APACHE CORP
Form 10-Q
May 03, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 1-4300
APACHE CORPORATION
(exact name of registrant as specified in its charter)

Delaware	41-0747868
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

One Post Oak Central, 2000 Post Oak Boulevard, Suite 100, Houston, Texas 77056-4400
(Address of principal executive offices)
Registrant's Telephone Number, Including Area Code: (713) 296-6000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	ý	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨
		Emerging growth company	¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
Number of shares of registrant's common stock outstanding as of April 30, 2018 382,154,292

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

- the market prices of oil, natural gas, natural gas liquids (NGLs), and other products or services;
- our commodity hedging arrangements;
- the supply and demand for oil, natural gas, NGLs, and other products or services;
- production and reserve levels;
- drilling risks;
- economic and competitive conditions;
- the availability of capital resources;
- capital expenditure and other contractual obligations;
- currency exchange rates;
- weather conditions;
- inflation rates;
- the availability of goods and services;
- legislative, regulatory, or policy changes;
- terrorism or cyber attacks;
- occurrence of property acquisitions or divestitures;
- the integration of acquisitions;
- the securities or capital markets and related risks such as general credit, liquidity, market, and interest-rate risks; and
- other factors disclosed under Items 1 and 2—Business and Properties—Estimated Proved Reserves and Future Net Cash Flows, Item 1A—Risk Factors, Item 7—Management’s Discussion and Analysis of Financial Condition and Results of

Operations, Item 7A—Quantitative and Qualitative Disclosures About Market Risk and elsewhere in our most recently filed Annual Report on Form 10-K, other risks and uncertainties in our first-quarter 2018 earnings release, other factors disclosed under Part II, Item 1A—Risk Factors of this Quarterly Report on Form 10-Q, and other filings that we make with the Securities and Exchange Commission.

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

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

	For the Quarter Ended March 31,	
	2018	2017
	(In millions, except per common share data)	
REVENUES AND OTHER:		
Oil and gas production revenues		
Oil revenues	$1,392	$1,172
Natural gas revenues	218	255
Natural gas liquids revenues	118	85
	1,728	1,512
Gain on divestitures	7	341
Other	7	25
	1,742	1,878
OPERATING EXPENSES:		
Lease operating expenses	349	336
Gathering, transmission, and processing	81	57
Taxes other than income	55	42
Exploration	76	92
General and administrative	114	103
Transaction, reorganization, and separation	—	(10)
Depreciation, depletion, and amortization:		
Oil and gas property and equipment	518	538
Other assets	35	38
Asset retirement obligation accretion	27	36
Impairments	—	8
Financing costs, net	99	100
	1,354	1,340
NET INCOME BEFORE INCOME TAXES	388	538
Current income tax provision	198	188
Deferred income tax provision (benefit)	(16)	83
NET INCOME INCLUDING NONCONTROLLING INTEREST	206	267
Net income attributable to noncontrolling interest	61	54
NET INCOME ATTRIBUTABLE TO COMMON STOCK	$145	$213
NET INCOME PER COMMON SHARE:		
Basic	$0.38	$0.56
Diluted	$0.38	$0.56
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:		
Basic	382	380
Diluted	384	383
DIVIDENDS DECLARED PER COMMON SHARE	$0.25	$0.25

