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APACHE CORP
Form 10-Q/A
January 26, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q/A
(AMENDMENT NO. 1)

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

For the Quarterly Period Ended June 30, 2003

OR

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

For the Transition Period from _____ to _____

Commission File Number 1-4300

APACHE CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Delaware

41-0747868

(State or Other Jurisdiction of
Incorporation or Organization)

(I.R.S. Employer
Identification Number)

Suite 100, One Post Oak Central
2000 Post Oak Boulevard, Houston, TX

77056-4400

(Address of Principal Executive Offices)

(Zip Code)

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

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

YES NO

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Number of shares of Registrant's common stock, outstanding as of June 30, 2003.....323,594,972

EXPLANATORY NOTE

We are filing this Amendment No. 1 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2003 to respond to certain comments received by us from the Staff of the Securities and Exchange Commission ("SEC") in connection with its review of our Registration Statement on Form S-3 (File No. 333-105536). Our consolidated financial position and consolidated results of operations for the periods presented have not been restated from the consolidated financial position and consolidated results of operations originally reported. Except where otherwise indicated, all share amounts and per share amounts have been adjusted to reflect the effects of the two-for-one stock split for our common stock declared in September 2003.

For convenience and ease of reference we are filing this Quarterly Report in its entirety with the applicable changes. Unless otherwise stated, all information contained in this amendment is as of August 14, 2003, the filing date of our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2003. Accordingly, this Amendment No. 1 to the Quarterly Report on Form 10-Q/A should be read in conjunction with our subsequent filings with the SEC.

PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

APACHE CORPORATION AND SUBSIDIARIES STATEMENT OF CONSOLIDATED OPERATIONS (UNAUDITED)

| | FOR THE QUARTER ENDED JUNE 30, | | |
|---|-----------------------------------|------------|----|
| | 2003 | 2002 | |
| (In thousands, except per com | | | |
| REVENUES AND OTHER: | | | |
| Oil and gas production revenues..... | \$ 1,044,330 | \$ 652,264 | \$ |
| Other..... | 10,026 | 4,051 | |
| | ----- | ----- | |
| | 1,054,356 | 656,315 | |
| | ----- | ----- | |
| OPERATING EXPENSES: | | | |
| Depreciation, depletion and amortization..... | 272,356 | 210,790 | |
| Asset retirement obligation accretion..... | 10,445 | - | |
| International impairments..... | - | - | |

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| | | | |
|---|------------|------------|-------|
| Lease operating costs..... | 186,286 | 112,087 | |
| Gathering and transportation costs..... | 15,131 | 11,112 | |
| Severance and other taxes..... | 32,742 | 17,345 | |
| General and administrative..... | 30,574 | 28,015 | |
| Financing costs: | | | |
| Interest expense..... | 41,428 | 41,451 | |
| Amortization of deferred loan costs..... | 536 | 466 | |
| Capitalized interest..... | (12,618) | (10,442) | |
| Interest income..... | (428) | (1,043) | |
| | ----- | ----- | ----- |
| | 576,452 | 409,781 | |
| | ----- | ----- | ----- |
| PREFERRED INTERESTS OF SUBSIDIARIES..... | 3,330 | 5,129 | |
| | ----- | ----- | ----- |
| INCOME BEFORE INCOME TAXES..... | 474,574 | 241,405 | |
| Provision for income taxes..... | 230,193 | 95,095 | |
| | ----- | ----- | ----- |
| INCOME BEFORE CHANGE IN ACCOUNTING PRINCIPLE..... | 244,381 | 146,310 | |
| Cumulative effect of change in accounting principle, net of income tax..... | - | - | |
| | ----- | ----- | ----- |
| NET INCOME..... | 244,381 | 146,310 | |
| Preferred stock dividends..... | 1,420 | 3,081 | |
| | ----- | ----- | ----- |
| INCOME ATTRIBUTABLE TO COMMON STOCK..... | \$ 242,961 | \$ 143,229 | \$ |
| | ===== | ===== | ===== |
| BASIC NET INCOME PER COMMON SHARE: | | | |
| Before change in accounting principle..... | \$ 0.75 | \$ 0.48 | \$ |
| Cumulative effect of change in accounting principle..... | - | - | |
| | ----- | ----- | ----- |
| | \$ 0.75 | \$ 0.48 | \$ |
| | ===== | ===== | ===== |
| DILUTED NET INCOME PER COMMON SHARE: | | | |
| Before change in accounting principle..... | \$ 0.74 | \$ 0.48 | \$ |
| Cumulative effect of change in accounting principle..... | - | - | |
| | ----- | ----- | ----- |
| | \$ 0.74 | \$ 0.48 | \$ |
| | ===== | ===== | ===== |

