AllianzGI Convertible & Income Fund II
Form POS 8C
May 20, 2013
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As filed with the Securities and Exchange Commission on May 17, 2013

1933 Act File No. 333-184231

1940 Act File No. 811-21338

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM N-2

(Check appropriate box or boxes)

REGISTRATION STATEMENT

UNDER	
THE SECURITIES ACT OF 1933	x
Pre-Effective Amendment No.	¨
Post-Effective Amendment No. 2	x
and	

REGISTRATION STATEMENT

UNDER

THE INVESTMENT COMPANY ACT OF 1940	x
Amendment No. 11	x

ALLIANZGI CONVERTIBLE & INCOME FUND II

(Exact Name of Registrant as Specified in Charter)

1633 Broadway

New York, New York 10019

(Address of Principal Executive Offices)

(Number, Street, City, State, Zip Code)

(212) 739-3222

(Registrant s Telephone Number, including Area Code)

Thomas J. Fuccillo, Esq.

c/o Allianz Global Investors Fund Management LLC

1633 Broadway

New York, New York 10019

(Name and Address (Number, Street, City, State, Zip Code) of Agent for Service)

Copies of Communications to:

David C. Sullivan, Esq.

Ropes & Gray LLP

Prudential Tower, 800 Boylston Street

Boston, Massachusetts 02199

Approximate Date of Proposed Public Offering:

From time to time after the effective date of this Registration Statement

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box x.

It is proposed that this filing will become effective (check appropriate box)

x When declared effective pursuant to Section 8(c).

The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment that specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion dated , 2013

BASE PROSPECTUS

$100,000,000

AllianzGI Convertible & Income Fund II

Common Shares of Beneficial Interest

Investment Objective. AllianzGI Convertible & Income Fund II (formerly, AGIC Convertible & Income Fund II) (the Fund) is a diversified, closed-end management investment company that commenced operations on July 31, 2003, following the initial public offering of its common shares. The Fund s investment objective is to provide total return through a combination of capital appreciation and high current income. The Fund cannot assure you that it will achieve its investment objective, and you could lose all of your investment in the Fund.

Portfolio Contents. Under normal circumstances, the Fund will invest at least 80% of its total assets in a diversified portfolio of convertible securities and non-convertible income-producing securities. The portion of the Fund s assets invested in convertible securities, on the one hand, and non-convertible income-producing securities, on the other, will vary from time to time consistent with the Fund s investment objective, although the Fund will normally invest at least 50% of its total assets in convertible securities. In making allocation decisions, Allianz Global Investors U.S. LLC (formerly, Allianz Global Investors Capital LLC) (AGI U.S.) will consider factors such as changes in equity prices, changes in interest rates and other economic and market factors. The Fund may invest without limit in convertible securities and non-convertible income-producing securities that are rated below investment grade (below Baa3 by Moody s Investors Service, Inc. (Moody s) or below BBB- by either Standard & Poor s Ratings Services, a division of The McGraw-Hill Company, Inc. (S&P) or Fitch, Inc. (Fitch)) or that are unrated but judged by AGI U.S. to be of comparable quality, and expects that ordinarily AGI U.S. s portfolio strategies will result in the Fund investing primarily in these securities. The Fund may invest without limit in securities of any rating. The Fund typically invests in securities with a broad range of maturities. The weighted average maturity of the Fund s portfolio will typically range from five to ten years, although the weighted average maturity of obligations held by the Fund may be shorter or longer at any time or from time to time depending on market conditions.

(continued on following page)

The Fund s common shares (the Common Shares) are listed on the New York Stock Exchange (NYSE) under the symbol NCZ. The last reported sale price of the Common Shares, as reported by the NYSE on April 30, 2013, was $8.77 per Common Share. The net asset value of the Common Shares at the close of business on April 30, 2013, was $8.21 per Common Share.

Investment in the Fund s Common Shares involves substantial risks arising from, among other strategies, the Fund s ability to invest in convertible securities and in debt instruments that are, at the time of purchase, rated below investment grade (below Baa3 by Moody s or below BBB- by either S&P or Fitch) or unrated but determined by AGI U.S. to be of comparable quality, and the Fund s use of leverage. Debt securities of below investment grade quality are regarded as having predominantly speculative characteristics with respect to capacity to pay interest and to repay principal, and are commonly referred to as high yield securities or junk bonds. Because of the risks associated with investing in convertible securities and high yield securities and using leverage, an investment in the Fund should be considered speculative. Before investing in the Common Shares, you should read the discussion of the principal risks of investing in the Fund, including the risks of leverage and of investing in below investment grade/high yield securities, in Principal Risks of the Fund. Certain of these risks are summarized in Prospectus Summary Principal Risks of the Fund.

The Securities and Exchange Commission has not approved or disapproved of these securities or determined that this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

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The Fund may invest up to 20% of its total assets in securities other than convertible securities and non-convertible income-producing securities. The Fund may invest up to 5% of its total assets in illiquid securities (*i.e.*, securities that cannot be disposed of within seven days in the ordinary course of business at approximately the value at which the Fund has valued the securities). The Fund may hold or have exposure to equity securities. The Fund may invest in securities of other open- or closed-end investment companies, including, but not limited to, exchange-traded funds. The Fund may invest in securities of companies with small and medium market capitalizations.

The Fund also invests in non-convertible income-producing securities, including, but not limited to, corporate bonds, debentures, notes and other similar types of corporate debt instruments of U.S. and foreign corporate and other issuers, including commercial paper, as well as non-convertible preferred stocks; bank loans (including, among others, senior loans, delayed funding loans, revolving credit facilities and loan participations and assignments); real estate investment trusts and commercial and other mortgage-related and asset-backed securities issued on a public or private basis; payment-in-kind securities; credit-linked trust certificates and other securities issued by special purpose or structured vehicles; zero-coupon bonds; bank certificates of deposit, fixed time deposits and bankers acceptances; and U.S. Government securities. The Fund s investments in non-convertible income-producing securities may have fixed or variable principal payments and all types of interest rate and dividend payment and reset terms, including fixed rate, adjustable rate, zero-coupon, contingent, deferred, payment-in-kind and auction-rate features.

The Fund may utilize various derivative strategies (both long and short positions) involving the purchase or sale of futures and forward contracts, call and put options, credit default swaps, total return swaps, basis swaps and other swap agreements and other derivative instruments for investment purposes, leveraging purposes or in an attempt to hedge against market, credit, interest rate, currency and other risks in the portfolio. The Fund may purchase and sell securities on a when-issued, delayed delivery or forward commitment basis and may engage in short sales.

The Fund may invest up to 20% of its total assets in U.S. dollar-denominated securities of foreign issuers based in developed countries. For this purpose, foreign securities include, but are not limited to, foreign convertible securities and non-convertible income-producing securities, foreign equity securities (including preferred securities of foreign issuers), foreign bank obligations, and obligations of foreign governments or their subdivisions, agencies and instrumentalities, international agencies and supranational entities. For this purpose, foreign securities do not include American Depository Receipts or securities guaranteed by a United States person, but may include foreign securities in the form of Global Depository Receipts or other securities representing underlying shares of foreign issuers. See Investment Objective and Strategies Portfolio Contents Foreign (Non-U.S.) Investments.

The Fund may invest without limit in securities that have not been registered for public sale in the U.S. or relevant non-U.S. jurisdiction, including, without limitation, securities eligible for purchase and sale pursuant to Rule 144A under the Securities Act of 1933, as amended (the Securities Act), or relevant provisions of applicable non-U.S. law, and other securities issued in private placements.

Leverage. The Fund currently utilizes leverage through its outstanding auction rate preferred shares. The Fund may issue additional preferred shares to add leverage to its portfolio. The Fund may also add leverage to its portfolio by utilizing reverse repurchase agreements, dollar rolls or other forms of borrowings, such as bank loans or commercial paper or other credit facilities, although these forms of leverage will generally be used, if at all, as a substitute for, rather than in addition to, the leverage obtained through the issuance of preferred shares. The Fund may also enter into transactions other than those noted above that may give rise to a form of leverage including, among others, futures and forward contracts, credit default swaps, total return swaps and other derivative transactions, loans of portfolio securities, short sales and when-issued, delayed delivery and forward commitment transactions. Depending upon market conditions and other factors, the Fund may or may not determine to add leverage following an offering to maintain or increase the total amount of leverage (as a percentage of the Fund s total assets) that the Fund currently maintains, taking into account the additional assets

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raised through the issuance of Common Shares in such offering. The Fund utilizes leverage opportunistically and may choose to increase or decrease, or eliminate entirely, its use of leverage over time and from time to time based on AGI U.S. s assessment of the yield curve environment, interest rate trends, market conditions and other factors. If the Fund determines to add leverage following an offering, it is not possible to predict with accuracy the precise amount of leverage that would be added, in part because it is not possible to predict the number of Common Shares that ultimately will be sold in an offering or series of offerings. To the extent that the Fund does not add additional leverage following an offering, the Fund s total amount of leverage as a percentage of its total assets will decrease, which could result in a reduction of investment income available for distribution to common shareholders. Leveraging is a speculative technique and there are special risks and costs involved. There can be no assurance that a leveraging strategy will be used or that it will be successful during any period in which it is employed. See Use of Leverage and Principal Risks of the Fund Leverage Risk.

This prospectus is part of a registration statement that the Fund has filed with the Securities and Exchange Commission, using the shelf registration process. The Fund may offer, from time to time, in one or more offerings, including through rights offerings, up to $100,000,000 of the Common Shares on terms to be determined at the time of the offering. This prospectus provides you with a general description of the Common Shares that the Fund may offer. Each time the Fund uses this prospectus to offer Common Shares, the Fund will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. You should read this prospectus and the applicable prospectus supplement, which contains important information about the Fund, carefully before you invest in the Common Shares. Common Shares may be offered directly to one or more purchasers, through agents designated from time to time by the Fund, or to or through underwriters or dealers. The prospectus supplement relating to an offering will identify any agents, underwriters or dealers involved in the sale of Common Shares, and will set forth any applicable purchase price, fee, commission or discount arrangement between the Fund and its agents or underwriters, or among the Fund s underwriters, or the basis upon which such amount may be calculated. See Plan of Distribution. The Fund may not sell any Common Shares through agents, underwriters or dealers without delivery or deemed delivery of a prospectus supplement describing the method and terms of the particular offering of the Common Shares.

You should retain this prospectus and any prospectus supplement for future reference. A Statement of Additional Information, dated , 2013, containing additional information about the Fund has been filed with the Securities and Exchange Commission and is incorporated by reference in its entirety into this prospectus. You can review the table of contents of the Statement of Additional Information on page 96 of this prospectus. You may request a free copy of the Statement of Additional Information, request the Fund s most recent annual and semiannual reports, request information about the Fund and make shareholder inquiries by calling toll free (800) 254-5197 or by writing to the Fund at c/o Allianz Global Investors Fund Management LLC, 1633 Broadway, New York, New York 10019. You may also obtain a copy of the Statement of Additional Information (and other information regarding the Fund) from the Securities and Exchange Commission s Public Reference Room in Washington, D.C. by calling (202) 551-8090. The Securities and Exchange Commission charges a fee for copies. The Fund s Statement of Additional Information and most recent annual and semiannual reports are available, free of charge, on the Fund s website (http://www.allianzinvestors.com). You can obtain the same information, free of charge, from the Securities and Exchange Commission s web site (http://www.sec.gov).

The Common Shares do not represent a deposit or obligation of, and are not guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.

Prospectus dated , 2013

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You should rely only on the information contained or incorporated by reference in this prospectus and any related prospectus supplement. The Fund has not authorized any other person to provide you with inconsistent information. If anyone provides you with inconsistent information, you should not assume that the Fund has authorized or verified it. The Fund is not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should not assume that the information contained in this prospectus or any prospectus supplement is accurate as of any date other than the dates on their respective front covers. The Fund s business, financial condition, results of operations and prospects may have changed since the date of this prospectus or the date of any prospectus supplement.

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PROSPECTUS SUMMARY

This is only a summary. This summary may not contain all of the information that you should consider before investing in the Fund s common shares of beneficial interest (the Common Shares). You should review the more detailed information contained in this prospectus and in any related prospectus supplement and in the Statement of Additional Information, especially the information set forth under the heading Principal Risks of the Fund.

The Fund	AllianzGI Convertible & Income Fund II (the Fund) is a diversified, closed-end management investment company. The Fund commenced operations on July 31, 2003, following the initial public offering of its Common Shares. Effective January 28, 2013, the Fund changed its name from AGIC Convertible & Income Fund II to its current name, AllianzGI Convertible & Income Fund II.
	The Common Shares are listed on the New York Stock Exchange (NYSE) under the symbol NCZ. As of April 30, 2013, the net assets of the Fund attributable to Common Shares were $549,349,829 and the Fund had outstanding 66,912,090 Common Shares and 10,960 auction rate preferred shares of beneficial interest (ARPS and, together with any other preferred shares issued by the Fund, Preferred Shares). The last reported sale price of the Common Shares, as reported by the NYSE on April 30, 2013, was $8.77 per Common Share. The net asset value of the Common Shares at the close of business on April 30, 2013, was $8.21 per Common Share. See Description of Capital Structure.
The Offering	The Fund may offer, from time to time, in one or more offerings, including through rights offerings, up to $100,000,000 of the Common Shares on terms to be determined at the time of the offering. The Common Shares may be offered at prices and on terms to be set forth in one or more prospectus supplements. You should read this prospectus and the applicable prospectus supplement carefully before you invest in the Common Shares. Common Shares may be offered directly to one or more purchasers, through agents designated from time to time by the Fund, or to or through underwriters or dealers. The prospectus supplement relating to an offering will identify any agents, underwriters or dealers involved in the sale of Common Shares, and will set forth any applicable purchase price, fee, commission or discount arrangement between the Fund and its agents or underwriters, or among the Fund s underwriters, or the basis upon which such amount may be calculated. See Plan of Distribution. The Fund may not sell any Common Shares through agents, underwriters or dealers without delivery or deemed delivery of a prospectus supplement describing the method and terms of the particular offering of the Common Shares.
Use of Proceeds	The net proceeds of an offering will be invested in accordance with the Fund s investment objective and policies as set forth below. It is presently anticipated that the Fund will be able to invest substantially all of the net proceeds of an offering in investments that meet its investment objective and policies within 30 days of receipt by the Fund. See Use of Proceeds.

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Investment Objective

The Fund s investment objective is to provide total return through a combination of capital appreciation and high current income. The Fund attempts to achieve this objective by investing in a diversified portfolio of convertible securities and non-convertible income-producing securities described under Portfolio Contents below. As described below, in seeking to achieve its investment objective, the Fund expects ordinarily to invest primarily in high yield securities or junk bonds. The Fund cannot assure you that it will achieve its investment objective.

Portfolio Management Strategies

In selecting investments for the Fund, Allianz Global Investors U.S. LLC (formerly, Allianz Global Investors Capital LLC) (AGI U.S. or the Sub-Adviser), the Fund s sub-adviser, attempts to identify issuers that successfully adapt to change. AGI U.S. uses traditional credit analysis combined with a disciplined, fundamental bottom-up research process that facilitates the early identification of issuers demonstrating an ability to improve their fundamental characteristics. See Independent Credit Analysis below. AGI U.S. attempts to identify potential investments that it expects will exceed minimum credit statistics and exhibit the highest visibility of future expected operating performance. AGI U.S. s sell discipline is clearly defined and designed to drive the Fund s portfolio continually toward strength, taking into account factors such as a change in credit fundamentals, a decline in attractiveness relative to other securities and a decline in industry fundamentals.

In selecting convertible securities for investment by the Fund, AGI U.S. evaluates each convertible security s investment characteristics as an income-producing security, using the techniques described above, as well as its potential for capital appreciation, using techniques that focus on the security s equity characteristics. AGI U.S. seeks to capture approximately 60-80% of any increase in the market price of the underlying equities (upside potential) and 50% or less of any decrease in the market price of the underlying equities (downside exposure). In analyzing specific companies for possible investment, AGI U.S. ordinarily looks for several of the following characteristics: above-average per share earnings growth; high return on invested capital; a healthy balance sheet; sound financial and accounting policies and overall financial strength; strong competitive advantages; effective research and product development and marketing; development of new technologies; efficient service; pricing flexibility; strong management; and general operating characteristics that will enable the companies to compete successfully in their respective markets. AGI U.S. will consider selling a particular convertible security when any of those factors materially changes.

Independent Credit Analysis

AGI U.S. relies heavily on its own analysis of the credit quality and risks associated with individual securities considered for the Fund, rather than relying exclusively on rating agencies or third-party research. The Fund s portfolio managers utilize this information in an attempt to minimize credit risk and identify issuers, industries or

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sectors that are undervalued or that offer attractive capital appreciation potential or high current income relative to AGI U.S. s assessment of their credit characteristics. This aspect of AGI U.S. s capabilities will be particularly important to the extent that the Fund invests in high yield securities.