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

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

	For the Three Months Ended March 31,	
	2018	2017
	(In millions)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income including noncontrolling interest	$206	$267
Adjustments to reconcile net income to net cash provided by operating activities:		
Unrealized derivative instrument gain, net	(49)	—
Gain on divestitures	(7)	(341)
Exploratory dry hole expense and unproved leasehold impairments	36	67
Depreciation, depletion, and amortization	553	576
Asset retirement obligation accretion	27	36
Impairments	—	8
Deferred income tax provision (benefit)	(16)	83
Other	49	34
Changes in operating assets and liabilities:		
Receivables	(65)	(41)
Inventories	(33)	12
Drilling advances	(41)	(12)
Deferred charges and other	32	(10)
Accounts payable	66	(56)
Accrued expenses	(149)	(175)
Deferred credits and noncurrent liabilities	6	7
NET CASH PROVIDED BY OPERATING ACTIVITIES	615	455
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to oil and gas property	(737)	(322)
Leasehold and property acquisitions	(12)	(49)
Additions to gas gathering, transmission, and processing facilities	(128)	(142)
Proceeds from sale of oil and gas properties	9	426
Other, net	(22)	(6)
NET CASH USED IN INVESTING ACTIVITIES	(890)	(93)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on fixed-rate debt	(150)	(70)
Distributions to noncontrolling interest	(69)	(57)
Dividends paid	(95)	(95)
Other	(2)	4
NET CASH USED IN FINANCING ACTIVITIES	(316)	(218)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(591)	144
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,668	1,377
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$1,077	$1,521
SUPPLEMENTARY CASH FLOW DATA:		

Interest paid, net of capitalized interest	$140	$140
Income taxes paid, net of refunds	191	65

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

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APACHE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
(Unaudited)

	March 31, 2018	December 31, 2017
	(In millions)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$1,077	$ 1,668
Receivables, net of allowance	1,409	1,345
Inventories	386	368
Drilling advances	247	207
Prepaid assets and other	134	137
	3,253	3,725
PROPERTY AND EQUIPMENT:		
Oil and gas, on the basis of successful efforts accounting:		
Proved properties	39,958	39,197
Unproved properties and properties under development	1,773	1,783
Gathering, transmission and processing facilities	1,495	1,376
Other	1,056	1,046
	44,282	43,402
Less: Accumulated depreciation, depletion, and amortization	(26,196)	(25,643)
	18,086	17,759
OTHER ASSETS:		
Deferred charges and other	452	438
	$21,791	$ 21,922
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$708	$ 641
Current debt	400	550
Other current liabilities (Note 5)	1,234	1,373
	2,342	2,564
LONG-TERM DEBT	7,936	7,934
DEFERRED CREDITS AND OTHER NONCURRENT LIABILITIES:		
Income taxes	528	545
Asset retirement obligation	1,819	1,792
Other	297	296
	2,644	2,633
COMMITMENTS AND CONTINGENCIES (Note 9)		
EQUITY:		
Common stock, $0.625 par, 860,000,000 shares authorized, 415,315,787 and 414,125,879 shares issued, respectively	259	259
Paid-in capital	12,069	12,128
Accumulated deficit	(1,943)	(2,088)
Treasury stock, at cost, 33,169,135 and 33,171,015 shares, respectively	(2,887)	(2,887)
Accumulated other comprehensive income	4	4
APACHE SHAREHOLDERS' EQUITY	7,502	7,416
Noncontrolling interest	1,367	1,375
TOTAL EQUITY	8,869	8,791

	$21,791	$ 21,922

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

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

	Common Stock	Paid-In Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	APACHE SHAREHOLDERS' EQUITY	Noncontrolling Interest	TOTAL EQUITY
	(In millions)							
BALANCE AT DECEMBER 31, 2016	$258	$12,364	$(3,385)	$(2,887)	$(112)	$6,238	$1,441	$7,679
Net income	—	—	213	—	—	213	54	267
Distributions to noncontrolling interest	—	—	—	—	—	—	(57)	(57)
Common dividends ($0.25 per share)	—	(95)	—	—	—	(95)	—	(95)
Other	—	36	(7)	—	—	29	—	29
BALANCE AT MARCH 31, 2017	$258	$12,305	$(3,179)	$(2,887)	$(112)	$6,385	$1,438	$7,823
BALANCE AT DECEMBER 31, 2017	$259	$12,128	$(2,088)	$(2,887)	$4	$7,416	$1,375	$8,791
Net income	—	—	145	—	—	145	61	206
Distributions to noncontrolling interest	—	—	—	—	—	—	(69)	(69)
Common dividends ($0.25 per share)	—	(96)	—	—	—	(96)	—	(96)
Other	—	37	—	—	—	37	—	37
BALANCE AT MARCH 31, 2018	$259	$12,069	$(1,943)	$(2,887)	$4	$7,502	$1,367	$8,869