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

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

FOR THE SIX
JUN

2003

(In t

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CASH FLOWS FROM OPERATING ACTIVITIES:

| | | |
|---|----|-----------|
| Net income..... | \$ | 583,310 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation, depletion and amortization..... | | 486,705 |
| Asset retirement obligation accretion..... | | 15,758 |
| Provision for deferred income taxes..... | | 221,370 |
| International impairments..... | | - |
| Cumulative effect of change in accounting principle..... | | (26,632) |
| Other..... | | 3,311 |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in receivables..... | | (147,208) |
| (Increase) decrease in drilling advances and other..... | | (14,951) |
| (Increase) decrease in inventories..... | | 4,410 |
| (Increase) decrease in deferred charges and other..... | | (12,636) |
| Increase (decrease) in accounts payable..... | | 56,575 |
| Increase (decrease) in accrued expenses..... | | 81,009 |
| Increase (decrease) in advances from gas purchasers..... | | (8,088) |
| Increase (decrease) in deferred credits and noncurrent liabilities..... | | (18,768) |
| Net cash provided by operating activities..... | | 1,224,165 |

CASH FLOWS FROM INVESTING ACTIVITIES:

| | | |
|---|--|-------------|
| Additions to property and equipment..... | | (771,046) |
| Acquisition of BP properties..... | | (1,157,134) |
| Proceeds from sale of short-term investments..... | | - |
| Other, net..... | | (32,342) |
| Net cash used in investing activities..... | | (1,960,522) |

CASH FLOWS FROM FINANCING ACTIVITIES:

| | | |
|--|--|-----------|
| Long-term borrowings..... | | 1,042,418 |
| Payments on long-term debt..... | | (852,305) |
| Dividends paid..... | | (34,366) |
| Common stock activity..... | | 570,024 |
| Treasury stock activity, net..... | | 3,738 |
| Cost of debt and equity transactions..... | | (4,039) |
| Net cash provided by (used in) financing activities..... | | 725,470 |

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS..... (10,887)

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR..... 51,886

CASH AND CASH EQUIVALENTS AT END OF PERIOD..... \$ 40,999

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

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JUNE 30,
2003

(In thousand)

ASSETS

CURRENT ASSETS:

| | | |
|------------------------------------|----|---------|
| Cash and cash equivalents..... | \$ | 40,999 |
| Receivables, net of allowance..... | | 698,115 |
| Inventories..... | | 118,272 |
| Drilling advances..... | | 43,331 |
| Prepaid assets and other..... | | 51,741 |
| | | ----- |
| | | 952,458 |
| | | ----- |

PROPERTY AND EQUIPMENT:

| | | |
|---|--|-------------|
| Oil and gas, on the basis of full cost accounting: | | |
| Proved properties..... | | 15,083,057 |
| Unproved properties and properties under development, not being amortized..... | | 959,690 |
| Gas gathering, transmission and processing facilities..... | | 796,283 |
| Other..... | | 220,889 |
| | | ----- |
| | | 17,059,919 |
| Less: Accumulated depreciation, depletion and amortization..... | | (6,354,423) |
| | | ----- |
| | | 10,705,496 |
| | | ----- |

OTHER ASSETS:

| | | |
|---------------------------------|----|------------|
| Goodwill, net..... | | 189,252 |
| Deferred charges and other..... | | 48,829 |
| | | ----- |
| | \$ | 11,896,035 |
| | | ===== |

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

APACHE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
(UNAUDITED)

JUNE 30,
2003

(In thousand)

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:

| | | |
|--------------------------------|----|---------|
| Accounts payable..... | \$ | 271,216 |
| Accrued operating expense..... | | 80,741 |

