CORPORATION AND SUBSIDIARIES  
STATEMENT OF CONSOLIDATED OPERATIONS  
(UNAUDITED)

	FOR THE QUARTER ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	1999	1998	1999	1998
	(In thousands, except per common share data)			
<b>REVENUES:</b>				
Oil and gas production revenues	\$ 338,633	\$ 182,801	\$ 744,012	\$ 590,606
Gathering, processing and marketing revenues	44,961	29,756	105,456	88,872
Other revenues	1,797	(874)	5,274	(1,722)
	-----	-----	-----	-----
	385,391	211,683	854,742	677,756
	-----	-----	-----	-----
<b>OPERATING EXPENSES:</b>				
Depreciation, depletion and amortization	119,189	94,818	313,010	290,604
Operating costs	60,646	49,344	158,771	158,511
Gathering, processing and marketing costs	44,429	28,970	103,626	86,590
Administrative, selling and other	15,221	13,860	37,685	34,026
Financing costs:				
Interest expense	33,479	30,167	97,586	90,498
Amortization of deferred loan costs	1,101	1,107	3,316	3,415
Capitalized interest	(13,694)	(12,883)	(39,663)	(36,271)
Interest income	(572)	(1,090)	(1,396)	(3,560)
	-----	-----	-----	-----
	259,799	204,293	672,935	623,813
	-----	-----	-----	-----
<b>INCOME BEFORE INCOME TAXES</b>	125,592	7,390	181,807	53,943
Provision for income taxes	52,814	4,189	78,429	24,150
	-----	-----	-----	-----
<b>NET INCOME</b>	72,778	3,201	103,378	29,793
Preferred stock dividends	4,947	584	9,503	584
	-----	-----	-----	-----
<b>INCOME ATTRIBUTABLE TO COMMON STOCK</b>	\$ 67,831	\$ 2,617	\$ 93,875	\$ 29,209
	=====	=====	=====	=====
<b>NET INCOME PER COMMON SHARE:</b>				
Basic	\$ .59	\$ .03	\$ .89	\$ .30
	=====	=====	=====	=====
Diluted	\$ .59	\$ .03	\$ .88	\$ .30
	=====	=====	=====	=====

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

APACHE CORPORATION AND SUBSIDIARIES  
STATEMENT OF CONSOLIDATED CASH FLOWS  
(UNAUDITED)

	FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	1999	1998
	(In thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 103,378	\$ 29,793
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	313,010	290,604
Amortization of deferred loan costs	3,316	3,415
Provision for deferred income taxes	41,912	2,771
Other	(623)	364
Cash distributions in excess of earnings of affiliates	--	1,523
Changes in operating assets and liabilities:		
(Increase) decrease in receivables	(116,188)	54,338
Increase in advances to oil and gas ventures and other	(8,388)	(3,510)
(Increase) decrease in deferred charges and other	(3,132)	16,276
Increase (decrease) in payables	51,100	(62,585)
Increase (decrease) in accrued expenses	14,798	(3,988)
Increase (decrease) in advances from gas purchaser	(17,808)	56,891
Increase (decrease) in deferred credits and noncurrent liabilities	8,006	(4,486)
	-----	-----
Net cash provided by operating activities	389,381	381,406
	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Additions to property and equipment	(425,698)	(512,515)
Acquisition of Shell properties	(687,632)	--
Acquisition of British-Borneo interests, net of cash acquired	(83,590)	--
Non-cash portion of net oil and gas property additions	(42,015)	(29,130)
Proceeds received from sales of property and equipment	149,737	130,753
Proceeds from sale of assets held for resale	--	62,998
Proceeds from sale of stock held for investment	--	26,147
Other, net	(9,983)	(15,418)
	-----	-----
Net cash used in investing activities	(1,099,181)	(337,165)
	-----	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Long-term borrowings	733,758	446,248
Payments on long-term debt	(645,872)	(498,420)
Dividends paid	(29,331)	(20,335)
Proceeds from issuance of preferred stock	210,490	98,630
Common stock activity, net	456,459	1,085
Treasury stock activity, net	(12,072)	(21,430)
Cost of debt and equity transactions	(1,495)	(420)
	-----	-----
Net cash provided by financing activities	711,937	5,358
	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,137	49,599
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	14,537	9,686
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 16,674	\$ 59,285
	=====	=====

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

APACHE CORPORATION AND SUBSIDIARIES  
 CONSOLIDATED BALANCE SHEET  
 (UNAUDITED)

	SEPTEMBER 30, 1999	DECEMBER 31, 1998
	-----	-----
	(In thousands)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 16,674	\$ 14,537
Receivables	272,977	159,806
Inventories	44,935	40,948
Advances to oil and gas ventures and other	20,585	11,679
	-----	-----
	355,171	226,970
	-----	-----
PROPERTY AND EQUIPMENT:		
Oil and gas, on the basis of full cost accounting:		
Proved properties	6,786,938	5,901,863
Unproved properties and properties under development, not being amortized	808,758	637,854
Gas gathering, transmission and processing facilities	414,544	354,506
Other	97,718	88,422
	-----	-----
	8,107,958	6,982,645
Less: Accumulated depreciation, depletion and amortization	(3,576,608)	(3,255,104)
	-----	-----
	4,531,350	3,727,541
	-----	-----
OTHER ASSETS:		
Deferred charges and other	41,015	41,551
	-----	-----
	\$ 4,927,536	\$ 3,996,062
	=====	=====

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

APACHE CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET  
(UNAUDITED)

	SEPTEMBER 30, 1999	DECEMBER 31, 1998
	-----	-----
	(In thousands)	
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Current maturities of long-term debt	\$ 24,307	\$ 15,500
Accounts payable	169,908	115,111
Accrued operating expense	21,759	18,990
Accrued exploration and development	79,013	120,855
Accrued compensation and benefits	16,161	10,692
Accrued interest	25,489	19,054
Other accrued expenses	5,977	5,572
	-----	-----
	342,614	305,774
	-----	-----
<b>LONG-TERM DEBT</b>	<b>1,422,337</b>	<b>1,343,258</b>
	-----	-----
<b>DEFERRED CREDITS AND OTHER NONCURRENT LIABILITIES:</b>		
Income taxes	332,596	270,493
Advances from gas purchaser	187,660	205,468
Other	76,439	69,236
	-----	-----
	596,695	545,197
	-----	-----
<b>SHAREHOLDERS' EQUITY:</b>		
Preferred stock, no par value, 5,000,000 shares authorized - Series B, 5.68% Cumulative Preferred Stock, 100,000 shares issued and outstanding	98,387	98,387
Series C, 6.5% Conversion Preferred Stock, 140,000 shares issued and outstanding	210,490	--
Common stock, \$1.25 par, 215,000,000 shares authorized, 116,390,278 and 99,790,337 shares issued, respectively	145,488	124,738
Paid-in capital	1,708,876	1,245,738
Retained earnings	474,169	403,098
Treasury stock, at cost, 2,307,036 and 2,021,215 shares, respectively	(48,736)	(36,924)
Accumulated other comprehensive income	(22,784)	(33,204)
	-----	-----
	2,565,890	1,801,833
	-----	-----
	<b>\$ 4,927,536</b>	<b>\$ 3,996,062</b>
	=====	=====