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

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

These consolidated financial statements have been prepared by Apache Corporation (Apache or the Company) without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). They reflect all adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the interim periods, on a basis consistent with the annual audited financial statements, with the exception of recently adopted accounting pronouncements discussed below. All such adjustments are of a normal recurring nature. Certain information, accounting policies, and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) have been omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. This Quarterly Report on Form 10-Q should be read along with Apache's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, which contains a summary of the Company's significant accounting policies and other disclosures.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As of March 31, 2018, Apache's significant accounting policies are consistent with those discussed in Note 1—Summary of Significant Accounting Policies of its consolidated financial statements contained in Apache's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, with the exception of Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers (Topic 606)" (see "Revenue Recognition" section in this Note 1 below).

Use of Estimates

Preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates with regard to these financial statements include the fair value determination of acquired assets and liabilities, the estimate of proved oil and gas reserves and related present value estimates of future net cash flows therefrom, the assessment of asset retirement obligations, the estimates of fair value for long-lived assets, and the estimate of income taxes. Actual results could differ from those estimates.

Fair Value Measurements

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

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

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

Apache also uses fair value measurements on a nonrecurring basis when certain qualitative assessments of its assets indicate a potential impairment. The Company recorded no asset impairments in connection with fair value assessments in the first quarter of 2018. For the first quarter of 2017, the Company recorded asset impairments in connection with fair value assessments totaling $8 million for a United Kingdom (U.K.) Petroleum Revenue Tax (PRT) decommissioning asset that is no longer expected to be realizable from future abandonment activities in the North Sea.

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

Oil and Gas Property

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

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

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

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

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

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

	Quarter Ended March 31,	
	2018	2017
	(In millions)	
Oil and Gas Property:		
Proved	$ —	$ —
Unproved	16	15

On the statement of consolidated operations, unproved impairments are recorded in exploration expense, and proved impairments are recorded in impairments.
Gains and losses on significant divestitures are recognized in the statement of consolidated operations.
Revenue Recognition
On January 1, 2018, Apache adopted ASU 2014-09, “Revenue from Contracts with Customers (ASC 606),” using the modified retrospective method. The Company elected to evaluate all contracts at the date of initial application. While there was no impact to the opening balance of retained earnings as a result of the adoption, certain items previously netted in revenue are now recognized as “Gathering, transmission, and processing” in the Company’s statement of consolidated operations. The amounts reclassified are immaterial to the financial statements, and prior comparative periods have not been restated and continue to be reported under the accounting standards in effect for those periods. Adoption of the new standard is not anticipated to have a material impact on the Company’s net earnings on an ongoing basis.
The Company applies the provisions of ASC 606 for revenue recognition to contracts with customers. Sales of crude oil, natural gas, and natural gas liquids (NGLs) are included in revenue when production is sold to a customer in fulfillment of performance obligations under the terms of agreed contracts. Performance obligations primarily comprise delivery of oil, gas, or NGLs at a delivery point, as negotiated within each contract. Each barrel of oil, million Btu (MMBtu) of natural gas, or other unit of measure is separately identifiable and represents a distinct performance obligation to which the transaction price is allocated. Performance obligations are satisfied at a point in time once control of the product has been transferred to the customer. The Company considers a variety of facts and circumstances in assessing the point of control transfer, including but not limited to: whether the purchaser can direct the use of the hydrocarbons, the transfer of significant risks and rewards, the Company’s right to payment, and transfer of legal title. In each case, the term between delivery and when payments are due is not significant.
Apache markets its own United States (U.S.) natural gas and crude oil production based on market-priced contracts. Typically, these contracts are adjusted for quality, transportation, and other market-reflective differentials. Since the Company’s production may fluctuate as a result of operational issues, it is occasionally necessary to purchase third-party oil and gas to fulfill sales obligations and commitments. Sales proceeds related to third-party purchased oil and gas are determined to be revenue from a customer. Proceeds for these volumes, which offset the associated purchase costs, totaled $104 million for the period ending March 31, 2018. Proceeds and costs are both recorded as “Other” under “Revenues and Other” in the statement of consolidated operations.
Internationally, Apache sells its North Sea crude oil under contracts with a market-based index price. Natural gas from the North Sea Beryl field is processed through the SAGE gas plant. The gas is sold to a third party at the St. Fergus entry point of the national grid on a National Balancing Point index price basis. Apache’s gas production in Egypt is sold primarily under an industry-pricing formula, a sliding scale based on Dated Brent crude oil with a minimum of $1.50 per MMBtu and a maximum of $2.65 per MMBtu, plus an upward adjustment for liquids content. The Company’s Egypt oil production is sold at prices equivalent to the export market.
The Company’s Egyptian operations are conducted pursuant to production sharing contracts under which contractor partners pay all operating and capital costs for exploring and developing the concessions. A percentage of the production, generally up to 40 percent, is available to contractor partners to recover these operating and capital costs