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| | |
|---|---------------|
| Accrued exploration and development..... | 135,792 |
| Accrued compensation and benefits..... | 21,175 |
| Accrued interest..... | 32,621 |
| Accrued income taxes..... | 95,073 |
| Oil and gas derivative instruments..... | 61,908 |
| Other..... | 44,343 |
| | ----- |
| | 742,869 |
| | ----- |
| LONG-TERM DEBT..... | 2,349,502 |
| | ----- |
| DEFERRED CREDITS AND OTHER NONCURRENT LIABILITIES: | |
| Income taxes..... | 1,370,181 |
| Advances from gas purchasers..... | 117,365 |
| Asset retirement obligation..... | 711,404 |
| Oil and gas derivative instruments..... | 26,274 |
| Other..... | 141,301 |
| | ----- |
| | 2,366,525 |
| | ----- |
| PREFERRED INTERESTS OF SUBSIDIARIES..... | 437,615 |
| | ----- |
| SHAREHOLDERS' EQUITY: | |
| Preferred stock, no par value, 5,000,000 shares authorized - Series B, 5.68% Cumulative Preferred Stock, 100,000 shares issued and outstanding..... | 98,387 |
| Common stock, \$0.625 par, 430,000,000 shares authorized, 331,769,736 and 310,929,080 shares issued, respectively..... | 207,356 |
| Paid-in capital..... | 4,017,437 |
| Retained earnings..... | 1,948,452 |
| Treasury stock, at cost, 8,174,764 and 8,422,656 shares, respectively..... | (107,302) |
| Accumulated other comprehensive loss..... | (164,806) |
| | ----- |
| | 5,999,524 |
| | ----- |
| | \$ 11,896,035 |
| | ===== |

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

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

| (In thousands) | COMPREHENSIVE INCOME | SERIES B PREFERRED STOCK | SERIES C PREFERRED STOCK | COMM STO |
|----------------|-------------------------|--------------------------------|--------------------------------|-------------|
| | ----- | ----- | ----- | ----- |

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| | | | | |
|--|------------|-----------|------------|--------|
| BALANCE AT DECEMBER 31, 2001..... | | \$ 98,387 | \$ 208,207 | \$ 185 |
| Comprehensive income (loss): | | | | |
| Net income..... | \$ 226,982 | - | - | |
| Currency translation adjustments..... | 80,488 | - | - | |
| Commodity hedges, net of income tax benefit of \$5,232..... | (7,063) | - | - | |
| Marketable securities, net of income tax benefit of \$67..... | (125) | - | - | |
| | ----- | | | |
| Comprehensive income..... | \$ 300,282 | | | |
| | ===== | | | |
| Dividends: | | | | |
| Preferred..... | | - | - | |
| Common (\$.10 per share)..... | | - | - | |
| Common shares issued..... | | - | - | |
| Conversion of Series C Preferred Stock. | | - | (208,207) | 8 |
| Treasury shares issued, net..... | | - | - | |
| Other..... | | - | - | |
| | | ----- | ----- | ----- |
| BALANCE AT JUNE 30, 2002..... | | \$ 98,387 | \$ - | \$ 194 |
| | | ===== | ===== | ===== |
| BALANCE AT DECEMBER 31, 2002..... | | \$ 98,387 | \$ - | \$ 194 |
| Comprehensive income (loss): | | | | |
| Net income..... | \$ 583,310 | - | - | |
| Commodity hedges, net of income tax benefit of \$30,902..... | (51,870) | - | - | |
| | ----- | | | |
| Comprehensive income..... | \$ 531,440 | | | |
| | ===== | | | |
| Dividends: | | | | |
| Preferred..... | | - | - | |
| Common (\$.10 per share)..... | | - | - | |
| Five percent common stock dividend..... | | - | - | |
| Common shares issued..... | | - | - | 12 |
| Treasury shares issued, net..... | | - | - | |
| Other..... | | - | - | |
| | | ----- | ----- | ----- |
| BALANCE AT JUNE 30, 2003..... | | \$ 98,387 | \$ - | \$ 207 |
| | | ===== | ===== | ===== |

| (In thousands) | RETAINED EARNINGS | TREASURY STOCK | ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) | SHAR E |
|--|----------------------|-------------------|--|-----------|
| | ----- | ----- | ----- | ----- |
| BALANCE AT DECEMBER 31, 2001..... | \$ 1,336,478 | \$ (111,885) | \$ (101,817) | \$ 4 |
| Comprehensive income (loss): | | | | |
| Net income..... | 226,982 | - | - | |
| Currency translation adjustments..... | - | - | 80,488 | |
| Commodity hedges, net of income tax benefit of \$5,232..... | - | - | (7,063) | |
| Marketable securities, net of income tax benefit of \$67..... | - | - | (125) | |
| | | | | |
| Comprehensive income..... | | | | |
| Dividends: | | | | |
| Preferred..... | (7,989) | - | - | |