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

APACHE CORPORATION AND SUBSIDIARIES  
STATEMENT OF CONSOLIDATED SHAREHOLDERS' EQUITY  
(UNAUDITED)

(In thousands)	COMPREHENSIVE INCOME	PREFERRED STOCK SERIES B	PREFERRED STOCK SERIES C	COMMON STOCK	PAID-IN CAPITAL
BALANCE AT DECEMBER 31, 1997		\$ --	\$ --	\$ 118,098	\$ 1,085,063
Comprehensive income:					
Net income	\$ 29,793	--	--	--	--
Currency translation adjustments	(11,913)	--	--	--	--
Comprehensive income	\$ 17,880				
Dividends:					
Preferred		--	--	--	--
Common (\$.21 per share)		--	--	--	--
Preferred shares issued		98,515	--	--	--
Common shares issued		--	--	6,626	153,124
Treasury shares purchased, net		--	--	--	--
BALANCE AT SEPTEMBER 30, 1998		\$ 98,515	\$ --	\$ 124,724	\$ 1,238,187
BALANCE AT DECEMBER 31, 1998		\$ 98,387	\$ --	\$ 124,738	\$ 1,245,738
Comprehensive income:					
Net income	\$ 103,378	--	--	--	--
Currency translation adjustments	9,932	--	--	--	--
Unrealized gain on marketable securities, net of applicable income taxes of \$293	488	--	--	--	--
Comprehensive income	\$ 113,798				
Dividends:					
Preferred		--	--	--	--
Common (\$.21 per share)		--	--	--	--
Preferred shares issued		--	210,490	--	--
Common shares issued		--	--	20,750	463,138
Treasury shares purchased, net		--	--	--	--
BALANCE AT SEPTEMBER 30, 1999		\$ 98,387	\$ 210,490	\$ 145,488	\$ 1,708,876

(In thousands)	RETAINED EARNINGS	TREASURY STOCK	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL SHAREHOLDERS' EQUITY
BALANCE AT DECEMBER 31, 1997	\$ 561,981	\$ (15,506)	\$ (20,459)	\$ 1,729,177
Comprehensive income:				
Net income	29,793	--	--	29,793
Currency translation adjustments	--	--	(11,913)	(11,913)
Comprehensive income				
Dividends:				
Preferred	(584)	--	--	(584)
Common (\$.21 per share)	(20,647)	--	--	(20,647)
Preferred shares issued	--	--	--	98,515
Common shares issued	--	--	--	159,750
Treasury shares purchased, net	--	(21,430)	--	(21,430)
BALANCE AT SEPTEMBER 30, 1998	\$ 570,543	\$ (36,936)	\$ (32,372)	\$ 1,962,661
BALANCE AT DECEMBER 31, 1998	\$ 403,098	\$ (36,924)	\$ (33,204)	\$ 1,801,833
Comprehensive income:				
Net income	103,378	--	--	103,378
Currency translation adjustments	--	--	9,932	9,932
Unrealized gain on marketable securities, net of applicable income taxes of \$293	--	--	488	488
Comprehensive income				
Dividends:				
Preferred	(9,503)	--	--	(9,503)
Common (\$.21 per share)	(22,804)	--	--	(22,804)
Preferred shares issued	--	--	--	210,490
Common shares issued	--	--	--	483,888
Treasury shares purchased, net	--	(11,812)	--	(11,812)

BALANCE AT SEPTEMBER 30, 1999

-----  
\$ 474,169 \$ (48,736) \$ (22,784) \$ 2,565,890  
=====

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

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

These financial statements have been prepared by Apache Corporation (Apache or the Company) without audit, pursuant to the rules and regulations of the Securities and Exchange Commission, and reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the results for the interim periods, on a basis consistent with the annual audited financial statements. All such adjustments are of a normal recurring nature. Certain information, accounting policies, and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the financial statements and the summary of significant accounting policies and notes thereto included in the Company's most recent annual report on Form 10-K.

1. ACQUISITIONS AND DIVESTITURES

Acquisitions - On February 1, 1999, the Company acquired oil and gas properties located in the Gulf of Mexico from Petsec Energy Inc. (Petsec) for an adjusted purchase price of approximately \$66.7 million. The Petsec transaction included estimated proved reserves of approximately 10.2 million barrels of oil equivalent (MMboe) as of the effective date.

On May 18, 1999, Apache acquired from Shell Offshore Inc. and affiliated Shell entities (Shell) its interest in 22 producing fields and 16 undeveloped blocks located in the Gulf of Mexico. The Shell transaction also included certain production-related assets and proprietary 3D seismic data covering approximately 1,000 blocks in the Gulf of Mexico. The purchase price, subject to post closing adjustments, was \$687.6 million in cash and one million shares of Apache common stock (valued at \$28.125 per share). The Shell transaction included estimated proved reserves of approximately 123.2 MMboe as of the effective date.

The Shell transaction has been accounted for using the purchase method of accounting and is included in the Company's financial statements from mid-May of 1999, the date the transaction was completed. The unaudited pro forma disclosure below presents results as if the Company had owned the properties for the entire nine months. The pro forma information is based on numerous assumptions and is not necessarily indicative of future results of operations.

	FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1999	
	AS REPORTED	PRO FORMA
	(In thousands, except per common share data)	
Revenues	\$ 854,742	\$ 929,679
Net income	103,378	118,656
Preferred stock dividends	9,503	14,792
Income attributable to common stock	93,875	103,864
Net income per common share:		
Basic	\$ .89	\$ .91
Diluted	.88	.91
Average common shares outstanding	105,874	113,878

On June 18, 1999, the Company acquired a 10 percent interest in the East Spar Joint Venture and an 8.4 percent interest in the Harriet Joint Venture, both located in the Carnarvon Basin (offshore Western Australia), from British-Borneo Oil and Gas Plc (British-Borneo) in exchange for \$83.6 million cash and working interests in 11 leases in the Gulf of Mexico. The British-Borneo transaction included estimated proved reserves of approximately 15.9 MMboe as of the effective date.