Portfolio Contents

Under normal circumstances, the Fund will invest at least 80% of its total assets in a diversified portfolio of convertible securities and non-convertible income-producing securities (the 80% Policy). The portion of the Fund s assets invested in convertible securities, on the one hand, and non-convertible income-producing securities, on the other, will vary from time to time consistent with the Fund s investment objective, although the Fund will normally invest at least 50% of its total assets in convertible securities (the 50% Policy). The Fund s investments in derivatives and other synthetic instruments that have economic characteristics similar to convertible securities or non-convertible income-producing securities will be counted toward satisfaction of the Fund s 80% Policy and 50% Policy. For purposes of the Fund s 80% Policy and 50% Policy, the Fund generally values its derivative instruments based on their market value. In making allocation decisions, AGI U.S. will consider factors such as changes in equity prices, changes in interest rates and other economic and market factors. The Fund may invest without limit in convertible securities and non-convertible income-producing securities that are below investment grade quality, and expects that ordinarily AGI U.S. s portfolio strategies will result in the Fund investing primarily in these securities. The Fund typically invests in securities with a broad range of maturities. The weighted average maturity of the Fund s portfolio will typically range from five to ten years, although the weighted average maturity of obligations held by the Fund may be shorter or longer at any time or from time to time depending on market conditions.

The Fund may invest up to 20% of its total assets in securities other than convertible securities and non-convertible income-producing securities. The Fund may invest up to 5% of its total assets in illiquid securities (*i.e.*, securities that cannot be disposed of within seven days in the ordinary course of business at approximately the value at which the Fund has valued the securities). The Fund may hold or have exposure to equity securities. The Fund may invest in securities of other open- or closed-end investment companies, including, but not limited to, exchange-traded funds (ETFs). The Fund may invest in securities of companies with small and medium market capitalizations.

The Fund may utilize various derivative strategies (both long and short positions) involving the purchase or sale of futures and forward contracts, call and put options, credit default swaps, total return swaps, basis swaps and other swap agreements and other derivative instruments for investment purposes, leveraging purposes or in an attempt to hedge against market, credit, interest rate, currency and other risks in the portfolio. The Fund may purchase and sell securities on a when-issued, delayed delivery or forward commitment basis and may engage in short sales.

Convertible Securities

The Fund may invest without limit in convertible securities, and these securities will ordinarily constitute a principal component of the Fund s investment program. Under normal circumstances, the Fund will invest at least 50% of its total assets in convertible securities. Convertible securities are bonds, debentures, notes, preferred stocks or other securities that may be converted or exchanged at either a stated price or stated rate into underlying shares of common stock. Convertible securities have general characteristics similar to both debt securities and equity securities. Although to a lesser extent than with debt obligations, the market value of convertible securities tends to decline as interest rates increase and, conversely, tends to increase as interest rates decline. In addition, because of the conversion feature, the market value of convertible securities tends to vary with fluctuations in the market value of the underlying common stocks and, therefore, also will react to variations in the general market for equity securities. Convertible securities are investments that provide for a stable stream of income with generally higher yields than common stocks. There can be no assurance of current income because the issuers of the convertible securities may default on their obligations. Convertible securities, however, generally offer lower interest or dividend yields than non-convertible debt securities of similar credit quality because of the potential for equity-related capital appreciation. A convertible security, in addition to providing current income, offers the potential for capital appreciation through the conversion feature, which enables the holder to benefit from increases in the market price of the underlying common stock. See Investment Objective and Strategies Portfolio Contents Convertible Securities.

Synthetic Convertible Securities

The Fund also may invest without limit in synthetic convertible securities, which will be selected based on the similarity of their economic characteristics to those of a traditional convertible security due to the combination of separate securities that possess the two principal characteristics of a traditional convertible security, *i.e.*, an income-producing security (income-producing component) and the right to acquire an equity security (convertible component). The income-producing component is achieved by investing in non-convertible, income-producing securities such as bonds, preferred stocks and money market instruments. The convertible component is achieved by purchasing warrants or options to buy common stock at a certain exercise price, or options on a stock index. The Fund may also purchase synthetic securities created by other parties, typically investment banks, including convertible structured notes. The income-producing and convertible components of a synthetic convertible security may be issued separately by different issuers and at different times. The values of synthetic convertible securities will respond differently to market fluctuations than a traditional convertible security because a synthetic convertible is

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composed of two or more separate securities or instruments, each with its own market value. Synthetic convertible securities are also subject to the risks associated with derivatives. See Principal Risks of the Fund Derivatives Risk. In addition, if the value of the underlying common stock or the level of the index involved in the convertible element falls below the strike price of the warrant or option, the warrant or option may lose all value. The Fund s holdings of synthetic convertible securities are considered convertible securities for purposes of the Fund s policy to normally invest at least 50% of its total assets in convertible securities and 80% of its total assets in a diversified portfolio of convertible securities and non-convertible income-producing securities. See Investment Objective and Strategies Portfolio Contents Synthetic Convertible Securities.

Non-Convertible Income-Producing Securities

The Fund also invests in non-convertible income-producing securities, including, but not limited to, corporate bonds, debentures, notes and other similar types of corporate debt instruments of U.S. and foreign corporate and other issuers, including commercial paper, as well as non-convertible preferred stocks; bank loans (including, among others, senior loans, delayed funding loans, revolving credit facilities and loan participations and assignments); real estate investment trusts (REITs) and commercial and other mortgage-related and asset-backed securities issued on a public or private basis; payment-in-kind securities; credit-linked trust certificates and other securities issued by special purpose or structured vehicles; zero-coupon bonds; bank certificates of deposit, fixed time deposits and bankers acceptances; and U.S. Government securities. The Fund s investments in non-convertible income-producing securities may have fixed or variable principal payments and all types of interest rate and dividend payment and reset terms, including fixed rate, adjustable rate, zero-coupon, contingent, deferred, payment-in-kind and auction-rate features. See Investment Objective and Strategies Portfolio Contents.

High Yield Securities

The Fund may invest without limit in convertible securities and non-convertible income producing securities that are rated below investment grade (below Baa3 by Moody s Investors Service, Inc. (Moody s) or below BBB- by either Standard & Poor s (S&P) or Fitch Inc. (Fitch)) or that are unrated but determined by AGI U.S. to be of comparable quality, and expects that normally AGI U.S. s portfolio strategies will result in the Fund investing primarily in those securities. Below investment grade securities are commonly referred to as high yield securities or junk bonds. The Fund may invest in high yield securities of any rating, including securities given the lowest non-default rating (Caa by Moody s or C by S&P or Fitch, as described in Appendix A) or unrated securities judged to be of comparable quality by AGI U.S. The Fund may purchase distressed securities that are in default or the issuers of which are in bankruptcy. High yield securities involve a greater degree of risk (in particular, a greater risk of default) than, and special risks in addition to the risks

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associated with, investment grade debt obligations. While offering a greater potential opportunity for capital appreciation and higher yields, high yield securities typically entail greater potential price volatility and may be less liquid than higher-rated securities. High yield securities may be regarded as predominantly speculative with respect to the issuer s continuing ability to make timely principal and interest payments. They also may be more susceptible to real or perceived adverse economic and competitive industry conditions than higher-rated securities. Debt securities in the lowest investment grade category also may be considered to possess some speculative characteristics by certain ratings agencies. See Investment Objective and Strategies Portfolio Contents High Yield Securities.

Foreign (Non-U.S.) Investments

The Fund may invest up to 20% of its total assets in U.S. dollar-denominated securities of foreign issuers based in developed countries. For this purpose, foreign securities include, but are not limited to, foreign convertible securities and non-convertible income-producing securities, foreign equity securities (including preferred securities of foreign issuers), foreign bank obligations, and obligations of foreign governments or their subdivisions, agencies and instrumentalities, international agencies and supranational entities. For this purpose, foreign securities do not include American Depository Receipts (ADRs) or securities guaranteed by a United States person (*i.e.*, the Fund does not count these securities for purposes of the 20% limitation noted above), but may include foreign securities in the form of Global Depository Receipts (GDRs) or other securities representing underlying shares of foreign issuers. See Investment Objective and Strategies Portfolio Contents Foreign (Non-U.S.) Investments.

Restricted Securities

The Fund may invest without limit in securities that have not been registered for public sale in the U.S. or relevant non-U.S. jurisdiction, including, without limitation, securities eligible for purchase and sale pursuant to Rule 144A under the Securities Act of 1933, as amended (the Securities Act), or relevant provisions of applicable non-U.S. law, and other securities issued in private placements. Rule 144A under the Securities Act provides a non-exclusive safe harbor exemption from the registration requirements of the Securities Act for the resale of certain restricted securities to certain qualified institutional buyers, such as the Fund. Restricted securities may be deemed illiquid and thus may be subject to the Fund s limit on investments in illiquid securities, although the Fund may determine that certain restricted securities are liquid in accordance with procedures adopted by the Board of Trustees.

Leverage

The Fund currently utilizes leverage through its outstanding ARPS. As of April 30, 2013, the aggregate dollar amount (*i.e.*, liquidation preference) of the Fund s outstanding ARPS was $274,000,000, which then represented approximately 32.18% of the Fund s total assets (including assets attributable to the ARPS). Information regarding the terms and features of the ARPS is provided under Description of Capital Structure in this prospectus.

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The Fund may issue additional preferred shares to add leverage to its portfolio. The Fund may also add leverage to its portfolio by utilizing reverse repurchase agreements, dollar rolls or other forms of borrowings, such as bank loans or commercial paper or other credit facilities, although these forms of leverage will generally be used, if at all, as a substitute for, rather than in addition to, the leverage obtained through the issuance of Preferred Shares. The Fund may also enter into transactions other than those noted above that may give rise to a form of leverage including, among others, futures and forward contracts, credit default swaps, total return swaps and other derivative transactions, loans of portfolio securities, short sales and when-issued, delayed delivery and forward commitment transactions.

Depending upon market conditions and other factors, the Fund may or may not determine to add leverage following an offering to maintain or increase the total amount of leverage (as a percentage of the Fund s total assets) that the Fund currently maintains, taking into account the additional assets raised through the issuance of Common Shares in such offering. The Fund utilizes leverage opportunistically and may choose to increase or decrease, or eliminate entirely, its use of leverage over time and from time to time based on AGI U.S. s assessment of the yield curve environment, interest rate trends, market conditions and other factors. If the Fund determines to add leverage following an offering, it is not possible to predict with accuracy the precise amount of leverage that would be added, in part because it is not possible to predict the number of Common Shares that ultimately will be sold in an offering or series of offerings. To the extent that the Fund does not add additional leverage following an offering, the Fund s total amount of leverage as a percentage of its total assets will decrease, which could result in a reduction of investment income available for distribution to holders of the Common Shares (Common Shareholders).

The Fund s net assets attributable to its Preferred Shares and the net proceeds the Fund obtains from reverse repurchase agreements or other forms of leverage utilized, if any, will be invested in accordance with the Fund s investment objective and policies as described in this prospectus and any Prospectus Supplement. So long as the rate of return, net of applicable Fund expenses, on the debt obligations and other investments purchased by the Fund exceeds the dividend rates payable on the Preferred Shares together with the costs to the Fund of other leverage it utilizes, the investment of the Fund s net assets attributable to leverage will generate more income than will be needed to pay the costs of the leverage. If so, and all other things being equal, the excess may be used to pay higher dividends to Common Shareholders than if the Fund were not so leveraged.

Regarding the expenses associated with the Fund s leverage, the terms of the ARPS provide that they would ordinarily pay dividends at a rate set at auctions held every seven days, subject to a maximum applicable rate calculated as a function of the ARPS then-current rating and a reference interest rate. However, the weekly auctions for the ARPS, as well as auctions for similar preferred shares of other closed-end funds in the U.S., have failed since February 2008, and the dividend rates on the ARPS since that time have been paid at the maximum applicable rate (*i.e.* a multiple of a reference rate, which is the applicable AA Financial Composite Commercial Paper Rate (for a dividend period of fewer than 184 days) or the applicable Treasury Index Rate (for a dividend period of 184 days or more)). In July 2012, Moody s, one of the two ratings agencies that provides ratings for the Fund s ARPS, downgraded its rating of the ARPS from Aaa to A1 pursuant to a revised ratings methodology adopted by Moody s. Under the Fund s Bylaws, this resulted in an increase in the multiple used to calculate the maximum applicable rate from 150% to 200%, thereby increasing the dividend rate payable to ARPS holders and increasing the expenses to Common Shareholders associated with the Fund s leverage. See Use of Leverage and Description of Capital Structure. The Fund expects that the ARPS will continue to pay dividends at the maximum applicable rate for the foreseeable future and cannot predict whether or when the auction markets for the ARPS may resume normal functioning. See Principal Risks of the Fund Leverage Risk, Principal Risks of the Fund Additional Risks Associated with the Fund s Preferred Shares and Description of Capital Structure for more information.

Leveraging is a speculative technique and there are special risks and costs involved. The Fund cannot assure you that its Preferred Shares and use of any other forms of leverage (such as the use of reverse repurchase agreements or derivatives strategies), if any, will result in a higher yield on your Common Shares. When leverage is used, the net asset value and market price of the Common Shares and the yield to Common Shareholders will be more volatile. See Principal Risks of the Fund Leverage Risk. In addition, dividend, interest and other expenses borne by the Fund with respect to its Preferred Shares and its use any other forms of leverage are borne by the Common Shareholders (and not by the holders of Preferred Shares) and result in a reduction of the net asset value of the Common Shares. In addition, because the fees received by the Investment Manager (defined below) and by the Sub-Adviser are based on the total managed assets of the Fund (including any assets attributable to any preferred shares or other forms of leverage of the Fund that may be outstanding), the Investment Manager and the Sub-Adviser have a financial incentive for the Fund to have preferred shares outstanding and to use certain other forms of leverage (*e.g.*, reverse repurchase agreements and other borrowings), which may create a conflict of interest between the Investment Manager and the Sub-Adviser, on the one hand, and the Common Shareholders, on the other hand.

Under the 1940 Act, the Fund is not permitted to issue new preferred shares unless immediately after such issuance the value of the Fund s total net assets (as defined below) is at least 200% of the liquidation value of the outstanding Preferred Shares and the newly issued

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preferred shares plus the aggregate amount of any senior securities of the Fund representing indebtedness (*i.e.*, such liquidation value plus the aggregate amount of senior securities representing indebtedness may not exceed 50% of the Fund s total net assets). In addition, the Fund is not permitted to declare any cash dividend or other distribution on its Common Shares unless, at the time of such declaration, the value of the Fund s total net assets satisfies the above-referenced 200% coverage requirement.

The 1940 Act also generally prohibits the Fund from engaging in most forms of leverage representing indebtedness other than preferred shares (including the use of reverse repurchase agreements, dollar rolls, bank loans, commercial paper or other credit facilities, credit default swaps and other derivative transactions, loans of portfolio securities, short sales and when-issued, delayed delivery and forward commitment transactions, to the extent that these instruments are not covered as described below) unless immediately after the issuance of the leverage the Fund has satisfied the asset coverage test with respect to senior securities representing indebtedness prescribed by the 1940 Act; that is, the value of the Fund s total assets less all liabilities and indebtedness not represented by senior securities (for these purposes, total net assets) is at least 300% of the senior securities representing indebtedness (effectively limiting the use of leverage through senior securities representing indebtedness to 33 $^1/_3$% of the Fund s total net assets, including assets attributable to such leverage). The Fund is not permitted to declare any cash dividend or other distribution on its Common Shares unless, at the time of such declaration, the 300% asset coverage requirement described above is satisfied. The Fund may (but is not required to) cover its commitments under reverse repurchase agreements, dollar rolls, derivatives and certain other instruments by the segregation of liquid assets, or by entering into offsetting transactions or owning positions covering its obligations. For instance, the Fund may cover its position in a reverse repurchase agreement by segregating liquid assets at least equal in amount to its forward purchase commitment. To the extent that certain of these instruments are so covered, they will not be considered senior securities under the 1940 Act and therefore will not be subject to the 300% asset coverage requirement otherwise applicable to forms of leverage used by the Fund. However, reverse repurchase agreements and other such instruments, even if covered, may represent a form of economic leverage and create special risks. The use of these forms of leverage increases the volatility of the Fund s investment portfolio and could result in larger losses to Common Shareholders than if these strategies were not used. See Principal Risks of the Fund Leverage Risk. Failure to maintain certain asset coverage requirements could result in an event of default under certain borrowings that may be used by the Fund.

The Fund s ability to utilize leverage is also limited by asset coverage requirements and other guidelines imposed by rating agencies (currently Moody s and Fitch) that provide ratings for the Preferred

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Shares, which may be more restrictive than the limitations imposed by the 1940 Act noted above. See Description of Capital Structure for more information.

The Fund also may borrow money in order to repurchase its shares or as a temporary measure for extraordinary or emergency purposes, including for the payment of dividends or the settlement of securities transactions which otherwise might require untimely dispositions of portfolio securities held by the Fund.