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| | | | | |
|---|--------------|--------------|--------------|-------|
| Common (\$.10 per share)..... | (27,103) | - | - | - |
| Common shares issued..... | - | - | - | - |
| Conversion of Series C Preferred Stock. | - | - | - | - |
| Treasury shares issued, net..... | - | 928 | - | - |
| Other..... | - | - | - | - |
| | ----- | ----- | ----- | ----- |
| BALANCE AT JUNE 30, 2002..... | \$ 1,528,368 | \$ (110,957) | \$ (28,517) | \$ 4 |
| | ===== | ===== | ===== | ===== |
| BALANCE AT DECEMBER 31, 2002..... | \$ 1,427,607 | \$ (110,559) | \$ (112,936) | \$ 4 |
| Comprehensive income (loss): | | | | |
| Net income..... | 583,310 | - | - | - |
| Commodity hedges, net of income tax benefit of \$30,902..... | - | - | (51,870) | - |
| Comprehensive income..... | | | | |
| Dividends: | | | | |
| Preferred..... | (2,840) | - | - | - |
| Common (\$.10 per share)..... | (33,705) | - | - | - |
| Five percent common stock dividend..... | (25,914) | - | - | - |
| Common shares issued..... | - | - | - | - |
| Treasury shares issued, net..... | - | 3,257 | - | - |
| Other..... | (6) | - | - | - |
| | ----- | ----- | ----- | ----- |
| BALANCE AT JUNE 30, 2003..... | \$ 1,948,452 | \$ (107,302) | \$ (164,806) | \$ 5 |
| | ===== | ===== | ===== | ===== |

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

On December 18, 2002, the Company declared a five percent stock dividend payable on April 2, 2003, to shareholders of record on March 12, 2003. On September 11, 2003, the Company declared a two-for-one stock split, paid January 14, 2004, to shareholders of record on December 31, 2003. Quarterly share and per share information for 2002 and 2003 have been restated to reflect this stock dividend and the two-for-one stock split.

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Reclassifications

Certain prior period amounts have been reclassified to conform with current year presentations.

1. ACQUISITIONS

On January 13, 2003, Apache announced that it had entered into agreements to purchase producing properties in the North Sea and Gulf of Mexico from subsidiaries of BP p.l.c. (referred to collectively as "BP") for \$1.3 billion, with \$670 million allocated to the Gulf of Mexico properties and \$630 million allocated to properties in the North Sea. The properties included estimated proved reserves of 233.2 million barrels of oil equivalent (MMboe), 147.6 MMboe located in the North Sea with the balance in the Gulf of Mexico. Both purchase agreements were effective as of January 1, 2003. As is customary, Apache assumed BP's abandonment obligation for the properties, which was considered in determining the purchase price. Both the Gulf of Mexico and North Sea assets acquired from BP were funded with available cash on hand, the issuance of 19.8 million shares of Apache common stock adjusted for the five percent common stock dividend and the two-for-one common stock split and borrowings under the Company's lines of credit and commercial paper program. The offering of Apache's common stock provided net proceeds of approximately \$554 million, with the proceeds from additional debt approximating \$604 million.

Apache and BP closed the above referenced acquisition of the Gulf of Mexico properties on March 13, 2003, which included BP's interest in 56 producing fields, and 104 blocks. At closing, the \$670 million purchase price was adjusted for normal closing items and preferential rights exercised by third parties. The exercise of preferential rights by third parties reduced the purchase price by \$73 million and estimated reserves by 9.6 MMboe. The purchase price was further adjusted for various normal closing items, including revenues and expenditures related to the properties for the period between the effective and closing dates. As a result, cash consideration of \$509 million was paid by Apache upon closing. In a separate transaction closed February 21, 2003, Apache purchased BP's interest in several other Gulf of Mexico properties with estimated proved reserves of 2.1 MMboe for an adjusted purchase price of \$15 million. Including \$4 million of transaction costs, total cash consideration for the two acquisitions of Gulf of Mexico properties from BP totaled \$528 million.