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

Value of properties acquired, including gathering and transportation facilities	\$	98,582
Value of Gulf of Mexico leases		(3,209)
Working capital acquired, net		4,123
Deferred income tax liability		(15,906)
		-----
Cash paid, net of cash acquired	\$	83,590
		=====

On October 5, 1999, Apache entered into an agreement with Shell Canada Limited (Shell Canada) to acquire producing properties and other assets for C\$770 million (US\$523.6 million at September 30, 1999). The producing properties consist of 150,400 net acres and comprise 20 fields with an average working interest of 55 percent and proved reserves of 87.5 MMboe. Apache will also acquire 294,294 net acres of undeveloped leaseholdings, 100 percent interest in a gas processing plant with a potential throughput capacity of 160 million cubic feet (MMcf) per day, and 52,700 square miles of 2-D seismic and 884 square miles of 3-D seismic. The Shell Canada transaction will be effective November 1, 1999, and is expected to close no later than November 30, 1999. Apache plans to fund the purchase with cash on hand and borrowings under its global credit facility or commercial paper program.

Divestitures - On September 3, 1999, Apache sold its holdings in the Ivory Coast by selling its wholly owned subsidiary, Apache Cote d'Ivoire Petroleum LDC, for a total sales price of \$46.1 million to a consortium consisting of Mondoil Cote d'Ivoire LLC and Saur Energie Cote d'Ivoire. The sale consisted of 13.7 MMboe of proved reserves and the gain was recorded to Other Revenues.

Additionally, during the nine months ended September 30, 1999, Apache sold 27.8 MMboe of proved reserves in several transactions from largely marginal North American properties, collecting cash of \$103.6 million.

## 2. NON-CASH INVESTING AND FINANCING ACTIVITIES

A summary of non-cash investing or financing activities is presented below:

In May 1999, the Company issued one million shares of Apache common stock valued at \$28.1 million to Shell in connection with the transaction discussed in Note 1.

In June 1999, the Company acquired certain oil and gas interests from British-Borneo for cash and the assumption of certain liabilities. The accompanying financial statements include the amounts detailed in Note 1.

The following table provides supplemental disclosure of cash flow information:

	FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	----- 1999	1998 -----
	(In thousands)	
Cash paid during the period for:		
Interest (net of amounts capitalized)	\$ 51,488	\$ 52,095
Income taxes (net of refunds)	36,517	21,379

## 3. DEBT

In March 1999, Apache Finance Pty Ltd (Apache Finance) issued \$100 million principal amount, \$99.3 million net of discount, of senior unsecured 7-percent notes due March 15, 2009. The notes are irrevocably and unconditionally guaranteed by Apache. Apache Finance has the right to redeem the notes prior to maturity, under certain conditions related to changes in relevant tax laws. Also, upon certain changes in control, these notes are subject to mandatory repurchase. The proceeds were used to reduce outstanding indebtedness under the Australian portion of the global credit facility.

In June 1999, the Company issued \$150 million principal amount, \$149.1 million net of discount, of senior unsecured 7.625-percent notes due July 1, 2019. The Company does not have the right to redeem the notes prior to maturity. Upon certain changes in control, these notes are subject to mandatory repurchase. The proceeds were used to reduce the Company's outstanding amounts of commercial paper.

On November 2, 1999, Apache filed a shelf registration for \$400 million of debt securities. Proceeds from the debt securities, being offered by Apache Finance Canada Corporation (Apache Finance Canada), may be used to finance and invest in Apache's Canadian operations, to repay outstanding debt, for working capital, capital expenditures and acquisitions.

#### 4. 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,					
	1999			1998		
	INCOME	SHARES	PER SHARE	INCOME	SHARES	PER SHARE
	(In thousands, except per share amounts)					
<b>BASIC:</b>						
Income attributable to common stock	\$ 67,831	114,088	\$ .59	\$ 2,617	98,205	\$ .03
<b>EFFECT OF DILUTIVE SECURITIES:</b>						
Stock option plans	--	735		--	132	
<b>DILUTED:</b>						
Income attributable to common stock after assumed conversions	\$ 67,831	114,823	\$ .59	\$ 2,617	98,337	\$ .03

	FOR THE NINE MONTHS ENDED SEPTEMBER 30,					
	1999			1998		
	INCOME	SHARES	PER SHARE	INCOME	SHARES	PER SHARE
	(In thousands, except per share amounts)					
<b>BASIC:</b>						
Income attributable to common stock	\$ 93,875	105,874	\$ .89	\$ 29,209	98,131	\$ .30
<b>EFFECT OF DILUTIVE SECURITIES:</b>						
Stock option plans	--	408		--	299	
<b>DILUTED:</b>						
Income attributable to common stock after assumed conversions	\$ 93,875	106,282	\$ .88	\$ 29,209	98,430	\$ .30

The 6-percent convertible subordinated debentures were not included in the computation of diluted net income per common share for the nine months ended September 30, 1998, because to do so would have been antidilutive. Such debentures were converted into shares of Apache common stock or redeemed in January 1998.

The Conversion Preferred Stock, Series C, was not included in the computation of diluted net income per common share during 1999, because to do so would have been antidilutive.

#### 5. CAPITAL STOCK

In May 1999, Apache issued 14,950,000 shares (\$463.5 million) of Apache common stock and 140,000 shares (\$217 million) of Automatically Convertible Equity Securities, Conversion Preferred Stock, Series C (the Preferred Stock) in the form of seven million depositary shares each representing 1/50th of a share of Preferred Stock (Depositary Shares). The Preferred Stock is not subject to a sinking fund or mandatory redemption. On May 15, 2002, each Depositary Share will automatically convert, subject to adjustments, into not more than one share and not

less than 0.8197 of a share of Apache common stock, depending on the market price of Apache common stock at that time.

At any time prior to May 15, 2002, holders of the Depositary Shares may elect to convert each of their shares, subject to adjustments, into not less than 0.8197 of a share of Apache Common Stock (5,737,900 common shares). Holders of the shares are entitled to receive cumulative cash dividends at an annual rate of \$2.015 per Depositary Share when, and if, declared by Apache's board of directors. The net proceeds from both offerings of approximately \$654.8 million were used for general corporate purposes, including funding of a portion of the purchase price for the Shell transaction.

#### 6. BUSINESS SEGMENT INFORMATION

Apache has five reportable segments which are primarily in the business of natural gas and crude oil exploration and production. The Company evaluates performance based on profit or loss 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. Financial information by operating segment is presented below:

	UNITED STATES	CANADA	EGYPT	AUSTRALIA	OTHER INTERNATIONAL	TOTAL
(IN THOUSANDS)						
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1999						
Oil and Gas Production Revenues.....	\$ 466,517	\$ 54,791	\$ 143,618	\$ 77,149	\$ 1,937	\$ 744,012
Operating Income (1).....	\$ 151,775	\$ 18,472	\$ 73,103	\$ 30,279	\$ 432	\$ 274,061
Other Income (Expense):						
Other revenues.....						5,274
Administrative, selling and other.						(37,685)
Financing costs, net.....						(59,843)
Income Before Income Taxes.....						\$ 181,807
Total Assets.....	\$ 2,785,853	\$ 332,301	\$ 897,328	\$ 766,164	\$ 145,890	\$ 4,927,536
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1998						
Oil and Gas Production Revenues.....	\$ 390,946	\$ 44,233	\$ 103,726	\$ 51,701	--	\$ 590,606
Operating Income (1).....	\$ 77,821	\$ 9,117	\$ 43,437	\$ 13,398	--	\$ 143,773
Other Income (Expense):						
Other revenues.....						(1,722)
Administrative, selling and other.						(34,026)
Financing costs, net.....						(54,082)
Income Before Income Taxes.....						\$ 53,943
Total Assets.....	\$ 2,338,751	\$ 297,362	\$ 815,541	\$ 563,628	\$ 129,012	\$ 4,144,294

(1) Operating income consists of oil and gas production revenues and net gathering, processing and marketing activity, less depreciation, depletion and amortization (DD&A) expense and operating costs.