Investment Manager

Allianz Global Investors Fund Management LLC (the Investment Manager) serves as the investment manager of the Fund. Subject to the supervision of the Board of Trustees of the Fund (the Board), the Investment Manager is responsible for managing, either directly or through others selected by it, the investment activities of the Fund and the Fund s business affairs and other administrative matters. The Investment Manager receives an annual fee from the Fund, payable monthly, in an amount equal to 0.70% of the Fund s average daily total managed assets. Total managed assets means the total assets of the Fund (including any assets attributable to any preferred shares or other forms of leverage of the Fund that may be outstanding) minus accrued liabilities (other than liabilities representing leverage). The Investment Manager is located at 1633 Broadway, New York, New York 10019. Organized in 2000, the Investment Manager provides investment management and advisory services to a number of closed-end and open-end investment company clients. The Investment Manager is a wholly-owned indirect subsidiary of Allianz SE, a publicly-traded European insurance and financial services company. As of March 31, 2013, the Investment Manager had approximately $55 billion in assets under management.

The Investment Manager has retained its affiliate, AGI U.S., as a sub-adviser to manage the Fund s portfolio investments. See Sub-Adviser below.

Sub-Adviser

AGI U.S. serves as the Fund s sub-adviser responsible for managing the Fund s portfolio investments. Subject to the supervision of the Investment Manager, AGI U.S. has full investment discretion and makes all determinations with respect to the investment of the Fund s assets.

Effective January 1, 2013, the Subadviser, formerly known as Allianz Global Investors Capital LLC, changed its name to Allianz Global Investors U.S. LLC in connection with reorganization transactions within the Allianz Global Investors U.S. business. The reorganizations involved the combination of four affiliated investment advisory firms with and into the Subadviser, including Allianz Global Investors Managed Accounts LLC and Allianz Global Investors Solutions LLC, each effective January 1, 2013, and RCM Capital Management LLC and Caywood-Scholl Capital Management LLC, each effective April 1, 2013. The reorganizations did not result in any changes to the Fund s portfolio management team at the Subadviser or in the Fund s day-to-day investment management.

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AGI U.S. is registered as an investment adviser with the Securities and Exchange Commission (SEC) and is organized as a Delaware limited liability company. Its principal place of business is located at 1633 Broadway, New York, New York 10019. AGI U.S. also has an office located at 600 West Broadway, San Diego, California 92101. AGI U.S. provides investment management services across a broad class of assets including equity, fixed income, futures and options, convertibles and other securities and derivative instruments. AGI U.S. s primary business is to provide discretionary advisory services to institutional clients through its separate account management services.

In addition, AGI U.S. provides discretionary investment advisory services to a variety of commingled funds (including SEC registered open-end investment companies, SEC registered closed-end investment companies and other commingled funds that are not registered with the SEC), which may be sponsored or established by AGI U.S., its affiliates or by unaffiliated third parties. AGI U.S. also participates as a non-discretionary investment adviser providing investment models to unaffiliated third parties. As of April 30, 2013, AGI U.S. had assets under management of approximately $49 billion.

Dividends and Distributions

The Fund makes regular monthly cash distributions to Common Shareholders at a rate based upon the projected performance of the Fund. Distributions can only be made from net investment income after paying any accrued dividends to holders of the Preferred Shares. The dividend rate that the Fund pays depends on a number of factors, including dividends payable on the Preferred Shares and the expenses of any other leveraging transactions. The net income of the Fund consists of all income paid or accrued on portfolio assets less all expenses of the Fund. Expenses of the Fund are accrued each day. Over time, substantially all the net investment income of the Fund will be distributed. At least annually, the Fund also intends to distribute to you your pro rata share of any available net capital gain. Although it does not now intend to do so, the Board of Trustees may change the Fund s dividend policy and the amount or timing of the distributions based on a number of factors, including the amount of the Fund s undistributed net investment income and historical and projected investment income and the amount of the expenses and dividend rates on any outstanding Preferred Shares.

To permit the Fund to maintain a more stable monthly distribution, the Fund may distribute less than the entire amount of net investment income earned in a particular period. The undistributed net investment income would be available to supplement future distributions. As a result, the distributions paid by the Fund for any particular monthly period may be more or less than the amount of net investment income actually earned by the Fund during the period. Undistributed net investment income will be added to the Fund s net asset value and, correspondingly, distributions from undistributed net investment income will be deducted from the Fund s net asset value.

The tax treatment and characterization of the Fund s distributions may vary significantly from time to time because of the varied nature of the Fund s investments. To the extent required by the 1940 Act and other applicable laws, absent an exemption, a notice will accompany each monthly distribution with respect to the estimated source (as between net income and gains) of the distribution made. The tax characterization of the Fund s distributions made in a taxable year cannot finally be determined until at or after the end of the year. As a result, there is a possibility that the Fund may make total distributions during a taxable year in an amount that exceeds the Fund s net investment income and net realized capital gains for the relevant year (including as reduced by any capital loss carry-forwards). For example, the Fund may distribute amounts early in the year that are derived from short-term capital gains, but incur net short-term capital losses later in the year, thereby offsetting short-term capital gains out of which distributions have already been made by the Fund. In such a situation, the amount by which the Fund s total distributions exceed net investment income and net realized capital gains would generally be treated as a tax-free return of capital up to the amount of a shareholder s tax basis in his or her Common Shares, with any amounts exceeding such basis treated as gain from the sale of Common Shares. In general terms, a return of capital would occur where a Fund distribution (or portion thereof) represents a return of a portion of your investment, rather than net income or capital gains generated from your investment during a particular period. Although return of capital distributions may not be taxable, such distributions would reduce the basis of a shareholder s Common Shares and therefore may increase a shareholder s tax liability for capital gains upon a sale of Common Shares. See Tax Matters. The Fund will send shareholders detailed tax information with respect to Fund distributions annually.

The 1940 Act currently limits the number of times the Fund may distribute long-term capital gains in any tax year, which may increase the variability of the Fund s distributions and result in certain distributions comprising more or less heavily than others of long-term capital gains eligible for favorable income tax rates.

Unless a Common Shareholder elects to receive distributions in cash, all distributions of Common Shareholders whose shares are registered with the plan agent will be automatically reinvested in additional Common Shares of the Fund under the Fund s Dividend Reinvestment Plan. See Distributions and Dividend Reinvestment Plan.

Shareholder Servicing Agent, Custodian and Transfer Agent

The Investment Manager, at its own expense, has retained UBS Securities LLC to serve as a shareholder servicing agent for the Fund. Brown Brothers Harriman & Co. serves as custodian of the Fund s assets and also provides certain fund accounting, sub-administrative and compliance services to the Investment Manager on behalf of the Fund. American Stock Transfer and Trust Company, LLC serves as

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the Fund s transfer agent and dividend disbursement agent. See Shareholder Servicing Agent, Custodian and Transfer Agent.

Listing

The Fund s outstanding Common Shares are listed on the New York Stock Exchange (NYSE) under the symbol NCZ, as will be the Common Shares offered in this prospectus, subject to notice of issuance.

Market Price of Shares

Shares of closed-end investment companies frequently trade at prices lower than net asset value. Shares of closed-end investment companies have during some periods traded at prices higher than net asset value and during other periods traded at prices lower than net asset value. The Fund cannot assure you that Common Shares will trade at a price equal to or higher than net asset value in the future. Net asset value will be reduced immediately following an offering by any sales load and/or commissions and the amount of offering expenses paid or reimbursed by the Fund. See Use of Proceeds. In addition to net asset value, market price may be affected by factors relating to the Fund such as dividend levels and stability (which will in turn be affected by Fund expenses, including dividends paid on the Fund s Preferred Shares and the costs of any other leverage used by the Fund, levels of interest payments by the Fund s portfolio holdings, levels of appreciation/depreciation of the Fund s portfolio holdings, regulation affecting the timing and character of Fund distributions and other factors), portfolio credit quality, liquidity, call protection, market supply and demand and similar factors relating to the Fund s portfolio holdings. See Use of Leverage, Principal Risks of the Fund, Description of Shares and Repurchase of Common Shares; Conversion to Open-End Fund in this prospectus, and see Repurchase of Common Shares; Conversion to Open-End Fund in the Statement of Additional Information. The Common Shares are designed for long-term investors and should not be treated as trading vehicles.

Principal Risks of the Fund

The following is a summary of the principal risks associated with an investment in Common Shares of the Fund. Investors should also refer to Principal Risks of the Fund in this prospectus and Investment Objective and Policies in the Statement of Additional Information for a more detailed explanation of these and other risks associated with investing in the Fund.

Market Discount Risk. As with any stock, the price of the Fund s Common Shares will fluctuate with market conditions and other factors. If you sell your Common Shares, the price received may be more or less than your original investment. Net asset value of the Fund s Common Shares will be reduced immediately following an offering by any sales load and/or commissions and offering expenses paid or reimbursed by the Fund in connection with such offering. The completion of an offering may result in an immediate dilution of the net asset value per Common Share for all existing Common Shareholders. The Common Shares are designed for long-term investors and should not be treated as trading vehicles. Shares of closed-end management investment companies frequently trade at a discount from their net asset value. The Common Shares may trade at a price that is less than the offering price for Common Shares issued pursuant to an offering. This risk may be greater for investors who sell their Common Shares relatively shortly after completion of an offering.

Market Risk. The market price of securities owned by the Fund may go up or down, sometimes rapidly or unpredictably. Securities may decline in value due to factors affecting securities markets generally or particular industries represented in the securities markets. The value of a security may decline due to general market conditions that are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. They may also decline due to factors that affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry. During a general downturn in the securities markets, multiple asset classes may decline in value simultaneously.

Issuer Risk. The value of securities may decline for a number of reasons that directly relate to the issuer, such as its financial strength, management performance, financial leverage and reduced demand for the issuer s goods and services, as well as the historical and prospective earnings of the issuer and the value of its assets. These risks can apply to the Common Shares issued by the Fund and to the issuers of securities and other instruments in which the Fund invests.

Convertible Securities Risk. The Fund may invest without limit in convertible securities, which may include, among others, bonds, debentures, notes, preferred stocks or other securities. Convertible securities will ordinarily constitute a principal component of the Fund s investment program. Under normal circumstances, the Fund will invest at least 50% of its total assets in convertible securities. Convertible securities generally offer lower interest or dividend yields than non-convertible debt securities of similar quality. The market values of convertible securities tend to decline as interest rates increase and, conversely, to increase as interest rates decline. However, a convertible security s market value tends to reflect the market price of the common stock of the issuing company when that stock price approaches or is greater than the convertible security s conversion price. The conversion price is defined as the predetermined price at which the convertible security could be exchanged for the associated stock. As the market price of the underlying common stock declines, the price of the convertible security tends to be influenced more by the yield of the convertible security. Thus, it may not decline in price to the same extent as the underlying common stock. In the event of a liquidation of the issuing company, holders of convertible securities would be paid before the company s common stockholders but after holders of any senior debt

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obligations of the company. Consequently, the issuer s convertible securities generally entail less risk than its common stock but more risk than its debt obligations. Convertible securities are often rated below investment grade or not rated because they fall below debt obligations and just above common equity in order of preference or priority on the issuer s balance sheet. See High Yield Risk.

Synthetic Convertible Securities Risk. The Fund may invest without limit in synthetic convertible securities, which are created through a combination of separate securities that possess the two principal characteristics of a traditional convertible security, *i.e.*, an income-producing security (income-producing component) and the right to acquire an equity security (convertible component). The income-producing component is achieved by investing in non-convertible, income-producing securities such as bonds, preferred stocks and money market instruments. The convertible component is achieved by purchasing warrants or options to buy common stock at a certain exercise price, or options on a stock index. The values of synthetic convertible securities will respond differently to market fluctuations than a traditional convertible security because a synthetic convertible is composed of two or more separate securities or instruments, each with its own market value. Synthetic convertible securities are also subject to the risks associated with derivatives. See Principal Risks of the Fund Derivatives Risk. In addition, if the value of the underlying common stock or the level of the index involved in the convertible element falls below the strike price of the warrant or option, the warrant or option may lose all value.

Credit Risk. Credit risk is the risk that one or more of the Fund s investments in debt securities or other instruments will decline in price, or fail to pay interest, liquidation value or principal when due, because the issuer of the obligation or the issuer of a reference security experiences an actual or perceived decline in its financial status.

High Yield Risk. The Fund may invest without limit in debt instruments that are, at the time of purchase, rated below investment grade or unrated but determined by AGI U.S. to be of comparable quality, and may invest without limit in securities of any rating.

In general, lower rated debt securities carry a greater degree of risk that the issuer will lose its ability to make interest and principal payments, which could have a negative effect on the net asset value of the Fund s Common Shares or Common Share dividends. Securities of below investment grade quality are regarded as having predominantly speculative characteristics with respect to capacity to pay interest and repay principal, and are commonly referred to as high yield securities or junk bonds. High yield securities involve a greater risk of default and their prices are generally more volatile and sensitive to actual or perceived negative developments, such as a decline in the issuer s revenues or revenues of underlying borrowers or a general economic downturn, than are the prices of higher grade securities. Debt securities in the lowest investment grade category also may be considered to possess some speculative characteristics by certain rating agencies. The Fund may purchase distressed securities that are in default or the issuers of which are in bankruptcy, which involve heightened risks. See Principal Risks of the Fund Distressed and Defaulted Securities Risk. An economic downturn could severely affect the ability of issuers (particularly those that are highly leveraged) to service their debt obligations or to repay their obligations upon maturity. Lower-rated securities are generally less liquid than higher-rated securities, which may have an adverse effect on the Fund s ability to dispose of a particular security. For example, under adverse market or economic conditions, the secondary market for below investment grade securities could contract further, independent of any specific adverse changes in the condition of a particular issuer, and certain securities in the Fund s portfolio may become illiquid or less liquid. As a result, the Fund could find it more difficult to sell these securities or may be able to sell these securities only at prices lower than if such securities were widely traded. See Principal Risks of the Fund Liquidity Risk. To the extent the Fund focuses on below investment grade debt obligations, AGI U.S. s capabilities in analyzing credit quality and associated risks will be particularly important, and there can be no assurance that AGI U.S. will be successful in this regard. See Portfolio Contents High Yield Securities (Junk Bonds) for additional information. Due to the risks involved in investing in high yield securities, an investment in the Fund should be considered speculative.

The Fund s credit quality policies, if any, apply only at the time a security is purchased, and the Fund is not required to dispose of a security in the event that a rating agency or AGI U.S. downgrades its assessment of the credit characteristics of a particular issue. In determining whether to retain or sell such a security, AGI U.S. may consider factors including, but not limited to, AGI U.S. s assessment of the credit quality of the issuer of such security, the price at which such security could be sold and the rating, if any, assigned to such security by other rating agencies. Analysis of creditworthiness may be more complex for issuers of high yield securities than for issuers of higher quality debt securities.

Distressed and Defaulted Securities Risk. The Fund may invest in the debt securities of financially distressed issuers, including those that are in default or the issuers of which are in bankruptcy. Investments in the securities of financially distressed issuers involve substantial risks. These securities may present a substantial risk of default or may be in default at the time of investment. The Fund may incur additional expenses to the extent it is required to seek recovery upon a default in the payment of principal or interest on its portfolio holdings. In any reorganization or liquidation proceeding relating to an investment, the Fund may lose its entire investment or may be required to accept cash or securities with a value substantially less than its original investment. Among the risks inherent in investments in a troubled issuer is that it frequently may be difficult to obtain information as to the true financial condition of such issuer. AGI U.S. s judgments about the credit quality of a financially distressed issuer and the relative value of its securities may prove to be wrong.

Interest Rate Risk. Generally, when market interest rates rise, the prices of debt obligations fall, and vice versa. Interest rate risk is the risk that debt obligations and other instruments in the Fund s portfolio will decline in value because of increases in market interest rates. This risk may be particularly acute because market interest rates are currently at historically low levels. The prices of long-term debt obligations generally fluctuate more than prices of short-term debt obligations as interest rates change. Because the weighted average maturity of the Fund s portfolio will typically range from five to ten years, the Fund s net asset value and market price per Common Share will tend to fluctuate more in response to changes in market interest rates than if the Fund invested mainly in short-term debt securities. During periods of rising interest rates, the average life of certain types of securities may be extended due to lower than expected rates of prepayments, which could cause the securities durations to extend and expose the securities to more price volatility. This may lock in a below market yield, increase the security s duration and reduce the security s value. In addition to directly affecting debt securities, rising interest rates may also have an adverse effect on the value of any equity securities held by the Fund. The Fund s use of leverage will tend to increase Common Share interest rate risk. AGI U.S. may utilize certain strategies, including without limitation investments in structured notes or interest rate futures contracts or swap, cap, floor or collar transactions, for the purpose of reducing the interest rate sensitivity of the Fund s portfolio, although there is no assurance that it will do so or that, if used, such strategies will be successful.