over contractually defined periods. The balance of the production is split among the contractor partners and the Egyptian General Petroleum Corporation (EGPC) on a contractually defined basis. Additionally, the contractor partner's income taxes, which remain the liability of the contractor partners under domestic law, are paid by EGPC on behalf of the contractor partners out of EGPC's production entitlement. Income taxes paid to the Arab Republic of Egypt on behalf of Apache as contract partner are recognized as oil and gas sales revenue and income tax expense and reflected as production and estimated reserves. Revenues related to Egypt's tax volumes are considered revenue from a non-customer.

For the period ending March 31, 2018, revenues from customers and revenues from non-customers were $1.7 billion and $155 million, respectively.

Apache records trade accounts receivable for its unconditional rights to consideration arising under sales contracts with customers. The carrying value of such receivables, net of the allowance for doubtful accounts, represents estimated net realizable value. The Company routinely assesses the collectability of all material trade and other receivables. The Company accrues a reserve on a receivable when, based on the judgment of management, it is probable that a receivable will not be collected and the amount of any reserve may be reasonably estimated. Receivables from contracts with customers, net of allowance for doubtful accounts, totaled $1.2 billion and $1.1 billion as of March 31, 2018 and December 31, 2017, respectively.

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

Practical Expedients and Exemptions

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

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

New Pronouncements Issued But Not Yet Adopted

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, "Leases (Topic 842)," requiring lessees to recognize lease assets and lease liabilities for most leases classified as operating leases under previous GAAP. The guidance is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted; however, the Company does not intend to early adopt. In January 2018, the FASB issued a proposed ASU update that would add a transition option permitting entities to apply the provisions of the new standard at its adoption date instead of the earliest comparative period presented in the consolidated financial statements. If finalized, comparative reporting would not be required and the provisions of the standard would be applied prospectively to leases in effect at the date of adoption. In the normal course of business, the Company enters into various lease agreements for real estate, aircraft, and equipment related to its exploration and development activities that are currently accounted for as operating leases. At this time, the Company cannot reasonably estimate the financial impact this will have on its consolidated financial statements; however, the Company believes adoption and implementation of this ASU will significantly impact its balance sheet, resulting in an increase in both assets and liabilities relating to its leasing activities. As part of the assessment to date, the Company has formed an implementation work team, developed a project plan, educated departments affected by the standard, and continues to evaluate contracts and monitor updates to the new standard to determine the impact this ASU will have on its consolidated financial statements.