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

OVERVIEW

Early in 1998, when the cost of drilling for and acquiring oil and gas reserves was rising rapidly, Apache implemented a two-phase strategy designed to reduce debt and pursue larger acquisitions after the prices of oil and gas properties had turned down. By the end of 1998, Apache had paid down approximately \$160 million in debt and added approximately \$73 million to shareholders' equity as compared to year-end 1997 levels. These results were achieved in part by selling and trading non-strategic properties, curtailing capital expenditures, and converting debentures into common stock.

Apache's strengthened balance sheet put the company in a better position to endure the impact of low oil and gas prices in 1998 and the first quarter of 1999, and to negotiate an agreement with Shell to acquire a package of properties located offshore in the Gulf of Mexico. That acquisition constituted the largest transaction in the Company's history in terms of purchase price and quantity of proved reserves acquired. Production from the acquired properties was first recorded in the second quarter of 1999. On October 5, 1999, Apache entered into an agreement with Shell Canada to acquire 20 fields with an average working interest of 55 percent and proved reserves of 87.5 MMboe and other assets.

Apache's results of operations and financial position for the first nine months of 1999, were significantly impacted by the following factors:

**Commodity Prices** - Apache's average realized oil price increased \$3.27 per barrel from \$13.20 per barrel in the first nine months of 1998 to \$16.47 per barrel in the comparable 1999 period, increasing revenues by \$66.4 million. The average realized price for natural gas increased \$.10 per thousand cubic feet (Mcf) from \$1.95 per Mcf in the first nine months of 1998 to \$2.05 per Mcf in 1999, positively impacting revenues by \$17.0 million.

**Operations** - Oil production increased 14 percent during the first nine months of 1999 when compared to the same period last year. The increase was primarily due to the acquisition from Shell in the U.S., included since mid-May of 1999, the acquisition of certain oil and gas interests in the Carnarvon Basin, offshore Western Australia, from subsidiaries of Novus Petroleum Limited (Novus) in November 1998 and the full-period impact of production from Australia's Stag field which began in May 1998. The increase in oil production positively impacted revenues by \$47.4 million. Gas production increased six percent which positively impacted revenues by \$20.2 million.

RESULTS OF OPERATIONS

Apache reported 1999 third quarter income attributable to common stock of \$67.8 million versus income of \$2.6 million in the prior year. Basic net income per common share of \$.59 for the third quarter of 1999 was significantly higher than the \$.03 reported in 1998. A significant increase in oil and gas production revenues was partially offset by higher DD&A expense, operating costs, preferred stock dividends, net financing costs and administrative, selling and other (G&A) expense.

For the first nine months of 1999, net income of \$93.9 million, or \$.89 per share, compared to \$29.2 million, or \$.30 per share, in the comparable 1998 period. The increase resulted primarily from higher oil and gas production revenues partially offset by higher DD&A expense (although DD&A per boe is lower), preferred stock dividends, net financing costs and G&A expense.

For the third quarter of 1999, revenues increased 82 percent to \$385.4 million compared to \$211.7 million in 1998, driven by an 85 percent increase in oil and gas production revenues. The increase in oil and gas production revenues was the result of a 64 percent increase in the average realized oil price, a 36 percent increase in oil production, a 20 percent increase in natural gas production and a 27 percent increase in the average realized price for natural gas. Crude oil, including natural gas liquids, contributed 55 percent and natural gas contributed 45 percent of oil and gas production revenues.

For the first nine months of 1999, total revenues increased 26 percent to \$854.7 million as compared to \$677.8 million for the same period in 1998. Revenues from oil and gas production increased 26 percent over the same period in 1998, with crude oil, including natural gas liquids, contributing 53 percent and natural gas contributing 47 percent of total oil and gas production revenues.

Volume and price information for the Company's oil and gas production is summarized in the following table:

	FOR THE QUARTER ENDED SEPTEMBER 30,			FOR THE NINE MONTHS ENDED SEPTEMBER 30,		
	1999	1998	INCREASE (DECREASE)	1999	1998	INCREASE (DECREASE)
<b>Natural Gas Volume - Mcf per day:</b>						
United States	495,226	413,818	20%	447,010	443,546	1%
Canada	92,885	107,651	(14)%	100,115	101,102	(1)%
Egypt	16,615	2,044	713%	8,155	986	727%
Australia	85,603	52,544	63%	71,786	48,988	47%
Ivory Coast	3,470	--	--	3,674	--	--
<b>Total</b>	<b>693,799</b>	<b>576,057</b>	<b>20%</b>	<b>630,740</b>	<b>594,622</b>	<b>6%</b>
<b>Average Natural Gas price - Per Mcf:</b>						
United States	\$ 2.58	\$ 2.07	25%	\$ 2.22	\$ 2.14	4%
Canada	1.89	1.28	48%	1.64	1.30	26%
Egypt	3.45	1.68	105%	3.10	1.78	74%
Australia	1.52	1.43	6%	1.51	1.52	(1)%
Ivory Coast	1.71	--	--	1.72	--	--
<b>Total</b>	<b>2.37</b>	<b>1.86</b>	<b>27%</b>	<b>2.05</b>	<b>1.95</b>	<b>5%</b>
<b>Oil Volume - Barrels per day:</b>						
United States	51,994	31,691	64%	42,611	35,330	21%
Canada	2,082	2,107	(1)%	2,110	2,067	2%
Egypt	33,163	27,892	19%	30,415	28,801	6%
Australia	9,936	9,717	2%	9,905	8,359	18%
Ivory Coast	51	--	--	49	--	--
<b>Total</b>	<b>97,226</b>	<b>71,407</b>	<b>36%</b>	<b>85,090</b>	<b>74,557</b>	<b>14%</b>
<b>Average Oil price - Per barrel:</b>						
United States	\$ 19.80	\$ 12.19	62%	\$ 16.29	\$ 13.14	24%
Canada	19.31	11.70	65%	14.98	13.12	14%
Egypt	20.90	12.60	66%	16.47	13.13	25%
Australia	23.33	13.29	76%	17.57	13.75	28%
Ivory Coast	18.11	--	--	15.68	--	--
<b>Total</b>	<b>20.52</b>	<b>12.49</b>	<b>64%</b>	<b>16.47</b>	<b>13.20</b>	<b>25%</b>
<b>Natural Gas Liquids (NGL)</b>						
<b>Volume - Barrels per day:</b>						
United States	3,583	2,025	77%	2,887	2,010	44%
Canada	583	577	1%	605	613	(1)%
<b>Total</b>	<b>4,166</b>	<b>2,602</b>	<b>60%</b>	<b>3,492</b>	<b>2,623</b>	<b>33%</b>
<b>Average NGL Price - Per barrel:</b>						
United States	\$ 9.08	\$ 9.09	--	\$ 8.52	\$ 8.58	(1)%
Canada	12.80	6.09	110%	8.59	6.52	32%
<b>Total</b>	<b>9.60</b>	<b>8.43</b>	<b>14%</b>	<b>8.53</b>	<b>8.10</b>	<b>5%</b>