The acquisition of the U.K. North Sea properties closed on April 2, 2003, at which time Apache paid a purchase price, adjusted for normal closing and working capital adjustments, of \$630 million. The acquisition of the North Sea properties includes a 96 percent interest in the Forties Field and establishes a new core area for the Company. In conjunction with the Forties acquisition, Apache may be required to issue a letter of credit to BP to cover the present value of related asset retirement obligations if the rating of the Company's senior unsecured debt is lowered by both Moody's and Standard and Poor's from its current ratings of A3 and A-, respectively. Should this occur, the initial letter of credit amount would be 175 million British pounds. Apache has agreed to sell all of the North Sea production from those properties over the next two years to BP at a combination of fixed and market sensitive prices pursuant to a contract entered into in connection with the North Sea purchase agreement.

The BP purchase prices were allocated to the assets acquired and liabilities assumed based upon their estimated fair values as of the date of

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acquisition, as follows:

| | U.S. - GULF OF MEXICO | U.K. - NORTH SEA | TOT |
|-------------------------------|--------------------------|---------------------|--------------|
| | ----- | ----- | ----- |
| | (In thousands) | | |
| Proved Property | \$ 520,110 | \$ 854,835 | \$ 1,374,945 |
| Unproved Property | 57,500 | 65,000 | 122,500 |
| Working capital acquired, net | - | 10,957 | 10,957 |
| Asset Retirement Obligation | (69,000) | (250,887) | (319,887) |
| Deferred income tax liability | - | (50,381) | (50,381) |
| | ----- | ----- | ----- |
| Cash consideration | \$ 508,610 | \$ 629,524 | \$ 1,138,134 |
| | ===== | ===== | ===== |

* Property balance includes \$12 million of transaction costs (U.S. - \$4 million; North Sea - \$8 million).

The following unaudited pro forma information shows the effect on the Company's consolidated results of operations as if the acquisitions from BP occurred on January 1 of each period presented. The pro forma information is based in part on data provided by BP and on numerous assumptions and is not necessarily indicative of future results of operations.

| | FOR THE SIX MONTHS ENDED JUNE 30, 2003 | | FOR TH |
|--|---|--------------|--------------|
| | ----- | ----- | ENDED J |
| | AS REPORTED | PRO FORMA | AS REPORTED |
| | ----- | ----- | ----- |
| | (In thousands, except per common share) | | |
| Revenues..... | \$ 2,020,965 | \$ 2,258,927 | \$ 1,184,311 |
| Net income..... | 583,310 | 656,507 | 226,982 |
| Preferred stock dividends..... | 2,840 | 2,840 | 7,989 |
| Income attributable to common stock..... | 580,470 | 653,667 | 218,993 |
| Net income per common share: | | | |
| Basic..... | \$ 1.81 | \$ 2.03 | \$.75 |
| Diluted..... | 1.79 | 2.01 | .74 |
| Average common shares outstanding (1)..... | 320,973 | 323,160 | 291,994 |

(1) Pro forma shares assume the issuance of 19.8 million common shares adjusted for the five percent common stock dividend and the two-for-one common stock split as of the beginning of each period presented.

On July 3, 2003, Apache announced that it had completed the acquisition of producing properties on the Outer Continental Shelf of the Gulf of Mexico from Shell Exploration and Production Company (Shell) for \$200 million, subject

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to normal post-closing adjustments, including preferential rights. Prior to the transaction, Morgan Stanley Capital Group, Inc. (Morgan Stanley) paid Shell \$300 million to acquire an overriding royalty interest in a portion of the reserves to be produced over the next four years. Shell's sale of an overriding royalty interest to Morgan Stanley is commonly known in the industry as a volumetric production payment (VPP). Under the terms of the VPP, Morgan Stanley is to receive a fixed volume of oil and gas production over the four-year term. The VPP reserves and production will not be recorded by Apache.