The Fund may invest in variable- and floating-rate debt instruments, which generally are less sensitive to interest rate changes than longer duration fixed-rate instruments, but may decline in value in response to rising interest rates if, for example, the rates at which they pay interest do not rise as much, or as quickly, as market interest rates in general. Conversely, variable- and floating-rate instruments generally will not increase in value if interest rates decline. The Fund also may invest in inverse floating-rate debt securities, which may decrease in value if interest rates increase, and which also may exhibit greater price volatility than fixed-rate debt obligations with similar credit quality. To the extent the Fund holds variable- or floating-rate instruments, a decrease (or, in the case of inverse floating-rate securities, an increase) in market interest rates will adversely affect the income received from such securities and the net asset value of the Fund s Common Shares.

Equity Securities and Related Market Risk. The Fund will often have substantial exposure to equity securities by virtue of the equity component of the convertible securities in which the Fund invests. The Fund may also hold equity securities in its portfolio upon

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conversion of a convertible security or through direct investments in preferred stocks. The market price of common stocks and other equity securities may go up or down, sometimes rapidly or unpredictably. Equity securities may decline in value due to factors affecting equity securities markets generally, particular industries represented in those markets, or the issuer itself. See Principal Risks of the Fund Issuer Risk. The values of equity securities may decline due to general market conditions that are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. They may also decline due to factors which affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry. Equity securities generally have greater price volatility than bonds and other debt securities.

Preferred Securities Risk. In addition to equity securities risk (see Principal Risks of the Fund Equity Securities and Related Market Risk), credit risk (see Principal Risks of the Fund Credit Risk) and possibly high yield risk (see Principal Risks of the Fund High Yield Risk), investment in preferred securities involves certain other risks. Certain preferred securities contain provisions that allow an issuer under certain conditions to skip or defer distributions. If the Fund owns a preferred security that is deferring its distribution, the Fund may be required to include the amount of the deferred distribution in its taxable income for tax purposes despite the fact that it does not currently receive such amount. In order to receive the special treatment accorded to regulated investment companies (RICs) and their shareholders under the Internal Revenue Code of 1986, as amended (the Code), and to avoid U.S. federal income and/or excise taxes at the Fund level, the Fund may be required to distribute this income to shareholders in the tax year in which the income is recognized (without a corresponding receipt of cash). Therefore, the Fund may be required to pay out as an income distribution in any such tax year an amount greater than the total amount of cash income the Fund actually received, and to sell portfolio securities, including at potentially disadvantageous times or prices, to obtain cash needed for these income distributions. Preferred securities often are subject to legal provisions that allow for redemption in the event of certain tax or legal changes or at the issuer s call. In the event of redemption, the Fund may not be able to reinvest the proceeds at comparable rates of return. Preferred securities are subordinated to bonds and other debt securities in an issuer s capital structure in terms of priority for corporate income and liquidation payments, and therefore will be subject to greater credit risk than those debt securities. Preferred securities may trade less frequently and in a more limited volume and may be subject to more abrupt or erratic price movements than many other securities, such as common stocks, corporate debt securities and U.S. Government

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securities. The Fund may invest in convertible preferred securities, which are subject to the same risks as convertible securities generally. See Principal Risks of the Fund Convertible Securities Risk. In addition, convertible preferred securities may generate lower rates of income than other preferred securities, and the conversion option of a convertible preferred security may cause it to trade more like an equity security than a typical debt instrument.

Leverage Risk. The Fund s use of leverage (as described under Use of Leverage in the body of this prospectus) creates the opportunity for increased Common Share net income, but also creates special risks for Common Shareholders. To the extent used, there is no assurance that the Fund s outstanding Preferred Shares or any other leverage strategies will be successful. Leverage is a speculative technique
thale="text-align:left;font-size:10pt;">

NET LOSS ATTRIBUTABLE TO COMMON STOCK

$
(244
)

$
(860
)

$
(616
)

$
(2,194
)

NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS:

Net loss from continuing operations attributable to common shareholders

$
(244
)

$
(980
)

$
(616
)

$
(2,076
)
Net income (loss) from discontinued operations

—

120

—

(118
)
Net loss attributable to common shareholders

$
(244
)

$
(860
)

$
(616
)

$
(2,194
)
NET LOSS PER COMMON SHARE:

Basic net loss from continuing operations per share

$
(0.65
)

$
(2.60
)

$
(1.63
)

$
(5.50
)
Basic net income (loss) from discontinued operations per share

—

0.32

—

(0.31
)
Basic net loss per share

$
(0.65
)

$
(2.28
)

$
(1.63
)

$
(5.81
)
DILUTED NET LOSS PER COMMON SHARE:

Diluted net loss from continuing operations per share

$
(0.65
)

$
(2.60
)

$
(1.63
)

$
(5.50
)

Diluted net income (loss) from discontinued operations per share

—

0.32

—

(0.31
)

Diluted net loss per share

$
(0.65
)

$
(2.28
)

$
(1.63
)

$
(5.81
)

WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:

Basic

379

378

379

377

Diluted

379

378

379

377

DIVIDENDS DECLARED PER COMMON SHARE

$
0.25

$
0.25

$
0.50

$
0.50

*Financial information for 2015 has been recast to reflect retrospective application of the successful efforts method of accounting. See Note 1.
The accompanying notes to consolidated financial statements

are an integral part of this statement.

1

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

	For the Six Months Ended June 30,	
	2016	2015*
	(In millions)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss including noncontrolling interest	$(571)	$(2,103)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Loss from discontinued operations	—	118
Gain on divestitures	(16)	(209)
Exploratory dry hole expense and unproved leasehold impairments	139	385
Depreciation, depletion, and amortization	1,347	1,620
Asset retirement obligation accretion	76	72
Impairments	173	2,424
Provision (benefit) from deferred income taxes	(226)	(1,318)
Other	91	26
Changes in operating assets and liabilities:		
Receivables	237	333
Inventories	1	74
Drilling advances	(30)	118
Deferred charges and other	(65)	(81)
Accounts payable	(118)	(410)
Accrued expenses	(57)	505
Deferred credits and noncurrent liabilities	2	69
NET CASH PROVIDED BY CONTINUING OPERATING ACTIVITIES	983	1,623
NET CASH PROVIDED BY DISCONTINUED OPERATIONS	—	159
NET CASH PROVIDED BY OPERATING ACTIVITIES	983	1,782
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to oil and gas property	(925)	(2,783)
Leasehold and property acquisitions	(118)	(128)
Additions to gas gathering, transmission, and processing facilities	—	(94)
Proceeds from sale of Kitimat LNG	—	854
Proceeds from sale of other oil and gas properties	48	119
Other, net	29	(67)
NET CASH USED IN CONTINUING INVESTING ACTIVITIES	(966)	(2,099)
NET CASH PROVIDED BY DISCONTINUED OPERATIONS	—	4,372
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(966)	2,273
CASH FLOWS FROM FINANCING ACTIVITIES:		
Commercial paper and bank credit facilities, net	—	(1,570)
Distributions to noncontrolling interest	(93)	(40)
Dividends paid	(189)	(189)
Other	(1)	15
NET CASH USED IN FINANCING ACTIVITIES	(283)	(1,784)

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(266)	2,271
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,467	679
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$1,201	$2,950
SUPPLEMENTARY CASH FLOW DATA:		
Interest paid, net of capitalized interest	$206	$218
Income taxes paid, net of refunds	201	278

*Financial information for 2015 has been recast to reflect retrospective application of the successful efforts method of accounting. See Note 1.

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

2

APACHE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
(Unaudited)

	June 30, 2016	December 31, 2015*
	(In millions)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$1,201	$ 1,467
Receivables, net of allowance	1,016	1,253
Inventories	530	570
Drilling advances	202	172
Prepaid assets and other	343	290
	3,292	3,752
PROPERTY AND EQUIPMENT:		
Oil and gas, on the basis of successful efforts accounting:		
Proved properties	42,469	41,728
Unproved properties and properties under development, not being amortized	2,285	2,277
Gathering, transmission and processing facilities	862	1,052
Other	1,098	1,093
	46,714	46,150
Less: Accumulated depreciation, depletion, and amortization	(26,571)	(25,312)
	20,143	20,838
OTHER ASSETS:		
Deferred charges and other	911	910
	$24,346	$ 25,500
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$544	$ 618
Other current liabilities (Note 5)	1,026	1,223
	1,570	1,841
LONG-TERM DEBT	8,719	8,716
DEFERRED CREDITS AND OTHER NONCURRENT LIABILITIES:		
Income taxes	2,308	2,529
Asset retirement obligation	2,706	2,562
Other	347	362
	5,361	5,453
COMMITMENTS AND CONTINGENCIES (Note 9)		
EQUITY:		
Common stock, $0.625 par, 860,000,000 shares authorized, 412,532,393 and 411,218,105 shares issued, respectively	258	257
Paid-in capital	12,487	12,619
Accumulated deficit	(2,596)	(1,980)
Treasury stock, at cost, 33,174,414 and 33,183,930 shares, respectively	(2,888)	(2,889)
Accumulated other comprehensive loss	(119)	(119)
APACHE SHAREHOLDERS' EQUITY	7,142	7,888
Noncontrolling interest	1,554	1,602
TOTAL EQUITY	8,696	9,490
	$24,346	$ 25,500

*Financial information for 2015 has been recast to reflect retrospective application of the successful efforts method of accounting. See Note 1.

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

3

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

	Common Stock	Paid-In Capital	Retained Earnings (Accumulated Deficit)	Treasury Stock	Accumulated Other Comprehensive Loss	APACHE SHAREHOLDERS' EQUITY	Non Controlling Interest	TOTAL EQUITY
	(In millions)							
BALANCE AT DECEMBER 31, 2014 previously reported	$256	$12,438	$ 16,249	$(2,890)	$ (116)	$ 25,937	$ 2,200	$28,137
Effect of change in accounting principle	—	152	(7,594)	—	—	(7,442)	(154)	(7,596)
BALANCE AT DECEMBER 31, 2014 as recast	$256	$12,590	$ 8,655	$(2,890)	$ (116)	$ 18,495	$ 2,046	$20,541
Net income (loss)	—	—	(2,194)	—	—	(2,194)	91	(2,103)
Distributions to noncontrolling interest	—	—	—	—	—	—	(40)	(40)
Common dividends ($0.50 per share)	—	—	(189)	—	—	(189)	—	(189)
Other	1	45	—	1	—	47	—	47
BALANCE AT JUNE 30, 2015	$257	$12,635	$ 6,272	$(2,889)	$ (116)	$ 16,159	$ 2,097	$18,256
BALANCE AT DECEMBER 31, 2015 previously reported	$257	$12,467	$ (7,153)	$(2,889)	$ (116)	$ 2,566	$ 1,662	$4,228
Effect of change in accounting principle	—	152	5,173	—	(3)	5,322	(60)	5,262
BALANCE AT DECEMBER 31, 2015 as recast	$257	$12,619	$ (1,980)	$(2,889)	$ (119)	$ 7,888	$ 1,602	$9,490
Net income (loss)	—	—	(616)	—	—	(616)	45	(571)
Distributions to noncontrolling interest	—	—	—	—	—	—	(93)	(93)
Common dividends ($0.50 per share)	—	(189)	—	—	—	(189)	—	(189)
Other	1	57	—	1	—	59	—	59
BALANCE AT JUNE 30, 2016	$258	$12,487	$ (2,596)	$(2,888)	$ (119)	$ 7,142	$ 1,554	$8,696

Financial information for prior periods has been recast to reflect retrospective application of the successful efforts method of accounting. See Note 1.
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 statement of the results for the interim periods. All such adjustments are of a normal recurring nature and are on a basis consistent with the annual audited consolidated financial statements, except as described in Note 1 below. Certain information, accounting policies, and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (U.S. 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 for the quarter ended June 30, 2016, should be read along with Apache’s Annual Report on Form 10-K for the fiscal year ended December 31, 2015, which contains a summary of the Company’s significant accounting policies and other disclosures.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company’s financial statements for prior periods include reclassifications that were made to conform to the current-period presentation. During the second quarter of 2015, Apache completed the sale of its Australian LNG business and oil and gas assets. Results of operations and consolidated cash flows for the divested Australia assets are reflected as discontinued operations in the Company’s financial statements for all periods presented. For more information regarding these divestitures, please refer to Note 3—Acquisitions and Divestitures.

Recast Financial Information for Change in Accounting Principle

In the second quarter of 2016, Apache voluntarily changed its method of accounting for its oil and gas exploration and development activities from the full cost method to the successful efforts method of accounting. The financial information for prior periods has been recast to reflect retrospective application of the successful efforts method, as prescribed by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 932 “Extractive Activities—Oil and Gas.” Although the full cost method of accounting for oil and gas exploration and development activities continues to be an accepted alternative, the successful efforts method of accounting is the generally preferred method of the U.S. Securities and Exchange Commission (SEC) and is more widely used in the industry such that the change will improve comparability of the Company's financial statements to its peers. The Company believes the successful efforts method provides a more representational depiction of assets and operating results. The successful efforts method also provides for the Company's investments in oil and gas properties to be assessed for impairment in accordance with ASC 360 "Property, Plant, and Equipment" rather than valuations based on prices and costs prescribed under the full cost method as of the balance sheet date. For more detailed information regarding the effects of the change to the successful efforts method, please refer to Note 2—Change in Accounting Principle. The Company has recast certain historical information for all periods presented, including the Statement of Consolidated Operations, Statement of Consolidated Cash Flows, Consolidated Balance Sheet, Statement of Consolidated Changes in Equity, and related information in Notes 1, 2, 3, 4, 5, 7, 8, 10, 11, and 12.

In the first quarter of 2016, the Company retrospectively adopted a new accounting standard update ASU 2015-03 "Simplifying the Presentation of Debt Issuance Costs," which requires debt issuance costs to be presented as a direct deduction from the carrying value of the associated debt liability, consistent with debt discounts. For more information regarding this update, please refer to Note 7—Debt and Financing Costs.

As of June 30, 2016, Apache’s significant accounting policies, other than those discussed above, are consistent with those discussed in Note 1—Summary of Significant Accounting Policies to the consolidated financial statements contained in Apache’s Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

Use of Estimates

The preparation of financial statements in conformity with U.S. 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 goodwill, and the estimate of income taxes. Actual results could differ from those estimates.

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Fair Value Measurements

Certain assets and liabilities are reported at fair value on a recurring basis in Apache's consolidated balance sheet. ASC 820-10-35 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).

Apache also uses fair value measurements on a nonrecurring basis when certain qualitative assessments of its assets indicate a potential impairment. For the six-month period ended June 30, 2016, the Company recorded asset impairments totaling $281 million in connection with fair value assessments in the current low commodity price environment. Impairments totaling $176 million were recorded for oil and gas properties in the U.S. and Canada and $105 million was recorded for GTP assets, which were written down to their fair values. The oil and gas property impairments are discussed in further detail below in "Oil and Gas Property."

For the six-month period ended June 30, 2015, the Company recorded asset impairments totaling $2.7 billion in connection with fair value assessments in the current low commodity price environment. Impairments totaling $2.6 billion were recorded for oil and gas properties, which were written down to their fair values. Also, for the six-month period ended June 30, 2015, the Company recorded $163 million for the impairment of goodwill. As of June 30, 2016 and December 31, 2015, remaining goodwill in the consolidated balance sheet totaled $87 million for our Egypt reporting unit.

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 dry holes, exploratory geological and geophysical costs, delay rentals, unproved impairments, 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.

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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 cost 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. With respect to lease and well equipment costs, which include development costs and successful exploration drilling costs, the reserve base includes only proved developed reserves. 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 the ASC 820 “Fair Value Measurement.” If applicable, the Company utilizes accepted bids as the basis for determining fair value. The expected future cash flows used for impairment reviews and related fair value calculations are typically based on judgmental assessments of future production volumes, commodity prices, operating costs, and capital investment plans, considering all available information at the date of review. These assumptions are applied to develop future cash flow projections that are then discounted to estimated fair value, using a discount rate believed to be consistent with those applied by market participants. Apache has classified these fair value measurements as Level 3 in the fair value hierarchy.

The following table represents non-cash impairments of the carrying value of the Company’s proved and unproved property and equipment for the second quarters and first six months of 2016 and 2015:

	Quarter Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In millions)			
Oil and Gas Property:				
Proved	$68	$349	$68	$2,261
Unproved	66	148	108	316

Proved properties impaired during the quarter ended June 30, 2016 had an aggregate fair value of $143 million. Proved properties impaired during the quarter ended March 31, 2015 had an aggregate fair value of $1.2 billion, and properties impaired during the quarter ended June 30, 2015 had an aggregate fair value of $516 million.

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. See Note 3—Acquisitions and Divestitures for more detail.