### THIRD QUARTER 1999 COMPARED TO THIRD QUARTER 1998

Natural gas sales for the third quarter of 1999 totaled \$151.4 million, 53 percent higher than the third quarter of 1998. Average realized natural gas prices increased 27 percent, positively affecting revenue by \$26.9 million. The Company periodically engages in hedging activities, including fixed price physical and financial contracts. The net result of these activities decreased the Company's realized gas price by \$.02 per Mcf during the third quarter of 1999 and increased the realized gas price by \$.06 for the same period in 1998.

Natural gas production increased 118 million cubic feet per day (MMcf/d), or 20 percent, on a worldwide basis, positively impacting revenue by \$25.7 million. Increases were driven by the Shell transaction in the United States and Australian acquisition activity. To a lesser extent, initial production from the Western Desert Pipeline from the Khalda concession contributed to the overall increase.

The Company's crude oil sales for the third quarter of 1999 totaled \$183.6 million, a 124 percent increase from the third quarter of 1998, due to increased average realized prices and production volumes.

Third quarter 1999 oil production increased 36 percent compared to the prior year primarily the result of a 64 percent increase in the United States attributable to production from the Shell properties acquired in the second quarter of 1999. Egyptian oil production increased 19 percent in the third quarter of 1999 as a result of the price-driven dynamics of certain production sharing contracts and to a lesser extent, drilling and development activity.

The Company's realized price for sales of crude oil in the third quarter of 1999 increased \$8.03 per barrel, or 64 percent, resulting in an increase in revenue of \$52.8 million compared to the same period in 1998. The Company periodically engages in hedging activities, including fixed price physical and financial contracts. The net result of these activities decreased the Company's realized oil price by \$.11 per barrel during the third quarter of 1999, and had no impact on the Company's realized price during the third quarter of 1998.

Revenue from the sale of natural gas liquids totaled \$3.7 million for the third quarter of 1999, compared to \$2.0 million for the third quarter of 1998 in response to a 60 percent increase in natural gas liquids production and a 14 percent improvement in realized prices.

Apache initiated production offshore the Ivory Coast in the first quarter of 1999. First sales of natural gas were delivered in March 1999. On September 3, 1999, Apache sold its Ivory Coast subsidiary for \$46.1 million.

#### YEAR-TO-DATE 1999 COMPARED TO YEAR-TO-DATE 1998

Natural gas sales for the first nine months of 1999 of \$353.3 million increased \$37.3 million, or 12 percent, from those recorded in the same period of 1998 primarily as a result of increased production volumes and realized prices. Average realized natural gas prices increased five percent, positively affecting revenue by \$17.0 million. U.S. natural gas production, which comprised 71 percent of the Company's worldwide gas production, sold at an average price of \$2.22 per Mcf, four percent higher than in 1998, positively impacting natural gas sales by \$8.7 million. Natural gas production increased 36 MMcf/d, or six percent, on a worldwide basis, favorably impacting revenue by \$20.2 million. Development activities and the impact of producing property acquisitions during late 1998 increased natural gas production in Australia by 23 MMcf/d. The Company periodically engages in hedging activities, including fixed price physical and financial contracts. The net result of these activities increased the Company's realized gas price by \$.02 per Mcf during the first nine months of 1999 and by \$.06 per Mcf during the same period of 1998.

For the first nine months of 1999, oil revenues of \$382.6 million increased \$113.8 million, or 42 percent, from the same period in 1998 due to improved production and higher oil prices. On a worldwide basis, average oil prices increased \$3.27 per barrel, or 25 percent, to \$16.47 per barrel positively impacting oil sales by \$66.4 million. Oil production increased 10,533 barrels per day, or 14 percent, for the first nine months of 1999 primarily due to increases in the United States. Domestic oil production increased 7,281 barrels per day, or 21 percent, primarily due to the Shell acquisition. The Company periodically engages in hedging activities, including fixed price physical and financial contracts. The net result of these activities decreased the Company's realized oil price by \$.04 per barrel during the first nine months of 1999, and had no impact on the Company's realized price during the first nine months of 1998.

Natural gas liquids revenues for the first nine months of 1999 of \$8.1 million increased \$2.3 million, or 40 percent, from the same period in 1998. Natural gas liquids production increased 869 barrels per day, or 33 percent and natural gas liquids prices increased by \$.43 per barrel, or five percent.

#### OTHER REVENUES AND OPERATING EXPENSES

During the third quarter and first nine months of 1999, Apache's gas gathering, processing and marketing revenues increased 51 percent and 19 percent, respectively, to \$45.0 million and \$105.5 million, as a result of increases in volumes and prices in both periods. While revenues increased with respect to these activities, there was a greater increase in gas gathering, processing and marketing costs for the first nine months of 1999, thus lower margins were realized for this period as compared to 1998.

Other revenues for the third quarter of 1999 and the first nine months of 1999 were \$1.8 million and \$5.3 million, respectively, primarily consisting of the gain on the sale of the Company's Ivory Coast subsidiary.

The Company's DD&A expense for the third quarter and first nine months of 1999 totaled \$119.2 million and \$313.0 million, respectively, compared to \$94.8 million and \$290.6 million for the comparable periods in 1998. On an equivalent barrel basis, full cost DD&A expense decreased \$.02 per barrel of oil equivalent (boe), from \$5.64 per boe in the third quarter of 1998 to \$5.62 per boe for the same period in 1999. For the nine months ended September 30, 1999, the full cost DD&A rate totaled \$5.56 per boe compared to \$5.62 per boe in 1998. United States production accounted for 62 percent of worldwide production in the first nine months of 1999, and 63 percent in the first nine months of 1998. An eight percent increase in United States production and a \$.01 decrease in the DD&A rate for the first nine months of 1999 as compared to 1998, accounted for the decrease in the overall rate.