2. ACQUISITIONS AND DIVESTITURES

2018 Activity

During the first quarter of 2018, Apache completed the sale of certain non-core assets, primarily in the Permian region, in multiple transactions for cash proceeds of $9 million. The Company recognized gains of approximately $7 million during the first quarter upon closing of these transactions.

Leasehold and Property Acquisitions

During the first quarter of 2018, Apache completed $12 million of leasehold and property acquisitions primarily in its U.S. onshore regions.

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2017 Activity

During the first quarter of 2017, Apache completed the sale of certain non-core assets, primarily in the Permian region, in multiple transactions for cash proceeds of $466 million, subject to customary closing adjustments. A refundable deposit of $40 million was received in the fourth quarter of 2016 in connection with these transactions. The Company recognized gains of approximately $341 million during the first quarter upon closing of these transactions.

Leasehold and Property Acquisitions

During the first quarter of 2017, Apache completed $49 million of leasehold and property acquisitions primarily in its U.S. onshore regions.

3. CAPITALIZED EXPLORATORY WELL COSTS

The Company's capitalized exploratory well costs were $363 million and $350 million at March 31, 2018 and December 31, 2017, respectively. The increase is primarily attributable to additional drilling activities during the period, partially offset by successful transfers and dry hole write-offs. No suspended exploratory well costs previously capitalized for greater than one year at December 31, 2017 were charged to dry hole expense during the three months ended March 31, 2018. Projects with suspended exploratory well costs capitalized for a period greater than one year since the completion of drilling are those identified by management as exhibiting sufficient quantities of hydrocarbons to justify potential development. Management is actively pursuing efforts to assess whether reserves can be attributed to these projects.

4. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Objectives and Strategies

The Company is exposed to fluctuations in crude oil and natural gas prices on the majority of its worldwide production. Apache manages the variability in its cash flows by occasionally entering into derivative transactions on a portion of its crude oil and natural gas production. The Company utilizes various types of derivative financial instruments to manage fluctuations in cash flows resulting from changes in commodity prices. Apache has elected not to designate any of its derivative contracts as cash flow hedges.

Counterparty Risk

The use of derivative instruments exposes the Company to credit loss in the event of nonperformance by the counterparty. To reduce the concentration of exposure to any individual counterparty, Apache utilizes a diversified group of investment-grade rated counterparties, primarily financial institutions, for its derivative transactions. As of March 31, 2018, Apache had derivative positions with 14 counterparties. The Company monitors counterparty creditworthiness on an ongoing basis; however, it cannot predict sudden changes in counterparties' creditworthiness. In addition, even if such changes are not sudden, the Company may be limited in its ability to mitigate an increase in counterparty credit risk. Should one of these counterparties not perform, Apache may not realize the benefit of some of its derivative instruments resulting from lower commodity prices.

Derivative Instruments

As of March 31, 2018, Apache had the following open crude oil derivative positions:

		Put Options(1)	
Production Period	Settlement Index	Mbbls	Weighted Average Strike Price
April—December 2018	Dated Brent	2,750	$50.00
July—December 2018	Dated Brent	5,520	$58.00
July—December 2018	NYMEX WTI	5,520	$53.00

(1) The remaining unamortized premium paid as of March 31, 2018, was $27 million.

Production Period	Settlement Index	Fixed-Price Swaps Mbbls	Fixed-Price Swaps Weighted Average Fixed Price	Collars Mbbls	Collars Weighted Average Floor Price	Collars Weighted Average Ceiling Price	Call Options(2) Mbbls	Call Options(2) Strike Price
April—June 2018	NYMEX WTI	1,365	$51.23	1,365	$45.00	$56.45	—	—
April—June 2018	Dated Brent	1,092	$54.57	1,092	$50.00	$58.77	—	—
April—December 2018	NYMEX WTI	—	—	5,088	$45.00	$57.00	5,088	$60.03

(2) The remaining unamortized premium paid as of March 31, 2018, was $8 million.