New Pronouncements Issued But Not Yet Adopted

In March 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-09, which seeks to simplify accounting for share-based payment transactions including income tax consequences, classification of awards as either equity or liabilities, and the classification on the statement of cash flows. The new standard requires the Company to recognize the income tax effects of awards in the income statement when the awards vest or are settled. The guidance is effective for fiscal years beginning after December 15, 2016. Early adoption is permitted and if an entity early adopts the guidance in an interim period, any adjustments must be reflected as of the beginning of the fiscal year that includes that interim period. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, a new lease standard requiring lessees to recognize lease assets and lease liabilities for most leases classified as operating leases under previous U.S. GAAP. The guidance is effective for fiscal years beginning after December 15, 2018 with early adoption permitted. The Company will be required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

In May 2014, the FASB and the International Accounting Standards Board (IASB) issued a joint revenue recognition standard, ASU 2014-09. The new standard removes inconsistencies in existing standards, changes the way companies recognize revenue from contracts with customers, and increases disclosure requirements. The guidance requires companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. In March 2016, the FASB issued ASU 2016-08, which provides further clarification on the principal versus agent evaluation. The guidance is effective for annual and interim periods beginning after December 15, 2017. The standard is required to be adopted using either the full retrospective approach, with all prior periods presented adjusted, or the modified retrospective approach, with a cumulative adjustment to retained earnings on the opening balance sheet. The Company is currently evaluating the level of effort needed to implement the standard, the impact of adopting this standard on its consolidated financial statements, and whether to use the full retrospective approach or the modified retrospective approach.

2. CHANGE IN ACCOUNTING PRINCIPLE

During the second quarter of 2016, the Company voluntarily changed its method of accounting for oil and gas exploration and development activities from the full cost method to the successful efforts method. Accordingly, financial information for prior periods has been recast to reflect retrospective application of the successful efforts method. In general, under successful efforts, exploration expenditures such as exploratory dry holes, exploratory geological and geophysical costs, delay rentals, unproved impairments, and exploration overhead are charged against earnings as incurred, versus being capitalized under the full cost method of accounting. Successful efforts also provides for the assessment of potential property impairments under ASC 360 by comparing the net carrying value of oil and gas properties with associated projected undiscounted pre-tax future net cash flows. If the expected undiscounted pre-tax future net cash flows are lower than the unamortized capitalized costs, the capitalized cost is reduced to fair value. Under the full cost method of accounting, a write-down would be required if the net carrying value of oil and gas properties exceeds a full cost “ceiling,” using an unweighted arithmetic average of commodity prices in effect on the first day of each of the previous 12 months. In addition, gains or losses, if applicable, are generally recognized on the dispositions of oil and gas property and equipment under the successful efforts method, as opposed to an adjustment to the net carrying value of the remaining assets under the full cost method. Apache’s consolidated financial statements have been recast to reflect these differences.

The following tables present the effects of the change to the successful efforts method in the statement of consolidated operations:

	Changes to the Statement of Consolidated Operations		
For the Quarter Ended June 30, 2016	Under Full Cost	Changes	As Reported Under Successful Efforts
	(In millions, except per share data)		
Oil revenues	$1,062	$ 56	$ 1,118
Natural gas revenues	218	(9)	209
NGL revenues	59	—	59
Oil and gas production revenues	1,339	47	1,386
Other	(22)	1	(21)
Gain on divestiture	5	12	17
Exploration	—	91	91
Depreciation, depletion, and amortization:			
Oil and Gas Property and Equipment			
Recurring	507	122	629

Additional	671	(671)	—
Impairments	105	68	173
Financing costs, net	90	14	104
Current income tax provision	25	119	144
Deferred income tax provision (benefit)	(120)	(105)	(225)
NET LOSS FROM CONTINUING OPERATIONS INCLUDING NONCONTROLLING INTEREST	(622)	422	(200)
Net income (loss) attributable to noncontrolling interest	(21)	65	44
NET LOSS FROM CONTINUING OPERATIONS ATTRIBUTABLE TO COMMON SHAREHOLDERS	(601)	357	(244)
Net income (loss) from discontinued operations	—	—	—
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	(601)	357	(244)
Per common share			
Basic net loss from continuing operations per share	$(1.58)	$ 0.93	$ (0.65)
Basic net loss from discontinued operations per share	—	—	—
Basic net loss per share	$(1.58)	$ 0.93	$ (0.65)
Diluted net loss from continuing operations per share	$(1.58)	$ 0.93	$ (0.65)
Diluted net loss from discontinued operations per share	—	—	—
Diluted net loss per share	$(1.58)	$ 0.93	$ (0.65)

For the Quarter Ended June 30, 2015	Changes to the Statement of Consolidated Operations		
	Under Full Cost	Changes*	As Reported Under Successful Efforts
	(In millions, except per share data)		
Oil revenues	$ 1,599	$ 19	$ 1,618
Natural gas revenues	295	20	315
NGL revenues	58	—	58
Oil and gas production revenues	1,952	39	1,991
Other	25	3	28
Gain on divestiture	—	227	227
Exploration	—	225	225
Depreciation, depletion, and amortization:			
Oil and Gas Property and Equipment			
Recurring	923	(212)	711
Additional	5,816	(5,816)	—
Impairments	—	512	512
Financing costs, net	63	54	117
Current income tax provision (benefit)	665	235	900
Deferred income tax provision (benefit)	(1,525)	1,356	(169)
NET LOSS FROM CONTINUING OPERATIONS INCLUDING NONCONTROLLING INTEREST	(4,832)	3,915	(917)
Net income attributable to noncontrolling interest	36	27	63
NET LOSS FROM CONTINUING OPERATIONS ATTRIBUTABLE TO COMMON SHAREHOLDERS	(4,868)	3,888	(980)
Net loss from discontinued operations	(732)	852	120
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	(5,600)	4,740	(860)
Per common share			
Basic net loss from continuing operations per share	$ (12.89)	$ 10.29	$ (2.60)
Basic net loss from discontinued operations per share	(1.94)	2.26	0.32
Basic net loss per share	$ (14.83)	$ 12.55	$ (2.28)
Diluted net loss from continuing operations per share	$ (12.89)	$ 10.29	$ (2.60)
Diluted net loss from discontinued operations per share	(1.94)	2.26	0.32
Diluted net loss per share	$ (14.83)	$ 12.55	$ (2.28)

For the Six Months Ended June 30, 2016	Changes to the Statement of Consolidated Operations		
	Under Full Cost	Changes*	As Reported Under Successful Efforts
	(In millions, except per share data)		

Oil revenues	$1,857	$ 83	$ 1,940
Natural gas revenues	441	(9)	432
NGL revenues	101	—	101
Oil and gas production revenues	2,399	74	2,473
Other	(27)	3	(24)
Gain on divestiture	3	13	16
Exploration	—	186	186
Depreciation, depletion, and amortization:			
Oil and Gas Property and Equipment			
Recurring	1,059	206	1,265
Additional	1,159	(1,159)	—
Impairments	105	68	173
Financing costs, net	180	29	209
Current income tax provision	61	73	134
Deferred income tax provision (benefit)	(301)	75	(226)
NET LOSS FROM CONTINUING OPERATIONS INCLUDING NONCONTROLLING INTEREST	(1,183)	612	(571)
Net income (loss) attributable to noncontrolling interest	(93)	138	45
NET LOSS FROM CONTINUING OPERATIONS ATTRIBUTABLE TO COMMON SHAREHOLDERS	(1,090)	474	(616)
Net income (loss) from discontinued operations	—	—	—
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	(1,090)	474	(616)
Per common share			
Basic net loss from continuing operations per share	$(2.88)	$ 1.25	$ (1.63)
Basic net loss from discontinued operations per share	—	—	—
Basic net loss per share	$(2.88)	$ 1.25	$ (1.63)
Diluted net loss from continuing operations per share	$(2.88)	$ 1.25	$ (1.63)
Diluted net loss from discontinued operations per share	—	—	—
Diluted net loss per share	$(2.88)	$ 1.25	$ (1.63)

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For the Six Months Ended June 30, 2015	Changes to the Statement of Consolidated Operations		
	Under Full Cost	Changes*	As Reported Under Successful Efforts
	(In millions, except per share data)		
Oil revenues	$2,879	$ 32	$ 2,911
Natural gas revenues	595	28	623
NGL revenues	116	—	116
Oil and gas production revenues	3,590	60	3,650
Other	17	5	22
Gain on divestiture	—	209	209
Exploration	—	483	483
General and administrative	193	2	195
Depreciation, depletion, and amortization:			
Oil and Gas Property and Equipment			
Recurring	1,922	(468)	1,454
Additional	13,036	(13,036)	—
Impairments	—	2,424	2,424
Financing costs, net	133	108	241
Current income tax provision (benefit)	580	268	848
Deferred income tax provision (benefit)	(4,460)	3,142	(1,318)
NET LOSS FROM CONTINUING OPERATIONS INCLUDING NONCONTROLLING INTEREST	(9,336)	7,351	(1,985)
Net income attributable to noncontrolling interest	51	40	91
NET LOSS FROM CONTINUING OPERATIONS ATTRIBUTABLE TO COMMON SHAREHOLDERS	(9,387)	7,311	(2,076)
Net loss from discontinued operations	(864)	746	(118)
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	(10,251)	8,057	(2,194)
Per common share			
Basic net loss from continuing operations per share	$(24.88)	$ 19.38	$ (5.50)
Basic net loss from discontinued operations per share	(2.29)	1.98	(0.31)
Basic net loss per share	$(27.17)	$ 21.36	$ (5.81)
Diluted net loss from continuing operations per share	$(24.88)	$ 19.38	$ (5.50)
Diluted net loss from discontinued operations per share	(2.29)	1.98	(0.31)
Diluted net loss per share	$(27.17)	$ 21.36	$ (5.81)

The following tables present the effects of the change to the successful efforts method in the statement of consolidated cash flows:

For the Six Months Ended June 30, 2016	Changes to the Statement of Consolidated Cash Flows		
	Under Full	Changes*	As Reported

	Cost		Under Successful Efforts
	(In millions)		
Net loss including noncontrolling interest	$(1,183)	$ 612	$ (571)
Gain on divestitures, net	(3)	(13)	(16)
Exploratory dry hole expense and unproved leasehold impairments	—	139	139
Depreciation, depletion, and amortization	2,300	(953)	1,347
Impairments	105	68	173
Provision for (benefit from) deferred income taxes	(301)	75	(226)
Changes in operating assets and liabilities	(28)	(2)	(30)
Net cash provided by operating activities	1,057	(74)	983
Additions to oil and gas property	(999)	74	(925)
Net cash used in investing activities	(1,040)	74	(966)
NET INCREASE (DECREASE) IN CASH	(266)	—	(266)
BEGINNING CASH BALANCE	1,467	—	1,467
ENDING CASH BALANCE	1,201	—	1,201

For the Six Months Ended June 30, 2015	Changes to the Statement of Consolidated Cash Flows		
	Under Full Cost	Changes*	As Reported Under Successful Efforts
	(In millions)		
Net loss including noncontrolling interest	$(10,200)	$ 8,097	$ (2,103)
Loss from discontinued operations	864	(746)	118
Gain on divestitures, net	—	(209)	(209)
Exploratory dry hole expense and unproved leasehold impairments	—	385	385
Depreciation, depletion, and amortization	15,124	(13,504)	1,620
Impairments	—	2,424	2,424
Provision for (benefit from) deferred income taxes	(4,460)	3,142	(1,318)
Changes in operating assets and liabilities	311	297	608
Net cash provided by operating activities - continuing operations	1,737	(114)	1,623
Net cash provided by operating activities - discontinued operations	196	(37)	159
Additions to oil and gas property	(2,987)	204	(2,783)
Net cash used in investing activities - continuing operations	(2,303)	204	(2,099)
Net cash provided by investing activities - discontinued operations	4,335	37	4,372
NET INCREASE (DECREASE) IN CASH	2,181	90	2,271
BEGINNING CASH BALANCE	769	(90)	679
ENDING CASH BALANCE	2,950	—	2,950

The following tables present the effects of the change to the successful efforts method in the consolidated balance sheet:

June 30, 2016	Changes to the Consolidated Balance Sheet		
	Under Full Cost	Changes	As Reported Under Successful Efforts
	(In millions)		
PROPERTY AND EQUIPMENT:			
Property and equipment - cost	$94,657	$(47,943)	$ 46,714
Less: Accumulated depreciation, depletion, and amortization	(81,920)	55,349	(26,571)
PROPERTY AND EQUIPMENT, NET	12,737	7,406	20,143
Deferred charges and other	937	(26)	911
TOTAL ASSETS	16,966	7,380	24,346
Deferred income taxes	796	1,512	2,308
Paid-in capital	12,342	145	12,487
Accumulated deficit	(8,243)	5,647	(2,596)
Accumulated other comprehensive loss	(116)	(3)	(119)
Noncontrolling interest	1,475	79	1,554
TOTAL EQUITY	2,828	5,868	8,696

December 31, 2015	Changes to the Consolidated Balance Sheet		
		Changes*	

	Under Full Cost		As Reported Under Successful Efforts
	(In millions)		
PROPERTY AND EQUIPMENT:			
Property and equipment - cost	$93,825	$(47,675)	$ 46,150
Less: Accumulated depreciation, depletion, and amortization	(79,706)	54,394	(25,312)
PROPERTY AND EQUIPMENT, NET	14,119	6,719	20,838
TOTAL ASSETS	18,781	6,719	25,500
Deferred income taxes	1,072	1,457	2,529
Paid-in capital	12,467	152	12,619
Accumulated deficit [1]	(7,153)	5,173	(1,980)
Accumulated other comprehensive loss	(116)	(3)	(119)
Noncontrolling interest	1,662	(60)	1,602
TOTAL EQUITY	4,228	5,262	9,490

*In conjunction with recasting the financial information for the adoption of the successful efforts method of accounting, we corrected certain immaterial errors
in the North Sea pertaining to the improper calculation of deferred tax liabilities associated with capitalized interest under the full cost method.

[1] The cumulative effect of the change to the successful efforts method on retained earnings (accumulated deficit) as of January 1, 2015 was a decrease of $7.6 billion.

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3. ACQUISITIONS AND DIVESTITURES
2016 Activity
Leasehold and Property Acquisitions
During the second quarter and first six months of 2016, Apache completed $99 million and $118 million, respectively, of leasehold and property acquisitions primarily in our North America onshore regions and Egypt.
Transaction, Reorganization, and Separation
During the second quarter and first six months of 2016, Apache recorded $9 million and $24 million, respectively, in expense related to various asset transactions, company reorganization, and employee separation.
2015 Activity
Canada Divestiture
In April 2015, Apache's subsidiaries completed the sale of its 50 percent interest in the Kitimat LNG project and upstream acreage in the Horn River and Liard natural gas basins to Woodside Petroleum Limited (Woodside). Proceeds at closing were $854 million, of which approximately $344 million were associated with LNG assets and $510 million were associated with upstream assets. The proceeds are subject to post-closing adjustments. For additional details related to post-closing adjustments, please see Note 9—Commitments and Contingencies.
The Kitimat LNG assets classified as held for sale as of December 31, 2014 were impaired $655 million in the fourth quarter of 2014. Apache recognized a $146 million gain on the sale of the upstream assets upon completion of the sale.
Australia Divestitures
Woodside Sale In April 2015, Apache's subsidiaries completed the sale of its interest in the Wheatstone LNG project and associated upstream oil and gas assets to Woodside. Proceeds at closing were $2.8 billion, of which approximately $1.4 billion were associated with LNG assets and $1.4 billion were associated with the upstream assets. The proceeds are subject to post-closing adjustments. For additional details related to post-closing adjustments, please see Note 9—Commitments and Contingencies.
The Wheatstone LNG assets and associated upstream assets were impaired $833 million in the fourth quarter of 2014 and classified as held for sale on the consolidated balance sheet as of December 31, 2014. An additional impairment of approximately $49 million was recognized in the first quarter of 2015. No additional gain or loss was recognized on the ultimate disposal of the LNG project and upstream assets.
Consortium Sale In June 2015, Apache's subsidiaries completed the sale of the Company's Australian subsidiary Apache Energy Limited (AEL) to a consortium of private equity funds managed by Macquarie Capital Group Limited and Brookfield Asset Management Inc. Total proceeds of $1.9 billion included customary, post-closing adjustments for the period between the effective date, October 1, 2014, and closing. A loss of approximately $139 million was recognized for the sale of AEL.

Upon closing of the sale of substantially all Australian operations, the associated results of operations for the divested Australian assets and the losses on disposal were classified as discontinued operations in all periods presented in this Quarterly Report on Form 10-Q. Sales and other operating revenues and loss from discontinued operations related to the Australia dispositions were as follows:

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	For the Quarter Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
	(In millions)			
Revenues and other from discontinued operations	$—	$101	$—	$288
Impairment on Woodside sale	$—	$—	$—	$(49)
Loss on Consortium sale	—	(139)	—	(139)
Income from divested Australian operations	—	18	—	28
Income tax benefit	—	241	—	42
Income (loss) from Australian discontinued operations, net of tax	$—	$120	$—	$(118)

Leasehold and Property Acquisitions

During the second quarter and first six months of 2015, Apache completed $36 million and $128 million, respectively, of leasehold and property acquisitions primarily in our North America onshore regions.