Operating costs, including lease operating expense and severance taxes, increased 23 percent from \$49.3 million in the third quarter of 1998 to \$60.6 million for the same period in 1999. For the first nine months of 1999, operating costs totaled \$158.8 million, slightly higher than the \$158.5 million for the same period in 1998. For the third quarter and first nine months of 1999, lease operating expense, excluding severance taxes, totaled \$51.1 million and \$136.7 million, respectively, compared to \$43.3 million and \$136.5 million for the comparable periods in 1998. On an equivalent barrel basis, lease operating expense decreased from \$2.77 per boe in the third quarter of 1998 to \$2.56 per boe in the third quarter of 1999. For the first nine months of 1999, lease operating expense averaged \$2.59 per boe, a nine percent decrease from \$2.84 per boe, for the same period in 1998. Domestic per unit costs were significantly reduced due to lower Gulf Coast region repairs, maintenance, power and fuel costs resulting from the sale of marginal properties, and by lower Western region repairs and maintenance costs.

G&A expense in the third quarter and first nine months of 1999 increased \$1.4 million or ten percent, and \$3.7 million or 11 percent, respectively, from a year ago. These increases were the result of planned spending increases. On an equivalent barrel basis, G&A expense remained constant at \$.71 per boe, for the first nine months of 1999 and 1998.

Net financing costs for the third quarter of 1999 increased \$3.0 million, or 17 percent, from the prior year due to higher gross interest expense and reduced interest income, mitigated by higher capitalized interest. Gross interest expense increased \$3.3 million due to a higher average outstanding debt balance. Net financing costs increased 11 percent from \$54.1 million in the first nine months of 1998 to \$59.8 million in the comparable 1999 period due to higher average debt outstanding and reduced interest income, partially offset by an increase in capitalized interest. Additional capitalized interest associated with the construction of Egyptian pipeline projects contributed to the increase. The decrease in interest income was due to a lower cash balance in the first nine months of 1999.

#### MARKET RISK

#### COMMODITY RISK

The Company's major market risk exposure continues to be the pricing applicable to its oil and gas production. Realized pricing is primarily driven by the prevailing worldwide price for crude oil and spot prices applicable to its United States and Canadian natural gas production. Historically, prices received for oil and gas production have been volatile and unpredictable. Price volatility is expected to continue. See "Results of Operations" above.

The information set forth under "Market Risk - Interest Rate Risk and - Foreign Currency Risk" in Item 7 of the Company's annual report on Form 10-K for the year ended December 31, 1998, is incorporated herein by reference.

## CASH FLOW, LIQUIDITY AND CAPITAL RESOURCES

## CAPITAL COMMITMENTS

Apache's primary cash needs are for exploration, development and acquisition of oil and gas properties, repayment of principal and interest on outstanding debt, payment of dividends and capital obligations for affiliated ventures. Apache budgets capital expenditures based upon projected cash flow and routinely adjusts its capital expenditures in response to changes in oil and natural gas prices and corresponding changes in cash flow. The Company is not in a position to predict future product prices. Capital expenditures, including acquisitions, for 1999 are expected to exceed internally generated cash flow.

Capital Expenditures - A summary of oil and gas capital expenditures during the first nine months of 1999 and 1998 is presented below (in millions):

	FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	1999	1998
Exploration and development:		
United States	\$ 127.4	\$ 173.4
Canada	24.1	55.1
Egypt	42.5	80.3
Australia	41.1	60.3
Other international	17.4	35.1
	252.5	404.2
Capitalized Interest	39.7	36.3
	\$ 292.2	\$ 440.5
Acquisition of oil and gas properties	\$ 893.8	\$ 18.2

In North America, Apache completed 81 producing wells out of 97 wells drilled during the first nine months of 1999, while internationally the Company discovered 38 new producers out of 51 wells drilled. Worldwide, the Company was drilling or completing an additional 69 wells as of September 30, 1999. In addition, Apache completed 288 production enhancement projects, including 128 recompletions, during the first nine months of 1999.

Property acquisitions in the first nine months of 1999, primarily represented acquisitions of producing properties in the Company's existing focus areas.

On February 1, 1999, the Company acquired oil and gas properties located in the Gulf of Mexico from Petsec for an adjusted purchase price of approximately \$66.7 million. The Petsec transaction included estimated proved reserves of approximately 10.2 MMboe as of the effective date.

On May 18, 1999, Apache acquired from Shell its interest in 22 producing fields and 16 undeveloped blocks located in the Gulf of Mexico. The Shell transaction also included certain production-related assets and proprietary 3D seismic data covering approximately 1,000 blocks in the Gulf of Mexico. The purchase price, subject to post closing adjustments, was \$687.6 million in cash and one million shares of Apache common stock (valued at \$28.125 per share). The Shell transaction included estimated proved reserves of approximately 123.2 MMboe as of the effective date.

On June 18, 1999, the Company acquired a 10 percent interest in the East Spar Joint Venture and an 8.4 percent interest in the Harriet Joint Venture, both located in the Carnarvon Basin (offshore Western Australia), from British-Borneo in exchange for \$83.6 million cash and working interests in 11 leases in the Gulf of Mexico. The British-Borneo transaction included estimated proved reserves of approximately 15.9 MMboe as of the effective date.

## CAPITAL RESOURCES AND LIQUIDITY

Net Cash Provided by Operating Activities - Apache's net cash provided by operating activities during the first nine months of 1999 totaled \$389.4 million, an increase of two percent from \$381.4 million in the first nine months of 1998. This increase was primarily due to an increase in oil and gas prices and production.

Stock Transactions - In May 1999, Apache issued 14,950,000 shares (\$463.5 million) of Apache common stock and 140,000 shares (\$217 million) of the Preferred Stock in the form of seven million Depositary Shares each representing 1/50th of a share of the Preferred Stock. The Preferred Stock is not subject to a sinking fund or mandatory redemption. On May 15, 2002, each Depositary Share will automatically convert, subject to adjustments, into not more than one share and not less than 0.8197 of a share of Apache common stock, depending on the market price of Apache common stock at that time.

In the third quarter, the Company purchased 300,000 Treasury Shares at an average price of \$40.20 per share.

Long-Term Borrowings - In March 1999, Apache Finance issued \$100 million principal amount, \$99.3 million net of discount, of senior unsecured 7-percent notes due March 15, 2009. The notes are irrevocably and unconditionally guaranteed by Apache. Apache Finance has the right to redeem the notes prior to maturity, under certain conditions related to changes in relevant tax laws. Also, upon certain changes in control, these notes are subject to mandatory repurchase. The proceeds were used to reduce outstanding indebtedness under the Australian portion of the global credit facility.