As of March 31, 2018, Apache had the following open natural gas derivative positions:

Production Period	Settlement Index	Fixed-Price Swaps MMBtu (in 000's)	Fixed-Price Swaps Weighted Average Fixed Price
April—June 2018	NYMEX Henry Hub	28,210	$3.02
July—December 2018	NYMEX Henry Hub	33,580	$2.96

As of March 31, 2018, Apache had the following open natural gas financial basis swap contracts:

Production Period	Settlement Index	MMBtu (in 000's)	Weighted Average Price Differential
July—December 2018	NYMEX Henry Hub/Waha	33,120	$(0.53)
October—December 2018	NYMEX Henry Hub/Waha	1,380	$(0.51)
January—March 2019	NYMEX Henry Hub/Waha	1,350	$(0.54)
January—June 2019	NYMEX Henry Hub/Waha	32,580	$(0.53)
January—December 2019	NYMEX Henry Hub/Waha	14,600	$(0.45)

Fair Value Measurements

Apache's commodity derivative instruments consist of variable-to-fixed price commodity swaps, options, and collars. The fair values of the Company's derivatives are not actively quoted in the open market. The Company uses a market approach to estimate the fair values of its derivative instruments on a recurring basis, utilizing commodity futures pricing for the underlying commodities provided by a reputable third party, a Level 2 fair value measurement.

The following table presents the Company's derivative assets and liabilities measured at fair value on a recurring basis:

	Fair Value Measurements Using Quoted Price in Active Markets (Level 1)	Significant Other Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value	Netting[(1)]	Carrying Amount
	(In millions)					
March 31, 2018						
Assets:						
Commodity Derivative Instruments	$ —	$ 118	$ —	$ 118	$ (70)	$ 48
Liabilities:						
Commodity Derivative Instruments	—	94	—	94	(70)	24
December 31, 2017						
Assets:						
Commodity Derivative Instruments	$ —	$ 67	$ —	$ 67	$ (43)	$ 24
Liabilities:						
Commodity Derivative Instruments	—	107	—	107	(43)	64

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

All derivative instruments are reflected as either assets or liabilities at fair value in the consolidated balance sheet. These fair values are recorded by netting asset and liability positions where counterparty master netting arrangements contain provisions for net settlement. The carrying value of the Company's derivative assets and liabilities and their locations on the consolidated balance sheet are as follows:

	March 31, 2018	December 31, 2017
	(In millions)	
Current Assets: Prepaid assets and other	$ 23	$ 8
Other Assets: Deferred charges and other	25	16
Total Assets	$ 48	$ 24
Current Liabilities: Other current liabilities	$ 24	$ 64
Total Liabilities	$ 24	$ 64

Derivative Activity Recorded in the Statement of Consolidated Operations

The following table summarizes the effect of derivative instruments on the Company's statement of consolidated operations:

	For the Quarter Ended March 31,	
	2018	2017
	(In millions)	
Realized loss:		

Derivative settlements	$ (42)	$ —
Amortization of call and put premium	(5)	—
Unrealized gain	49	—
Derivative instrument gain (losses), net	$ 2	$ —

Derivative instrument gains and losses are recorded in "Other" under "Revenues and Other" in the Company's statement of consolidated operations. Unrealized gains and losses for derivative activity recorded in the statement of consolidated operations

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is reflected in the statement of consolidated cash flows separately as “Unrealized derivative instrument gain, net” in “Adjustments to reconcile net income to net cash provided by operating activities.”