Transaction, Reorganization, and Separation

During the second quarter and first six months of 2015, Apache recorded $66 million and $120 million, respectively, in expense related to various asset transactions, company reorganization, and employee separation.

4. CAPITALIZED EXPLORATORY WELL COSTS

The Company’s capitalized exploratory well costs were $262 million and $245 million at June 30, 2016 and December 31, 2015, respectively. The increase is primarily attributable to drilling activities, partially offset by successful transfers and dry hole write-offs. Exploratory well costs that have been capitalized for a period greater than one year since the completion of drilling were $93 million and $61 million at June 30, 2016 and December 31, 2015, respectively. The exploratory well costs that had been capitalized for a period greater than one year at December 31, 2015 are associated with the Aviat discovery in the North Sea and comprise exploration and appraisal activities. The amount of exploratory well costs capitalized for a period greater than one year increased by $32 million during the six months ended June 30, 2016 as a result of exploration drilling in Suriname. No suspended exploratory well costs previously capitalized for greater than one year at December 31, 2015 were charged to dry hole expense during the six months ended June 30, 2016. 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.

5. OTHER CURRENT LIABILITIES

The following table provides detail of our other current liabilities as of June 30, 2016 and December 31, 2015:

	June 30, 2016	December 31, 2015
	(In millions)	
Accrued operating expenses	$120	$ 139
Accrued exploration and development	475	637
Accrued compensation and benefits	99	166
Accrued interest	146	144
Accrued income taxes	54	47
Current debt	1	1
Current asset retirement obligation	36	36
Other	95	53

Total Other current liabilities	$1,026	$ 1,223

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6. ASSET RETIREMENT OBLIGATION

The following table describes changes to the Company's asset retirement obligation (ARO) liability for the six-month period ended June 30, 2016:

	(In millions)
Asset retirement obligation at December 31, 2015	$ 2,598
Liabilities incurred	6
Liabilities acquired	34
Liabilities settled	(31)
Accretion expense	76
Revisions in estimated liabilities	59
Asset retirement obligation at June 30, 2016	2,742
Less current portion	36
Asset retirement obligation, long-term	$ 2,706

7. DEBT AND FINANCING COSTS

The following table presents the carrying amounts and estimated fair values of the Company's outstanding debt as of June 30, 2016 and December 31, 2015:

	June 30, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In millions)			
Commercial paper and committed bank facilities	$—	$—	$—	$—
Notes and debentures	8,720	9,393	8,717	8,330
Total Debt	$8,720	$9,393	$8,717	$8,330

The Company's debt is recorded at the carrying amount, net of related unamortized discount and debt issuance costs, on its consolidated balance sheet. 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).

As of June 30, 2016, the Company had a $3.5 billion five-year revolving credit facility which matures in June 2020. Proceeds from borrowings may be used for general corporate purposes. Apache's available borrowing capacity under this facility supports its $3.5 billion commercial paper program. The commercial paper program, which is subject to market availability, facilitates Apache borrowing funds for up to 270 days at competitive interest rates. As of June 30, 2016, the Company had no debt outstanding under commercial paper, committed bank facilities, and uncommitted bank lines.

As of June 30, 2016, the Company had a £900 million three-year letter of credit facility which matures in February 2019. The facility is available for letters of credit and loans to cash collateralize letter of credit obligations to the extent letters of credit are unavailable under the facility. As of June 30, 2016, no letters of credit or loans were outstanding under this facility. Subsequently, as of the date of this filing, a letter of credit for approximately £96 million was outstanding under this facility.

In April 2015, the FASB issued ASU 2015-03 "Simplifying the Presentation of Debt Issuance Costs," which requires debt issuance costs to be presented as a direct deduction from the carrying value of the associated debt liability. The Company adopted this update in the first quarter of 2016 and applied the changes retrospectively for all periods presented. At December 31, 2015, the Company had debt issuance costs of $61 million classified as a long-term asset as a component of "deferred charges and other" on the balance sheet that have been netted against "long-term debt" in these unaudited interim financial statements. As of June 30, 2016, long-term debt is presented net of debt issuance costs of $58 million.

Financing Costs, Net

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

	For the Quarter Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
	(In millions)			
Interest expense	$116	$123	$232	$251
Amortization of deferred loan costs	2	2	3	4
Capitalized interest	(12)	(5)	(23)	(9)
Interest income	(2)	(3)	(3)	(5)
Financing costs, net	$104	$117	$209	$241

8. INCOME TAXES

The Company estimates its annual effective income tax rate for continuing operations in recording its quarterly provision for income taxes in the various jurisdictions in which the Company operates. Non-cash write-downs of the carrying value of the Company's proved oil and gas properties, statutory tax rate changes, and other significant or unusual items are recognized as discrete items in the quarter in which they occur.

During the second quarter of 2016, Apache's effective income tax rate was primarily impacted by an increase in the valuation allowance on Canadian deferred tax assets. During the second quarter of 2015, Apache's effective tax rate was primarily impacted by non-cash impairments of the carrying value of the Company's proved oil and gas properties and an increase in the amount of valuation allowances on Canadian deferred tax assets and U.S. foreign tax credits. Apache's 2016 year-to-date effective tax rate is primarily impacted by an increase in the valuation allowance on Canadian deferred tax assets. Apache's 2015 year-to-date effective tax rate was primarily impacted by non-cash impairments of the carrying value of the Company's proved oil and gas properties and an increase in the amount of valuation allowances on Canadian deferred tax assets and U.S. foreign tax credits, offset by a $414 million deferred tax benefit associated with a reduction in the U.K. statutory income tax rate from 62 percent to 50 percent.

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 June 30, 2016, the Company has an accrued liability of approximately $30 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 9—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, 2015.

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, 2015.

Louisiana Restoration

As more fully described in Apache's Annual Report on Form 10-K for its 2015 fiscal year, numerous surface owners have filed claims or sent demand letters to various oil and gas companies, including Apache, claiming that, under either express or implied lease terms or Louisiana law, the companies are liable for damage measured by the cost of restoration of leased premises to their original condition as well as damages for contamination and cleanup.

On or about July 28, 2016, in a case captioned Keith Stutes, District Attorney for the 15th Judicial District of the State of Louisiana v. Gulfport Energy Corporation et al., Docket No. 102156, in the 15th Judicial District Court, Parish of Vermilion, State of Louisiana, plaintiff asserts coastal zone claims similar to the claims filed previously by Plaquemines Parish and Cameron Parish against Apache and various other oil and gas producers. In respect of three lawsuits filed by the Parish of Plaquemines against the Company and other oil and gas producers in the 25th Judicial District Court for the Parish of Plaquemines, State of Louisiana (captioned Parish of Plaquemines v. Rozel Operating Company et al., Docket No. 60-996; Parish of Plaquemines v. Apache Oil Corporation et al., Docket No. 61-000; and Parish of Plaquemines v. HHE Energy Company et al., Docket No. 60-983), in April 2016 the Plaquemines Parish Council reversed course and decided not to dismiss the lawsuits. The Louisiana Attorney General has announced his intention to intervene in the three Plaquemines Parish proceedings and in the Cameron Parish proceedings in the Parish's 38th Judicial District Court, captioned Parish of Cameron v. BEPCO, L.P., et al., Docket No. 10-19572; Parish of Cameron v. BP America Production Company et al., Docket No. 10-19576; Parish of Cameron v. Apache Corporation (of Delaware) et al., Docket No. 10-19579; Parish of Cameron v. Atlantic Richfield Company et al., Docket No. 10-19577; Parish of Cameron v. Alpine Exploration Companies, Inc., et al., Docket No. 10-19580; and Parish of Cameron v. Auster Oil and Gas, Inc., et al, Docket No. 10-19582. The Cameron Parish proceedings have been removed to the United States District Court for the Western District of Louisiana, subject to any effort by plaintiff to remand the proceedings to state court.

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, 2015.

Apollo Exploration Lawsuit

In a fourth amended petition filed on March 21, 2016, 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 have reduced their alleged damages to approximately $500 million (having previously claimed in excess of $1.1 billion) relating to certain purchase and sale agreements, mineral leases, and areas of mutual interest agreements concerning properties located in Hartley, Moore, Potter, and Oldham Counties, Texas. Apache believes that plaintiffs' claims lack merit, and further that plaintiffs' alleged damages, even as amended, are grossly inflated. Apache 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, 2015.

Escheat Audits

There has been no other material change with respect to the review of the books and records of the Company and its subsidiaries and related entities by the State of Delaware, Department of Finance (Unclaimed Property), to determine compliance with the Delaware Escheat Laws, since the filing of Apache's Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

Burrup-Related Gas Supply Lawsuits

In the cases captioned Radhika Oswal v. Australia and New Zealand Banking Group Limited (ANZ) et al., No. SCI 2011 4653 and Pankaj Oswal v. Australia and New Zealand Banking Group Limited (ANZ) et al., No. SCI 2012 01995, in the Supreme Court of Victoria, trial commenced on May 30, 2016, and is ongoing. Apache Corporation, Apache Energy Limited (now known as Quadrant Energy Australia Limited), and Apache Northwest Pty Ltd (now known as Quadrant Northwest Pty Ltd) have, subject to certain conditions precedent, reached a settlement on confidential terms with each of the plaintiffs and related entities. No other material change in the status of this matter has occurred since the filing of Apache's Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

Environmental Matters

As of June 30, 2016, the Company had an undiscounted reserve for environmental remediation of approximately $57 million. The Company is not aware of any environmental claims existing as of June 30, 2016, 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.

Apache Canada Ltd. (ACL) reported a produced water release from a water injection pipeline in a remote area of the Belloy Field that occurred on or about May 4, 2016. The cause of the release remains under investigation. With respect to this release, the summons and information containing charges relating to a leak of produced water in the Zama area that occurred on or between October 3 and October 25, 2013, and the summons and information containing charges relating to a leak of produced water in the Belloy Field operating area that occurred on or about January 20, 2014, the Company does not expect the economic impact of these incidents to have a material effect on the Company's financial position, results of operations, or liquidity. 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, 2015.

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 Viraciti Energy Pty Ltd, which has since been renamed Quadrant Energy Pty Ltd ("Quadrant"). Closing occurred on June 5, 2015. By letter dated June 6, 2016, Quadrant provided the Company with a one-year placeholder notice of claim under the SPA concerning tax and other issues totaling approximately $200 million in the aggregate. The Company is in the process of reviewing the issues raised by Quadrant and believes at this time that these matters will not have a material adverse effect on the Company's financial position, results of operation, or liquidity.

LNG Divestiture Dispute

In respect of the purchase by Woodside of the Wheatstone and Kitimat LNG projects and accompanying upstream oil and gas reserves from the Company and its subsidiaries, several court proceedings are pending in the Supreme Court of Western Australia (Case Nos. 2315 of 2015, 2798 of 2015, 1504 of 2016, 1520 of 2016, and 1521 of 2016) concerning or arising out of the Wheatstone sale and purchase agreement, including whether certain amounts are due and owing Apache from Woodside and whether certain of Woodside's purchase price adjustment claims are time-barred. In addition, Woodside is attempting to commence third party expert determination proceedings at the ICC International Centre for ADR in respect of certain aspects of its purchase price adjustment claims. The Company believes that under the terms of the sale and purchase agreements, Woodside's requests for payment of purchase price adjustments lack merit and further that Woodside must reimburse Apache certain costs relating to Wheatstone and Kitimat; therefore, the Company has not recorded a liability associated with this dispute. 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, 2015.

10. CAPITAL STOCK

Net Loss per Common Share

A reconciliation of the components of basic and diluted net loss per common share for the quarters ended June 30, 2016 and 2015 is presented in the table below.

	For the Quarter Ended June 30,					
	2016			2015		
	Loss	Shares	Per Share	Income (Loss)	Shares	Per Share
	(In millions, except per share amounts)					
Basic:						
Loss from continuing operations	$(244)	379	$ (0.65)	$(980)	378	$ (2.60)
Income (loss) from discontinued operations	—	379	—	120	378	0.32
Loss attributable to common stock	$(244)	379	$ (0.65)	$(860)	378	$ (2.28)
Effect of Dilutive Securities:						
Stock options and other	$—	—	$ —	$—	—	$ —
Diluted:						
Loss from continuing operations	$(244)	379	$ (0.65)	$(980)	378	$ (2.60)
Income (loss) from discontinued operations	—	379	—	120	378	0.32
Loss attributable to common stock	$(244)	379	$ (0.65)	$(860)	378	$ (2.28)

	For the Six Months Ended June 30,					
	2016			2015		
	Loss	Shares	Per Share	Loss	Shares	Per Share
	(In millions, except per share amounts)					
Basic:						
Loss from continuing operations	$(616)	379	$ (1.63)	$(2,076)	377	$ (5.50)
Loss from discontinued operations	—	379	—	(118)	377	(0.31)
Loss attributable to common stock	$(616)	379	$ (1.63)	$(2,194)	377	$ (5.81)
Effect of Dilutive Securities:						
Stock options and other	—	—		—	—	
Diluted:						
Loss from continuing operations	$(616)	379	$ (1.63)	$(2,076)	377	$ (5.50)
Loss from discontinued operations	—	379	—	(118)	377	(0.31)
Loss attributable to common stock	$(616)	379	$ (1.63)	$(2,194)	377	$ (5.81)

The diluted earnings per share calculation excludes options and restricted stock units that were anti-dilutive totaling 6.3 million and 8.3 million for the quarters ended June 30, 2016 and 2015, respectively, and 7.4 million and 8.3 million for the six months ended June 30, 2016 and 2015, respectively.

Common Stock Dividends

For the quarters ended June 30, 2016, and 2015, Apache paid $95 million and $95 million, respectively, in dividends on its common stock. For the six months ended June 30, 2016 and 2015, the Company paid $189 million and $189 million, respectively.

Stock Repurchase Program

Apache's Board of Directors has authorized the purchase of up to 40 million shares of the Company's common stock. Shares may be purchased either in the open market or through privately negotiated transactions. The Company initiated the buyback program on June 10, 2013, and through December 31, 2015, had repurchased a total of 32.2 million shares at an average price of $88.96 per share. The Company is not obligated to acquire any specific number of shares and has not purchased any shares during 2016.

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11. BUSINESS SEGMENT INFORMATION

Apache is engaged in a single line of business. Both domestically and internationally, the Company explores for, develops, and produces natural gas, crude oil, and natural gas liquids. At June 30, 2016, the Company had production in four reporting segments: the United States, Canada, Egypt, and offshore the United Kingdom in the North Sea (North Sea). Apache also pursues exploration interests in other areas that may, over time, result in reportable discoveries and development opportunities. Financial information for each country is presented below:

	United States	Canada	Egypt(1)	North Sea	Other International	Total(3)
	(In millions)					
For the Quarter Ended June 30, 2016						
Oil and Gas Production Revenues	$520	$73	$542	$251	$ —	$1,386
Operating Income (Loss)(2)	$(109)	$(57)	$220	$(115)	$ —	$(61)
Other Income (Expense):						
Gain (loss) on divestitures, net						17
Other						(21)
General and administrative						(103)
Transaction, reorganization, and separation						(9)
Financing costs, net						(104)
Loss Before Income Taxes						$(281)
For the Six Months Ended June 30, 2016						
Oil and Gas Production Revenues	$929	$156	$934	$454	$ —	$2,473
Operating Income (Loss)(2)	$(267)	$(118)	$261	$(101)	$ (1)	$(226)
Other Income (Expense):						
Gain (loss) on divestitures, net						16
Other						(24)
General and administrative						(196)
Transaction, reorganization, and separation						(24)
Financing costs, net						(209)
Loss Before Income Taxes						$(663)
Total Assets	$12,383	$2,070	$5,520	$4,326	$ 47	$24,346

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	United States	Canada	Egypt[1]	North Sea	Other International	Total[3]
	(In millions)					
For the Quarter Ended June 30, 2015						
Oil and Gas Production Revenues	$767	$138	$703	$383	$ —	$1,991
Operating Income (Loss)[2]	$(363)	$(78)	$335	$(40)	$(1)	$(147)
Other Income (Expense):						
Gain (loss) on divestitures, net						227
Other						28
General and administrative						(111)
Transaction, reorganization, and separation						(66)
Financing costs, net						(117)
Loss From Continuing Operations Before Income Taxes						$(186)
For the Six Months Ended June 30, 2015						
Oil and Gas Production Revenues	$1,427	$271	$1,256	$696	$ —	$3,650
Operating Income (Loss)[2]	$(2,382)	$(174)	$499	$(72)	$(1)	$(2,130)
Other Income (Expense):						
Gain (loss) on divestitures, net						209
Other						22
General and administrative						(195)
Transaction, reorganization, and separation						(120)
Financing costs, net						(241)
Loss From Continuing Operations Before Income Taxes						$(2,455)
Total Assets	$20,367	$3,932	$7,435	$4,488	$ 580	$36,802

(1) Includes a noncontrolling interest in Egypt.