In June 1999, the Company issued \$150 million principal amount, \$149.1 million net of discount, of senior unsecured 7.625-percent notes due July 1, 2019. The Company does not have the right to redeem the notes prior to maturity. Upon certain changes in control, these notes are subject to mandatory repurchase. The proceeds were used to reduce the Company's outstanding amounts of commercial paper.

Liquidity - The Company had \$16.7 million in cash and cash equivalents on hand at September 30, 1999, up from \$14.5 million at December 31, 1998. Apache's ratio of current assets to current liabilities at September 30, 1999 was 1.04 compared to .74:1 at December 31, 1998.

On November 2, 1999, Apache filed a shelf registration for \$400 million of debt securities. The proceeds from the debt securities, being offered by Apache Finance Canada, may be used to finance and invest in Apache's Canadian operations, to repay outstanding debt, for working capital, capital expenditures and acquisitions.

Apache believes that cash on hand, net cash generated from operations, and unused committed borrowing capacity under its global credit facility will be adequate to satisfy the Company's financial obligations to meet future liquidity needs for at least the next two fiscal years. As of September 30, 1999, Apache's available borrowing capacity under its global credit facility was \$947 million.

Capital Commitment - On October 5, 1999, Apache entered into an agreement with Shell Canada to acquire producing properties and other assets for C\$770 million (US\$523.6 million at September 30, 1999). Apache plans to fund the purchase with cash on hand and borrowings under its global credit facility or commercial paper program.

## IMPACT OF THE YEAR 2000 ISSUE

The inability of some computer programs and embedded computer chips to distinguish between the year 1900 and the year 2000 (the Year 2000 issue) poses a serious threat of business disruption to any organization that utilizes computer technology and computer chip technology in their business systems or equipment. Apache has formed a Year 2000 Task Force with representation from major business units to inventory and assess the risk associated with hardware, software, telecommunications systems, office equipment, embedded chip controls and systems, process control systems, facility control systems and dependencies on external trading partners. The project phases, expected completion dates and percentage complete as of September 1999 are as follows:

PHASE	COMPLETION DATE	PERCENT COMPLETE
Organization	July 1998	100%
Assessment	November 1998	100%
Desktop Computers Network Hardware Software Embedded Systems External Trading Partners Building/Infrastructure Systems Telecommunications Systems		
Implementation/Replacement	November 1999	90%
Computer Hardware Core Business Software Desktop Software Embedded Systems Building Systems		
Contact External Trading Partners	March 1999	100%
Contingency Planning	November 1999	90%

To date, the Company is not aware of any significant Year 2000 issues that would cause problems in the area of safety, environmental or business interruption. The Company has assessed the risks associated with hardware, software, infrastructure, embedded chips and external trading partners that are not Year 2000 compliant. While Apache is confident that Year 2000 remediation efforts will succeed in minimizing exposure to business disruption, plans are being developed that will allow continuation of business in all but the worst case scenarios. All remediation and replacement efforts and contingency planning are expected to be complete by November 1999. All critical external trading partners have been contacted to determine Year 2000 readiness. Such responses indicate they will be compliant by year-end.

In 1997, the Company initiated a project to replace existing business software as it relates to Apache's production, land, marketing, accounting and financial systems to more effectively and efficiently meet its business needs. Replacement computer systems selected by the Company from SAP America, Inc., PricewaterhouseCoopers LLP, Innovative Business Solutions and Landmark Graphics will properly recognize dates beyond December 31, 1999. The implementation of the business software project was completed and operational effective with January 1999 production.

The Company expects the cost to achieve Year 2000 compliance will not exceed \$4 million, excluding the cost of implementing business replacement systems.

The Company presently believes that with conversions to new software and completion of efforts planned by the Year 2000 Task Force, the risk associated with Year 2000 will be significantly reduced. However, the Company is unable to assure that the consequences of Year 2000 failures of systems maintained by the Company or by third parties will not materially adversely impact the Company's results of operations, liquidity or financial condition.

## FUTURE TRENDS

Apache's strategy is to increase its oil and gas reserves, production, cash flow and earnings through a balanced growth program that involves:

1. exploiting our existing asset base;
2. acquiring properties to which we can add incremental value; and
3. investing in high-potential exploration prospects.

### EXPLOITING EXISTING ASSET BASE

We seek to maximize the value of our existing asset base by reducing operating costs per unit and increasing the amount of recoverable reserves. In order to achieve these objectives, we rigorously pursue operations to cut costs, identify production enhancement initiatives such as workovers and recompletions, and divest marginal and non-strategic properties.

### ACQUIRING PROPERTIES TO WHICH WE CAN ADD INCREMENTAL VALUE

We seek to purchase reserves at appropriate prices by generally avoiding auction processes where we are competing against other buyers. Our aim is to follow each acquisition with a cycle of reserve enhancement, property consolidation and cash flow acceleration, facilitating asset growth and debt reduction.

### INVESTING IN HIGH-POTENTIAL EXPLORATION PROSPECTS

We seek to concentrate our exploratory investments in a select number of international areas and to become the dominant operator in those regions. We believe that these investments, although higher-risk, offer the potential for significant reserve additions. Our international investments and exploration activities are a significant component of our long-term growth strategy. They complement our North American operations, which are more development oriented.

A critical component in implementing our three-pronged growth strategy is maintenance of significant financial flexibility. We are committed to preserving a strong balance sheet and credit position that gives us the foundation required to pursue our growth initiatives.

## CHANGES IN ACCOUNTING PRINCIPLES

### DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 133 establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value, and requires that changes in a derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the statement of consolidated operations, and requires that a company formally document, designate, and assess the effectiveness of transactions that receive hedge accounting treatment.

SFAS No. 133, as amended, is required to be adopted on January 1, 2001, although earlier adoption is permitted. The Company is analyzing the effects of SFAS No. 133, but has not yet quantified the potential financial statement impact, if any, or determined the timing or method of adoption. Management does not believe that the adoption of SFAS No. 133 will have a material impact on the Company's financial condition or results of operations.

## CHINA

On May 28, 1999, Apache China Corporation LDC (Apache China), (an indirect wholly owned subsidiary of the Company) sent a notice of default to XCL-China, Ltd. (XCL-China), a participant with Apache China in the Zhao Dong Block offshore the People's Republic of China, and its parent company, XCL, Ltd., for the failure to pay approximately \$10 million of costs pursuant to the agreements governing the project. Prior to the expiration of the cure period, XCL-China and XCL, Ltd. filed petitions initiating arbitration proceedings against Apache China. The actions seek to disallow approximately \$17 million in costs expended by Apache China related to developing the Zhao Dong Block, including \$10 million in costs billed by Apache China to XCL-China that have not been paid. In addition, XCL-China has advised Apache China of XCL-China's intent to seek the removal of Apache China as operator of the Block. Apache China has denied the allegations made by XCL-China in its petition and is vigorously contesting them. On June 25, 1999, Apache China filed a petition in U.S. Bankruptcy Court in Opelousas, Louisiana, to place XCL-China into involuntary bankruptcy on account of XCL-China's failure to pay its share of costs related to development of the Zhao Dong Block. XCL-China has denied the allegations contained in Apache China's petition and has filed a motion to dismiss the petition. Hearings were held in the U.S. Bankruptcy Court in August 1999.