5. OTHER CURRENT LIABILITIES

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

	March 31, 2018	December 31, 2017
	(In millions)	
Accrued operating expenses	$76	$ 72
Accrued exploration and development	811	802
Accrued compensation and benefits	46	115
Accrued interest	104	145
Accrued income taxes	41	55
Current asset retirement obligation	42	43
Other	114	141
Total other current liabilities	$1,234	$ 1,373

6. ASSET RETIREMENT OBLIGATION

The following table describes changes to the Company’s asset retirement obligation (ARO) liability for the three-month period ended March 31, 2018:

	(In millions)
Asset retirement obligation at December 31, 2017	$ 1,835
Liabilities incurred	7
Liabilities settled	(8)
Accretion expense	27
Asset retirement obligation at March 31, 2018	1,861
Less current portion	(42)
Asset retirement obligation, long-term	$ 1,819

7. INCOME TAXES

The Company estimates its annual effective income tax rate in recording its quarterly provision for income taxes in the various jurisdictions in which the Company operates. Non-cash impairments of the carrying value of the Company’s oil and gas properties, gains and losses on the sale of assets, statutory tax rate changes, and other significant or unusual items are recognized as discrete items in the quarter in which they occur.

During the first quarter of 2018, Apache’s effective income tax rate was primarily impacted by an increase in the amount of valuation allowance against its U.S. deferred tax assets. During the first quarter of 2017, Apache’s effective income tax rate was primarily impacted by gains on the sale of oil and gas properties, non-cash impairments of the Company’s PRT decommissioning asset, and an increase in the amount of valuation allowance against its Canadian deferred tax assets.

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

Apache and its subsidiaries are subject to U.S. federal income tax as well as income or capital taxes in various state and foreign jurisdictions. The Company’s tax reserves are related to tax years that may be subject to examination by the relevant taxing authority. The Company is currently under IRS audit for the 2014-2016 tax years and is also under audit in various states and foreign jurisdictions as part of its normal course of business.

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8. DEBT AND FINANCING COSTS

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

	March 31, 2018		December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In millions)			
Commercial paper and committed bank facilities	$—	$—	$—	$—
Notes and debentures	8,336	8,758	8,484	9,244
Total Debt	$8,336	$8,758	$8,484	$9,244

The Company's debt is recorded at the carrying amount, net of related unamortized discount and deferred loan costs, on its consolidated balance sheet. When recorded, the carrying amount of the Company's commercial paper, committed bank facilities, and uncommitted bank lines approximates fair value because the interest rates are variable and reflective of market rates. Apache uses a market approach to determine the fair value of its notes and debentures using estimates provided by an independent investment financial data services firm (a Level 2 fair value measurement).

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

	March 31, 2018	December 31, 2017
	(In millions)	
Debt before unamortized discount and deferred loan costs	$8,430	$ 8,580
Unamortized discount	(47)	(47)
Deferred loan costs	(47)	(49)
Total debt	8,336	8,484
Current maturities	(400)	(550)
Long-term debt	$7,936	$ 7,934

As of March 31, 2018, current debt included $400 million of 6.9% senior notes due September 15, 2018. As of December 31, 2017, current debt also included $150 million of 7.0% senior notes due February 1, 2018. On February 1, 2018, Apache's 7.0% notes in original principal amount of $150 million matured and were repaid.

In March 2018, the Company entered into a revolving credit facility that matures in March 2023 (subject to Apache's two, one-year extension options) with commitments totaling $4.0 billion. The Company can increase commitments up to $5.0 billion by adding new lenders or obtaining the consent or any increasing existing lenders. The facility includes a letter of credit subfacility of up to $3.0 billion, of which $2.08 billion was committed as of March 31, 2018. The facility is for general corporate purposes and committed borrowing capacity fully supports Apache's commercial paper program. As of March 31, 2018, letters of credit aggregating approximately £129.1 million and no borrowings were outstanding under this facility. In connection with entry into this facility, Apache terminated $3.5 billion and £900 million in commitments under two former credit facilities and wrote off $4 million of associated deferred loan costs, which is included in "Financing costs, net" in the Company's consolidated statement of operations.