(2) Operating Income (Loss) consists of oil and gas production revenues less lease operating expenses, gathering and transportation costs, taxes other than income, exploration costs, depreciation, depletion, and amortization, asset retirement obligation accretion, and impairments. The operating income (loss) of U.S., Canada, and North Sea includes asset impairments totaling $125 million, $9 million, and $105 million, respectively, for the second quarter of 2016. The operating income (loss) of U.S., Canada, and North Sea includes asset impairments totaling $166 million, $10 million, and $105 million, respectively, for the first six months of 2016. The operating income (loss) of U.S., Canada, Egypt, and North Sea includes asset impairments totaling $465 million, $27 million, $5 million, and $163 million, respectively, for the second quarter of 2015. The operating income (loss) of U.S., Canada, Egypt, and North Sea include asset impairments totaling $2.4 billion, $54 million, $267 million, and $13 million, respectively, for the first six months of 2015.

(3) Amounts for 2015 have been restated to exclude Australia discontinued operations.

12. SUPPLEMENTAL GUARANTOR INFORMATION

In December 1999, Apache Finance Canada issued approximately $300 million of publicly-traded notes due in 2029. The notes are fully and unconditionally guaranteed by Apache. The following condensed consolidating financial statements are provided as an alternative to filing separate financial statements.

Apache Finance Canada is 100 percent owned by Apache Corporation. As such, these condensed consolidating financial statements should be read in conjunction with Apache's consolidated financial statements and the notes thereto, of which this note is an integral part.

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APACHE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
For the Quarter Ended June 30, 2016

	Apache Corporation	Apache Finance Canada	All Other Subsidiaries of Apache Corporation	Reclassifications & Eliminations	Consolidated
	(In millions)				
REVENUES AND OTHER:					
Oil and gas production revenues	$270	$ —	$ 1,116	$ —	$ 1,386
Equity in net income of affiliates	(76)	6	—	70	—
Other	(22)	9	(8)	—	(21)
Gain (loss) on divestiture	(1)	—	18	—	17
	171	15	1,126	70	1,382
OPERATING EXPENSES:					
Lease operating expenses	66	—	293	—	359
Gathering and transportation	10	—	42	—	52
Taxes other than income	22	—	43	—	65
Exploration	76	—	15	—	91
General and administrative	86	—	17	—	103
Depreciation, depletion, and amortization	159	—	510	—	669
Asset retirement obligation accretion	5	—	33	—	38
Impairments	61	—	112	—	173
Transaction, reorganization, and separation	9	—	—	—	9
Financing costs, net	64	7	33	—	104
	558	7	1,098	—	1,663
NET INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(387)	8	28	70	(281)
Provision (benefit) for income taxes	(143)	2	60	—	(81)
NET INCOME (LOSS) FROM CONTINUING OPERATIONS INCLUDING NONCONTROLLING INTEREST	(244)	6	(32)	70	(200)
Net income (loss) from discontinued operations, net of tax	—	—	—	—	—
NET INCOME (LOSS) INCLUDING NONCONTROLLING INTEREST	(244)	6	(32)	70	(200)
Net income attributable to noncontrolling interest	—	—	44	—	44
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCK	$(244)	$ 6	$ (76)	$ 70	$ (244)

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APACHE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
For the Quarter Ended June 30, 2015

	Apache Corporation	Apache Finance Canada	All Other Subsidiaries of Apache Corporation	Reclassifications & Eliminations	Consolidated
	(In millions)				
REVENUES AND OTHER:					
Oil and gas production revenues	$434	$ —	$ 1,557	$ —	$ 1,991
Equity in net income (loss) of affiliates	(172)	35	(1)	138	—
Other	(7)	12	4	19	28
Gain (loss) on divestiture	(16)	—	243	—	227
	239	47	1,803	157	2,246
OPERATING EXPENSES:					
Lease operating expenses	108	—	359	—	467
Gathering and transportation	7	—	42	—	49
Taxes other than income	33	—	22	—	55
Exploration	166	—	59	—	225
General and administrative	74	—	18	19	111
Depreciation, depletion, and amortization	232	—	562	—	794
Asset retirement obligation accretion	3	—	33	—	36
Impairments	201	—	311	—	512
Transaction, reorganization, and separation	66	—	—	—	66
Financing costs, net	116	11	(10)	—	117
	1,006	11	1,396	19	2,432
NET INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(767)	36	407	138	(186)
Provision (benefit) for income taxes	(79)	2	808	—	731
NET INCOME (LOSS) FROM CONTINUING OPERATIONS INCLUDING NONCONTROLLING INTEREST	(688)	34	(401)	138	(917)
Net loss from discontinued operations, net of tax	(172)	—	292	—	120
NET INCOME (LOSS) INCLUDING NONCONTROLLING INTEREST	(860)	34	(109)	138	(797)
Net income attributable to noncontrolling interest	—	—	63	—	63
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCK	$(860)	$ 34	$ (172)	$ 138	$ (860)

APACHE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
For the Six Months Ended June 30, 2016

	Apache Corporation	Apache Finance Canada	All Other Subsidiaries of Apache Corporation	Reclassifications & Eliminations	Consolidated
	(In millions)				
REVENUES AND OTHER:					
Oil and gas production revenues	$487	$ —	$ 1,986	$ —	$ 2,473
Equity in net income (loss) of affiliates	(184)	(20)	—	204	—
Other	6	21	(51)	—	(24)
Gain (loss) on divestiture	(2)	—	18	—	16
	307	1	1,953	204	2,465
OPERATING EXPENSES:					
Lease operating expenses	144	—	593	—	737
Gathering and transportation	19	—	85	—	104
Taxes other than income	43	—	33	—	76
Exploration	126	—	60	—	186
General and administrative	163	—	33	—	196
Depreciation, depletion, and amortization	315	—	1,032	—	1,347
Asset retirement obligation accretion	9	—	67	—	76
Impairments	61	—	112	—	173
Transaction, reorganization, and separation	24	—	—	—	24
Financing costs, net	125	17	67	—	209
	1,029	17	2,082	—	3,128
NET INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(722)	(16)	(129)	204	(663)
Provision (benefit) for income taxes	(106)	4	10	—	(92)
NET INCOME (LOSS) FROM CONTINUING OPERATIONS INCLUDING NONCONTROLLING INTEREST	(616)	(20)	(139)	204	(571)
Net loss from discontinued operations, net of tax	—	—	—	—	—
NET INCOME (LOSS) INCLUDING NONCONTROLLING INTEREST	(616)	(20)	(139)	204	(571)
Net income attributable to noncontrolling interest	—	—	45	—	45
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCK	$(616)	$ (20)	$ (184)	$ 204	$ (616)

APACHE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
For the Six Months Ended June 30, 2015

	Apache Corporation	Apache Finance Canada	All Other Subsidiaries of Apache Corporation	Reclassifications & Eliminations	Consolidated
	(In millions)				
REVENUES AND OTHER:					
Oil and gas production revenues	$799	$—	$ 2,851	$ —	$ 3,650
Equity in net income (loss) of affiliates	(1,419)	(18)	—	1,437	—
Other	(45)	26	22	19	22
Gain (loss) on divestiture	(29)	—	238	—	209
	(694)	8	3,111	1,456	3,881
OPERATING EXPENSES:					
Lease operating expenses	232	—	716	—	948
Gathering and transportation	16	—	89	—	105
Taxes other than income	67	—	61	—	128
Exploration	261	—	222	—	483
General and administrative	136	—	40	19	195
Depreciation, depletion, and amortization	494	—	1,126	—	1,620
Asset retirement obligation accretion	7	—	65	—	72
Impairments	1,365	—	1,059	—	2,424
Transaction, reorganization, and separation	120	—	—	—	120
Financing costs, net	215	21	5	—	241
	2,913	21	3,383	19	6,336
NET INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(3,607)	(13)	(272)	1,437	(2,455)
Provision for income taxes	(1,585)	5	1,110	—	(470)
NET INCOME (LOSS) FROM CONTINUING OPERATIONS INCLUDING NONCONTROLLING INTEREST	(2,022)	(18)	(1,382)	1,437	(1,985)
Net loss from discontinued operations, net of tax	(172)	—	54	—	(118)
NET INCOME (LOSS) INCLUDING NONCONTROLLING INTEREST	(2,194)	(18)	(1,328)	1,437	(2,103)
Net income attributable to noncontrolling interest	—	—	91	—	91
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCK	$(2,194)	$ (18)	$ (1,419)	$ 1,437	$ (2,194)

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APACHE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
For the Six Months Ended June 30, 2016

	Apache Corporation	Apache Finance Canada	All Other Subsidiaries of Apache Corporation	Reclassifications & Eliminations	Consolidated
	(In millions)				
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$110	$ —	$ 873	$ —	$ 983
CASH FLOWS FROM INVESTING ACTIVITIES:					
Additions to oil and gas property	(53)	—	(872)	—	(925)
Leasehold and property acquisitions	(53)	—	(65)	—	(118)
Investment in subsidiaries, net	(39)	—	—	39	—
Other	(3)	—	80	—	77
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(148)	—	(857)	39	(966)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Intercompany borrowings	—	1	38	(39)	—
Distributions to noncontrolling interest	—	—	(93)	—	(93)
Dividends paid	(189)	—	—	—	(189)
Other	1	(1)	(1)	—	(1)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(188)	—	(56)	(39)	(283)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(226)	—	(40)	—	(266)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	378	—	1,089	—	1,467
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$152	$ —	$ 1,049	$ —	$ 1,201

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APACHE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
For the Six Months Ended June 30, 2015

	Apache Corporation	Apache Finance Canada	All Other Subsidiaries of Apache Corporation	Reclassifications & Eliminations	Consolidated
	(In millions)				
CASH PROVIDED BY (USED IN) CONTINUING OPERATING ACTIVITIES	$54	$ (21)	$ 1,590	$ —	$ 1,623
CASH PROVIDED BY DISCONTINUED OPERATIONS	—	—	159	—	159
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	54	(21)	1,749	—	1,782
CASH FLOWS FROM INVESTING ACTIVITIES:					
Additions to oil and gas property	(1,095)	—	(1,688)	—	(2,783)
Leasehold and property acquisitions	(124)	—	(4)	—	(128)
Additions to gas gathering, transmission, and processing facilities	(24)	—	(70)	—	(94)
Proceeds from sale Kitimat LNG	—	—	854	—	854
Proceeds from sale of other oil and gas properties	4	—	115	—	119
Investment in subsidiaries, net	82	—	—	(82)	—
Other	(16)	—	(51)	—	(67)
NET CASH USED IN CONTINUING INVESTING ACTIVITIES	(1,173)	—	(844)	(82)	(2,099)
NET CASH PROVIDED BY DISCONTINUED OPERATIONS	—	—	4,372	—	4,372
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(1,173)	—	3,528	(82)	2,273
CASH FLOWS FROM FINANCING ACTIVITIES:					
Commercial paper and bank credit facilities, net	(1,570)	—	—	—	(1,570)
Intercompany borrowings	4,562	(10)	(4,634)	82	—
Distributions to noncontrolling interest	—	—	(40)	—	(40)
Dividends paid	(189)	—	—	—	(189)
Other	2	31	(18)	—	15
NET CASH PROVIDED BY (USED IN) CONTINUING FINANCING ACTIVITIES	2,805	21	(4,692)	82	(1,784)
NET CASH USED IN DISCONTINUED OPERATIONS	—	—	—	—	—
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	2,805	21	(4,692)	82	(1,784)
NET DECREASE IN CASH AND CASH EQUIVALENTS	1,686	—	585	—	2,271
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	267	—	412	—	679
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$1,953	$ —	$ 997	$ —	$ 2,950

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APACHE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATING BALANCE SHEET
June 30, 2016

	Apache Corporation	Apache Finance Canada	All Other Subsidiaries of Apache Corporation	Reclassifications & Eliminations	Consolidated
	(In millions)				
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$152	$ —	$ 1,049	$ —	$ 1,201
Receivables, net of allowance	330	—	686	—	1,016
Inventories	32	—	498	—	530
Drilling advances	6	—	196	—	202
Deferred tax asset	(28)	—	28	—	—
Prepaid assets and other	193	—	150	—	343
Intercompany receivable	5,371	—	—	(5,371)	—
	6,056	—	2,607	(5,371)	3,292
PROPERTY AND EQUIPMENT, NET	6,304	—	13,839	—	20,143
OTHER ASSETS:					
Intercompany receivable	—	—	11,083	(11,083)	—
Equity in affiliates	15,908	(1,080)	699	(15,527)	—
Deferred charges and other	93	1,000	818	(1,000)	911
	$28,361	$ (80)	$ 29,046	$ (32,981)	$ 24,346
LIABILITIES AND SHAREHOLDERS' EQUITY					
CURRENT LIABILITIES:					
Accounts payable	$324	$ (2)	$ 222	$ —	$ 544
Other current liabilities	403	2	621	—	1,026
Intercompany payable	—	—	5,371	(5,371)	—
	727	—	6,214	(5,371)	1,570
LONG-TERM DEBT	8,431	297	(9)	—	8,719
DEFERRED CREDITS AND OTHER NONCURRENT LIABILITIES:					
Intercompany payable	10,976	—	107	(11,083)	—
Income taxes	(114)	5	2,417	—	2,308
Asset retirement obligation	277	—	2,429	—	2,706
Other	922	(1)	426	(1,000)	347
	12,061	4	5,379	(12,083)	5,361
COMMITMENTS AND CONTINGENCIES					
APACHE SHAREHOLDERS' EQUITY	7,142	(381)	15,908	(15,527)	7,142
Noncontrolling interest	—	—	1,554	—	1,554
TOTAL EQUITY	7,142	(381)	17,462	(15,527)	8,696
	$28,361	$ (80)	$ 29,046	$ (32,981)	$ 24,346

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APACHE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATING BALANCE SHEET
December 31, 2015

	Apache Corporation	Apache Finance Canada	All Other Subsidiaries of Apache Corporation	Reclassifications & Eliminations	Consolidated
	(In millions)				
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$378	$—	$ 1,089	$ —	$ 1,467
Receivables, net of allowance	314	—	939	—	1,253
Inventories	34	—	536	—	570
Drilling advances	16	—	156	—	172
Prepaid assets and other	102	—	188	—	290
Intercompany receivable	5,212	—	—	(5,212)	—
	6,056	—	2,908	(5,212)	3,752
PROPERTY AND EQUIPMENT, NET	6,546	—	14,292	—	20,838
OTHER ASSETS:					
Intercompany receivable	—	—	10,744	(10,744)	—
Equity in affiliates	16,092	(807)	446	(15,731)	—
Deferred charges and other	96	1,001	813	(1,000)	910
	$28,790	$ 194	$ 29,203	$ (32,687)	$ 25,500
LIABILITIES AND SHAREHOLDERS' EQUITY					
CURRENT LIABILITIES:					
Accounts payable	$409	$—	$ 209	$ —	$ 618
Other current liabilities	539	3	681	—	1,223
Intercompany payable	—	—	5,212	(5,212)	—
	948	3	6,102	(5,212)	1,841
LONG-TERM DEBT	8,418	298	—	—	8,716
DEFERRED CREDITS AND OTHER NONCURRENT LIABILITIES:					
Intercompany payable	10,744	—	—	(10,744)	—
Income taxes	(412)	4	2,937	—	2,529
Asset retirement obligation	271	—	2,291	—	2,562
Other	933	250	179	(1,000)	362
	11,536	254	5,407	(11,744)	5,453
COMMITMENTS AND CONTINGENCIES					
APACHE SHAREHOLDERS' EQUITY	7,888	(361)	16,092	(15,731)	7,888
Noncontrolling interest	—	—	1,602	—	1,602
TOTAL EQUITY	7,888	(361)	17,694	(15,731)	9,490
	$28,790	$ 194	$ 29,203	$ (32,687)	$ 25,500

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

The following discussion relates to Apache Corporation and its consolidated subsidiaries and should be read in conjunction with our consolidated financial statements and accompanying notes included under Part I, Item 1, “Financial Statements” of this Quarterly Report on Form 10-Q, as well as our consolidated financial statements, accompanying notes and Management’s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015. Financial information for all periods has been recast to reflect the retrospective application of the successful efforts method of accounting, as discussed under Note 1 in Part I, Item 1, of this Quarterly Report on Form 10-Q. Results of operations and consolidated cash flows for our divested Australia assets are reflected as discontinued operations in all periods presented in this Quarterly Report on Form 10-Q for the quarter ended June 30, 2016.

Overview

Apache Corporation, a Delaware corporation formed in 1954, is an independent energy company that explores for, develops, and produces natural gas, crude oil, and natural gas liquids. The Company has exploration and production interests in four geographic areas: the United States (U.S.), Canada, Egypt, and offshore the United Kingdom (U.K.) in the North Sea (North Sea). Apache also pursues exploration interests in other areas that may over time result in reportable discoveries and development opportunities.