## FORWARD-LOOKING STATEMENTS AND RISK

This report contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements are based on our current expectations, estimates and projections. Therefore, they could ultimately prove to be inaccurate. Our plans for capital and exploratory spending and for cost and expense reduction may change if business conditions, such as energy prices and world economic conditions, change. Factors that could affect our ability to be Year 2000 compliant by the end of 1999 include: the failure of our customers and suppliers, government entities and others to achieve compliance and the inaccuracy of any certifications received from them; our inability to identify and remediate every possible problem; and a shortage of necessary programmers, hardware and software. Other factors that may have a direct bearing on our results of operations and financial condition are:

- o competitive practices in the industries in which we compete;
- o fluctuations in oil and gas prices that have not been properly hedged or that are inconsistent with our open position in our marketing activities;
- o operational and systems risks;
- o environmental liabilities that are not covered by indemnity or insurance;
- o general economic and capital market conditions, including fluctuations in interest rates; and
- o the impact of current and future laws and governmental regulations (particularly environmental regulations) affecting the energy industry in general and Apache's operations in particular.

In light of these risks, uncertainties and assumptions, the events anticipated by our forward-looking statements might not occur. We undertake no obligation to update or revise our forward-looking statements, whether as a result of new information, future events or otherwise.

## 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, 1998 (filed with the SEC on March 25, 1999) is incorporated herein by reference.

## ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

## ITEM 5. OTHER INFORMATION

None

## ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

## (a) Exhibits

- 12.1 - Statement of computation of ratios of earnings to fixed charges and combined fixed charges and preferred stock dividends.
- 27.1 - Financial Data Table

## (b) Reports filed on Form 8-K

The following current report on Form 8-K was filed during the fiscal quarter ended September 30, 1999:

Amendment No. 1 on Form 8-K/A to Form 8-K dated May 18, 1999

On July 30, 1999, under Item 7. Financial Statements, Pro Forma Financial Information and Exhibits, Apache filed the required financial statement, pro forma financial information and exhibits in connection with Apache's purchase from Shell of (i) Shell's interest in 22 producing fields and 16 undeveloped blocks located in the Gulf of Mexico, (ii) certain production-related assets, and (iii) proprietary seismic data covering over 1,000 blocks in the Gulf of Mexico, which transaction closed on May 18, 1999.

## 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 11, 1999 /s/ Roger B. Plank  
-----  
Roger B. Plank  
Vice President and Chief Financial Officer

Dated: November 11, 1999 /s/ Thomas L. Mitchell  
-----  
Thomas L. Mitchell  
Vice President and Controller  
(Chief Accounting Officer)

## EXHIBIT INDEX

EXHIBIT NO. -----	DESCRIPTION -----
12.1	- Statement of computation of ratios of earnings to fixed charges and combined fixed charges and preferred stock dividends.
27.1	- Financial Data Schedule

APACHE CORPORATION  
STATEMENT OF COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES AND  
COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS  
(IN THOUSANDS)

	NINE MONTHS ENDED SEPTEMBER 30,						
	1999	1998	1998	1997	1996	1995	1994
<b>EARNINGS</b>							
Pretax income (loss) from continuing operations (1)	\$ 181,807	\$ 53,943	\$(187,563)	\$ 258,640	\$200,195	\$ 33,143	\$ 66,234
Add: Fixed charges excluding capitalized interest	65,438	60,430	78,728	78,531	68,091	77,220	39,008
Adjusted Earnings	<u>\$ 247,245</u>	<u>\$ 114,373</u>	<u>\$(108,835)</u>	<u>\$ 337,171</u>	<u>\$268,286</u>	<u>\$110,363</u>	<u>\$105,242</u>
<b>FIXED CHARGES AND PREFERRED STOCK DIVIDENDS</b>							
Interest expense including capitalized interest (2)	\$ 97,586	\$ 90,498	\$ 119,703	\$ 105,148	\$ 89,829	\$ 88,057	\$ 37,838
Amortization of debt expense	3,316	3,415	4,496	6,438	5,118	4,665	3,987
Interest component of lease rental expenditures (3)	4,199	2,788	3,808	3,438	3,856	3,539	3,217
Fixed charges	<u>105,101</u>	<u>96,701</u>	<u>128,007</u>	<u>115,024</u>	<u>98,803</u>	<u>96,261</u>	<u>45,042</u>
Preferred stock requirements (4)	<u>16,713</u>	<u>1,057</u>	<u>2,905</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Combined fixed charges and preferred stock dividends	<u>\$ 121,814</u>	<u>\$ 97,758</u>	<u>\$ 130,912</u>	<u>\$ 115,024</u>	<u>\$ 98,803</u>	<u>\$ 96,261</u>	<u>\$ 45,042</u>
Ratio of earnings to fixed charges	<u>2.35</u>	<u>1.18</u>	<u>--(5)</u>	<u>2.93</u>	<u>2.72</u>	<u>1.15</u>	<u>2.34</u>
Ratio of earnings to combined fixed charges and preferred stock dividends	<u>2.03</u>	<u>1.17</u>	<u>--(5)</u>	<u>2.93</u>	<u>2.72</u>	<u>1.15</u>	<u>2.34</u>

(1) Undistributed income of less-than-50%-owned affiliates is excluded.

(2) Apache has guaranteed and is contingently liable for certain debt. Fixed charges, relating to the debt for which Apache is contingently liable, have not been included in the fixed charges for any of the periods shown above.

(3) Represents the portion of rental expense assumed to be attributable to interest factors of related rental obligations determined at interest rates appropriate for the period during which the rental obligations were incurred. Approximately 32% to 34% applies for all periods presented.

(4) Represents the amount of pre-tax earnings that would be required to cover preferred stock dividends.

(5) Earnings were inadequate to cover fixed charges and combined fixed charges and preferred stock dividends by \$236.8 million and \$239.7 million, respectively, due to the \$243.2 million write-down of the carrying value of United States oil and gas properties.

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9-MOS  
DEC-31-1999  
SEP-30-1999  
16,674  
0  
272,977  
0  
44,935  
355,171  
8,107,958  
(3,576,608)  
4,927,536  
342,614  
1,422,337  
210,490  
98,387  
145,488  
2,111,525  
4,927,536  
849,468  
854,742  
575,407  
575,407  
0  
0  
59,843  
181,807  
78,429  
93,875  
0  
0  
0  
93,875  
.89  
.88