The Company's $3.5 billion commercial paper program, which is subject to market availability, facilitates Apache borrowing funds for up to 270 days at competitive interest rates. As of March 31, 2018, the Company had no commercial paper outstanding.

Financing Costs, Net

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

	For the Quarter Ended March 31,	
	2018	2017
	(In millions)	
Interest expense	$112	$116
Amortization of deferred loan costs	5	2
Capitalized interest	(12)	(14)
Loss on extinguishment of debt	—	1
Interest income	(6)	(5)
Financing costs, net	$99	$100

9. COMMITMENTS AND CONTINGENCIES

Legal Matters

Apache is party to various legal actions arising in the ordinary course of business, including litigation and governmental and regulatory controls. As of March 31, 2018, the Company has an accrued liability of approximately $38 million for all legal contingencies that are deemed to be probable of occurring and can be reasonably estimated. Apache's estimates are based on information known about the matters and its experience in contesting, litigating, and settling similar matters. Although actual amounts could differ from management's estimate, none of the actions are believed by management to involve future amounts that would be material to Apache's financial position, results of operations, or liquidity after consideration of recorded accruals. For material matters that Apache believes an unfavorable outcome is reasonably possible, the Company has disclosed the nature of the matter and a range of potential exposure, unless an estimate cannot be made at this time. It is management's opinion that the loss for any other litigation matters and claims that are reasonably possible to occur will not have a material adverse effect on the Company's financial position, results of operations, or liquidity.

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

Argentine Environmental Claims and Argentina Tariff

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

Louisiana Restoration

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

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

No other material change in the status of these matters has occurred since the filing of Apache's Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

Escheat Audits

In September 2010, the State of Delaware, Department of Finance, Division of Revenue (Unclaimed Property) (Delaware), notified Apache Corporation that Delaware's consultant, Kelmar Associates, would examine Apache's books and records and those of its subsidiaries and related entities to determine compliance with Delaware Escheat Laws. Delaware notified the Company that its audit was complete and the Company was able to resolve all audit issues for an amount that is not material to the Company.

Apollo Exploration Lawsuit

In a case captioned Apollo Exploration, LLC, Cogent Exploration, Ltd. Co. & SellmoCo, LLC v. Apache Corporation, Cause No. CV50538 in the 385th Judicial District Court, Midland County, Texas, plaintiffs alleged damages in excess of $200 million (having previously claimed in excess of $1.1 billion) relating to purchase and sale agreements, mineral leases, and areas of mutual interest agreements concerning properties located in Hartley, Moore, Potter, and Oldham Counties, Texas. The Court recently granted motions filed by Apache reducing the plaintiffs' alleged damages to an amount that is not material to the Company. Apache believes that plaintiffs' claims lack merit and will vigorously oppose the claims. No other material change in the status of these matters has occurred since the filing of Apache's Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

Australian Operations Divestiture Dispute

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

California Litigation

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

Environmental Matters

As of March 31, 2018, the Company had an undiscounted reserve for environmental remediation of approximately $4 million. The Company is not aware of any environmental claims existing as of March 31, 2018, that have not been provided for or would otherwise have a material impact on its financial position, results of operations, or liquidity.

There can be no assurance, however, that current regulatory requirements will not change or past non-compliance with environmental laws will not be discovered on the Company’s properties.

10. CAPITAL STOCK

Net Income per Common Share

A reconciliation of the components of basic and diluted net income per common share for the quarters ended March 31, 2018 and 2017, is presented in the table below.

	For the Quarter Ended March 31,					
	2018			2017		
	Income	Shares	Per Share	Income	Shares	Per Share
	(In millions, except per share amounts)					
Basic:						
Income attributable to common stock	$145	382	$ 0.38	$213	380	$ 0.56
Effect of Dilutive Securities:						
Stock options and other	$—	2	$ —	$—	3	$ —
Diluted:						
Income attributable to common stock	$145	384	$ 0.38	$213	383	