Apache reported a second quarter loss of $244 million, or $0.65 per common share. These results include after-tax asset impairments of $139 million, or $0.37 per common share. During the second quarter of 2016, Apache generated cash from operating activities of $744 million, a substantial increase from last quarter but significantly lower than the $1.2 billion in second quarter of last year.

While Apache continues to be negatively impacted by low commodity prices, we have seen positive results from our aggressive efforts to reduce costs. Lease operating expenses in the second quarter were $108 million lower, or 23 percent, from the same quarter in 2015. These reductions were driven by efforts to align staffing levels, renegotiate contracts, and reduce third-party contractor costs. In addition, we diligently focused on improving our well costs, realizing substantial drilling efficiencies and cost reductions compared to the prior year, and we have been able to maintain these savings for the past two quarters.

We now project 2016 full-year capital spending to be at the high end of our $1.4 billion to $1.8 billion guidance range. Our capital allocation process will remain methodical and rigorous, with a primary focus on returns. We remain committed to achieving "cash flow neutrality" in 2016, and we believe we remain on track to exit the year with no significant change in net debt (debt less cash) related to year-end 2015. We exited the second quarter with $1.2 billion in cash, an increase of $200 million from the end of the first quarter of this year, and $3.5 billion in available committed borrowing capacity.

Operating Highlights

Significant operating activities for the quarter include the following:

Overall

- Equivalent production decline from second quarter of 2015 levels was only 8 percent, despite a significant reduction in capital investments in 2015 and the first quarter of 2016 when compared to prior-year levels.
- Liquids production for the second quarter of 2016 averaged 348 thousand barrels of oil equivalent per day (Mboe/d), with crude oil representing 82 percent of total liquids production. Liquids production decreased 6 percent from the second quarter of 2015.

North America

- Onshore equivalent production was down 11 percent for the quarter relative to the 2015 period. This production performance is notable given a significant reduction in North American onshore exploration and development capital spending during 2015 and the first half of 2016.
- Second quarter equivalent production from the Permian Basin region, which accounts for more than half of our total onshore North American production, decreased 4 percent from the second quarter of 2015 despite significantly fewer wells placed on production during the second quarter of 2016.

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International and Offshore

- In Egypt, we averaged 4 rigs and placed 14 wells on production during the quarter. Gross equivalent production remained flat compared with the second quarter of 2015, driven by an increase of 4 percent in higher margin oil production, which was offset by a decline in lower margin natural gas production. On a net basis, equivalent production declined 5 percent from the second quarter of 2015, the impact of cost recovery volumes under our production-sharing contracts.
- North Sea average daily production increased 2 percent for the second quarter of 2016 from the second quarter of last year as a result of three new wells brought onto production late in the first quarter of 2016.

Results of Operations

Oil and Gas Revenues

The table below presents revenues by geographic region and each region's percent contribution to revenues for 2016 and 2015.

	For the Quarter Ended June 30,				For the Six Months Ended June 30,			
	2016		2015		2016		2015	
	$ Value	% Contribution	$ Value	% Contribution	$ Value	% Contribution	$ Value	% Contribution
	($ in millions)							
Total Oil Revenues:								
United States	$409	37 %	$627	39 %	$722	37 %	$1,137	39 %
Canada	46	4 %	75	4 %	85	5 %	135	5 %
North America	455	41 %	702	43 %	807	42 %	1,272	44 %
Egypt (1)	437	39 %	572	36 %	733	38 %	1,018	35 %
North Sea	226	20 %	344	21 %	400	20 %	621	21 %
International (1)	663	59 %	916	57 %	1,133	58 %	1,639	56 %
Total (1)	$1,118	100 %	$1,618	100 %	$1,940	100 %	$2,911	100 %
Total Natural Gas Revenues:								
United States	$62	30 %	$90	29 %	$124	29 %	$193	31 %
Canada	23	11 %	61	19 %	64	15 %	128	21 %
North America	85	41 %	151	48 %	188	44 %	321	52 %
Egypt (1)	102	49 %	127	40 %	195	45 %	231	37 %
North Sea	22	10 %	37	12 %	49	11 %	71	11 %
International (1)	124	59 %	164	52 %	244	56 %	302	48 %
Total (1)	$209	100 %	$315	100 %	$432	100 %	$623	100 %
Total Natural Gas Liquids (NGL) Revenues:								
United States	$49	83 %	$50	86 %	$83	82 %	$97	84 %
Canada	4	7 %	2	4 %	7	7 %	8	7 %
North America	53	90 %	52	90 %	90	89 %	105	91 %
Egypt (1)	3	5 %	4	7 %	6	6 %	7	6 %
North Sea	3	5 %	2	3 %	5	5 %	4	3 %
International (1)	6	10 %	6	10 %	11	11 %	11	9 %
Total (1)	$59	100 %	$58	100 %	$101	100 %	$116	100 %
Total Oil and Gas Revenues:								
United States	$520	38 %	$767	38 %	$929	38 %	$1,427	39 %
Canada	73	5 %	138	7 %	156	6 %	271	8 %
North America	593	43 %	905	45 %	1,085	44 %	1,698	47 %
Egypt (1)	542	39 %	703	36 %	934	38 %	1,256	34 %
North Sea	251	18 %	383	19 %	454	18 %	696	19 %
International (1)	793	57 %	1,086	55 %	1,388	56 %	1,952	53 %
Total (1)	$1,386	100 %	$1,991	100 %	$2,473	100 %	$3,650	100 %
Discontinued Operations:								
Oil Revenues	$—		$57		—		138	
Natural Gas Revenues	—		53		—		140	
NGL Revenues	—		—		—		—	
Total	$—		$110		—		278	

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

Production

The table below presents the second-quarter and year-to-date 2016 and 2015 production and the relative increase or decrease from the prior period.

	For the Quarter Ended June 30,			For the Six Months Ended June 30,		
	2016	Increase (Decrease)	2015	2016	Increase (Decrease)	2015
Oil Volume – b/d						
United States	106,741	(16)%	127,698	111,300	(12)%	127,171
Canada	12,917	(18)%	15,791	13,690	(16)%	16,330
North America	119,658	(17)%	143,489	124,990	(13)%	143,501
Egypt(1)(2)	106,223	2 %	103,865	102,241	3 %	99,494
North Sea	59,124	—	58,873	58,043	(4)%	60,279
International	165,347	2 %	162,738	160,284	—	159,773
Total	285,005	(7)%	306,227	285,274	(6)%	303,274
Natural Gas Volume – Mcf/d						
United States	408,126	(9)%	446,788	408,943	(7)%	441,333
Canada	246,830	(13)%	282,971	256,635	(10)%	285,251
North America	654,956	(10)%	729,759	665,578	(8)%	726,584
Egypt(1)(2)	408,013	(15)%	478,170	402,806	(8)%	437,611
North Sea	60,318	7 %	56,367	65,556	23 %	53,423
International	468,331	(12)%	534,537	468,362	(5)%	491,034
Total	1,123,287	(11)%	1,264,296	1,133,940	(7)%	1,217,618
NGL Volume – b/d						
United States	55,632	1 %	54,944	55,666	9 %	51,104
Canada	5,092	(13)%	5,825	5,797	(1)%	5,839
North America	60,724	—	60,769	61,463	8 %	56,943
Egypt(1)(2)	950	(26)%	1,289	1,119	(7)%	1,204
North Sea	1,563	89 %	826	1,486	74 %	856
International	2,513	19 %	2,115	2,605	26 %	2,060
Total	63,237	1 %	62,884	64,068	9 %	59,003
BOE per day(3)						
United States	230,393	(10)%	257,107	235,123	(7)%	251,831
Canada	59,148	(14)%	68,778	62,260	(11)%	69,711
North America	289,541	(11)%	325,885	297,383	(8)%	321,542
Egypt(2)	175,175	(5)%	184,848	170,494	(2)%	173,634
North Sea	70,740	2 %	69,094	70,455	1 %	70,038
International	245,915	(3)%	253,942	240,949	(1)%	243,672
Total	535,456	(8)%	579,827	538,332	(5)%	565,214
Discontinued Operations:						
Oil (b/d)	—		9,849	—		15,346
Natural Gas (Mcf/d)	—		149,336	—		189,789
NGL (b/d)	—		—	—		—
BOE/d	—		34,738	—		46,978

(1) Gross oil, natural gas, and NGL production in Egypt for the second quarter and six-month period of 2016 and 2015 were as follows:

	For the Quarter Ended June 30,	For the Six Months Ended

			June 30,	
	2016	2015	2016	2015
Oil (b/d)	212,218	203,319	211,032	200,568
Natural Gas (Mcf/d)	814,283	861,181	830,165	861,555
NGL (b/d)	1,757	2,549	1,951	2,436

(2) Includes production volumes per day attributable to a noncontrolling interest in Egypt for the second quarter and six-months period of 2016 and 2015 of:

	For the Quarter Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Oil (b/d)	35,357	34,580	34,017	33,144
Natural Gas (Mcf/d)	136,029	158,848	134,266	145,598
NGL (b/d)	317	430	373	402

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

Pricing

The table below presents second-quarter and year-to-date 2016 and 2015 pricing and the relative increase or decrease from the prior periods.

	For the Quarter Ended June 30,			For the Six Months Ended June 30,		
	2016	Increase (Decrease)	2015	2016	Increase (Decrease)	2015
Average Oil Price - Per barrel						
United States	$41.95	(22)%	$53.94	$35.61	(28)%	$49.38
Canada	39.39	(25)%	52.22	34.11	(26)%	45.81
North America	41.45	(23)%	53.75	35.34	(28)%	48.97
Egypt	45.42	(25)%	60.83	39.47	(30)%	56.56
North Sea	45.56	(29)%	64.03	39.64	(30)%	56.86
International	45.47	(26)%	61.86	39.53	(30)%	56.67
Total	43.14	(26)%	58.06	37.37	(30)%	53.03
Average Natural Gas Price - Per Mcf						
United States	$1.70	(23)%	$2.21	$1.67	(31)%	$2.42
Canada	1.01	(57)%	2.34	1.36	(45)%	2.46
North America	1.44	(36)%	2.26	1.55	(36)%	2.44
Egypt	2.72	(7)%	2.91	2.65	(9)%	2.92
North Sea	3.95	(46)%	7.35	4.11	(44)%	7.37
International	2.88	(15)%	3.38	2.86	(16)%	3.40
Total	2.04	(26)%	2.74	2.09	(26)%	2.83
Average NGL Price - Per barrel						
United States	$9.74	(4)%	$10.11	$8.17	(22)%	$10.52
Canada	8.54	94%	4.41	6.88	(11)%	7.74
North America	9.64	1%	9.56	8.05	(21)%	10.23
Egypt	27.68	(4)%	28.95	27.24	(15)%	32.14
North Sea	22.25	(28)%	30.94	20.29	(27)%	27.75
International	24.30	(18)%	29.73	23.28	(23)%	30.32
Total	10.22	—	10.24	8.67	(21)%	10.93
Discontinued Operations:						
Oil price ($/Bbl)	$—		$63.60	$—		$49.76
Natural Gas price ($/Mcf)	—		3.88	—		4.07
NGL price ($/Bbl)	—		—	—		—

Second-Quarter 2016 compared to Second-Quarter 2015

Crude Oil Revenues Crude oil revenues for the second quarter of 2016 totaled $1.1 billion, a $500 million decrease from the comparative 2015 quarter. A 7 percent decrease in average daily production reduced second-quarter 2016 revenues by $84 million compared to the prior-year quarter, while 26 percent lower average realized prices decreased revenues by $416 million. Crude oil accounted for 81 percent of oil and gas production revenues and 53 percent of worldwide production in the second quarter of 2016. Crude oil prices realized in the second quarter of 2016 averaged $43.14 per barrel, compared with $58.06 per barrel in the comparative prior-year quarter.

Worldwide oil production decreased 21.2 Mb/d to 285.0 Mb/d, primarily a result of reduced drilling activity in response to low commodity prices. Decreases from natural decline were partially offset by new production in the North Sea's Beryl field and in Egypt.

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Natural Gas Revenues Gas revenues for the second quarter of 2016 totaled $209 million, an $106 million decrease from the comparative 2015 quarter. An 11 percent decrease in average daily production reduced second-quarter revenues by $26 million compared to the prior-year quarter, while 26 percent lower average realized prices decreased revenues by $80 million. Natural gas accounted for 15 percent of our oil and gas production revenues and 35 percent of our equivalent production during the second quarter of 2016.

NGL Revenues NGL revenues for the second quarter of 2016 totaled $59 million, a $1 million increase from the comparative 2015 quarter. A 1 percent increase in average daily production increased second-quarter 2016 revenues by approximately $1 million, while average realized prices remained essentially flat for the second quarter of 2016 compared to the prior-year quarter. NGLs accounted for 4 percent of our oil and gas production revenues and 12 percent of our equivalent production during the second quarter of 2016.

Worldwide production of NGLs increased 353 b/d to 63.2 Mb/d in the second quarter of 2016, primarily the result of new production from completion activity in our North American onshore areas, gas processing plant downtime in the prior year period, and changes to existing gas processing arrangements.

Year-to-Date 2016 compared to Year-to-Date 2015

Crude Oil Revenues Crude oil revenues for the first six months of 2016 totaled $1.9 billion, a $971 million decrease from the comparative 2015 period. A 6 percent decrease in average daily production reduced 2016 oil revenues by $111 million compared to the prior-year period, while 30 percent lower average realized prices decreased revenues by $860 million. Crude oil accounted for 79 percent of oil and gas production revenues and 53 percent of worldwide production for the first six months of 2016, compared to 80 percent and 54 percent, respectively, for the 2015 period.

Crude oil prices realized in the first six months of 2016 averaged $37.37 per barrel, compared with $53.03 per barrel in the comparative prior-year period.

Worldwide production decreased 18.0 Mb/d to 285.3 Mb/d in the first six months of 2016 from the comparative prior-year period, primarily a result of reduced drilling activity in response to lower commodity prices.

Natural Gas Revenues Gas revenues for the first six months of 2016 totaled $432 million, a $191 million decrease from the comparative 2015 period. A 7 percent decrease in average daily production reduced 2016 natural gas revenues by $29 million compared to the prior-year period, while 26 percent lower average realized prices decreased revenues by $162 million. Natural gas accounted for 17 percent of our oil and gas production revenues and 35 percent of our equivalent production for the first six months of 2016, compared to 17 percent and 36 percent, respectively, for the 2015 period.

Our worldwide natural gas production decreased 83.7 MMcf/d to 1,134 MMcf/d in the first six months of 2016 from the comparative prior-year period, primarily the result of reduced drilling activity in response to lower commodity prices.

NGL Revenues NGL revenues for the first six months of 2016 totaled $101 million, a $15 million decrease from the comparative 2015 period. A 9 percent increase in average production increased 2016 NGL revenues by $9 million compared to the prior-year period, while 21 percent lower average realized prices decreased revenues by $24 million. NGLs accounted for nearly 4 percent of oil and gas production revenues and 12 percent of our equivalent production for the first six months of 2016, compared to 3 percent and 10 percent, respectively, for the 2015 period.

Worldwide production of NGLs increased 5.1 Mb/d to 64.1 Mb/d in the first six months of 2016 from the comparative prior-year period, primarily as a result of North American onshore production growth from drilling and recompletion activity and also new production in North Sea's Beryl field.

Operating Expenses

The table below presents a comparison of our expenses on an absolute dollar basis and a boe basis. Our discussion may reference expenses on a boe basis, on an absolute dollar basis or both, depending on their relevance. Operating expenses include costs attributable to a noncontrolling interest in Egypt but, for the quarter and six months ended June 30, 2015, exclude discontinued operations in Australia.

	For the Quarter Ended June 30,				For the Six Months Ended June 30,			
	2016	2015	2016	2015	2016	2015	2016	2015
	(In millions)		(Per boe)		(In millions)		(Per boe)	
Lease operating expense	$359	$467	$7.38	$8.85	$737	$948	$7.52	$9.26
Gathering and transportation	52	49	1.06	0.92	104	105	1.07	1.04
Taxes other than income	65	55	1.33	1.04	76	128	0.78	1.25
Exploration	91	225	1.87	4.26	186	483	1.90	4.72
General and administrative	103	111	2.10	2.10	196	195	2.00	1.90
Depreciation, depletion, and amortization:								
Oil and gas property and equipment	629	711	12.92	13.47	1,265	1,454	12.91	14.22
Other assets	40	83	0.83	1.57	82	166	0.84	1.62
Asset retirement obligation accretion	38	36	0.78	0.68	76	72	0.77	0.71
Impairments	173	512	3.56	9.72	173	2,424	1.77	23.70
Transaction, reorganization, and separation	9	66	0.17	1.25	24	120	0.24	1.17
Financing costs, net								