Apache will record estimated proved reserves of 124.6 billion cubic feet (Bcf) of natural gas and 6.6 million barrels of oil. In addition, a \$60 million liability for the future cost to produce and deliver volumes subject to the VPP will be recorded by the Company because the overriding royalties are not burdened by production costs. This liability will be amortized as the volumes are produced and delivered to Morgan Stanley. The purchase agreement was effective as of July 1, 2003. The acquisition included interests in 26 fields covering 50 blocks (approximately 209,000 acres) and interests in two onshore gas plants. Apache will operate 15 of the fields with 91 percent of the production. The purchase price was funded by borrowings under the Company's lines of credit and commercial paper program.

2. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Apache uses a variety of strategies to manage its exposure to fluctuations in commodity prices. As established by the Company's hedging policy, Apache primarily enters into cash flow hedges in connection with selected

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acquisitions to protect against commodity price volatility. The success of these acquisitions is significantly influenced by Apache's ability to achieve targeted production at forecasted prices. These hedges effectively reduce price risk on a portion of the production from the acquisitions.

During the first quarter of 2003, in conjunction with the acquisitions from BP and during the fourth quarter of 2002, in conjunction with the South Louisiana properties acquisition, Apache entered into, and designated as cash flow hedges, natural gas and crude oil fixed-price swaps and natural gas option collars. These positions were entered into in accordance with the Company's hedging policy and involved several counterparties which are rated A+ or better. As of June 30, 2003, the outstanding positions of our cash flow hedges were as follows:

| PRODUCTION PERIOD | INSTRUMENT TYPE | TOTAL VOLUMES (MMBtu/Bbl) | WEIGHTED AVERAGE FLOOR/CEILING | FA |
|----------------------|----------------------|------------------------------|-----------------------------------|-----|
| ----- | ----- | ----- | ----- | --- |
| 7/2003 - 12/2003 | Gas Collars | 9,200,000 | \$ 3.50 / 6.09 | |
| | Gas Fixed-Price Swap | 36,800,000 | 5.12 | |
| | Oil Fixed-Price Swap | 9,200,000 | 26.59 | |
| 2004 | Gas Collars | 18,300,000 | 3.25 / 5.81 | |

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| | | | |
|------|----------------------|------------|-------------|
| | Gas Fixed-Price Swap | 51,240,000 | 4.52 |
| | Oil Fixed-Price Swap | 1,550,000 | 26.59 |
| 2005 | Gas Collars | 9,050,000 | 3.25 / 5.20 |

In addition to the fixed-price swaps and option collars, Apache entered into a separate crude oil physical sales contract with BP. The sales contract is a normal purchase and sale under Statement of Financial Accounting Standards (SFAS) No. 133 and, therefore, the Company has designated and accounted for the contract under the accrual method. As of June 30, 2003, the outstanding terms of the contract were as follows:

| CRUDE OIL FIXED-PRICE PHYSICAL SALES CONTRACT (BRENT) | | |
|---|-------------------------|---------------------|
| PRODUCTION PERIOD | TOTAL VOLUMES (BARRELS) | AVERAGE FIXED PRICE |
| 7/2003 - 12/2003 | 4,600,000 | \$ 25.32 |
| 2004 | 14,175,000 | 22.24 |

A reconciliation of the components of accumulated other comprehensive income (loss) in the statement of consolidated shareholders' equity related to Apache's derivative activities is presented in the table below:

| | GROSS | AF |
|--|----------------|----|
| | (In thousands) | |
| Unrealized loss on derivatives at December 31, 2002..... | \$ (7,141) | \$ |
| Net losses realized into earnings..... | 53,837 | |
| Net change in derivative fair value..... | (136,609) | |
| Unrealized loss on derivatives at June 30, 2003..... | \$ (89,913) | \$ |

Based on current market prices, the Company recorded an unrealized loss in other comprehensive income of \$89.9 million (\$56.1 million after tax). This loss will be realized in future earnings contemporaneously with the related sales of natural gas and crude oil production applicable to specific hedges. A loss of \$63.6 million (\$46.2 million after tax) will be realized over the next 12 months. However, these amounts could vary materially as a result of changes in market conditions. The contracts designated as hedges qualified and continue to qualify for hedge accounting in accordance with SFAS 133, as amended.

3. DEBT

On May 15, 2003, Apache Finance Canada Corporation (Apache Finance Canada) issued \$350 million of 4.375 percent, 12-year, senior unsecured notes in a private placement. The notes are irrevocably and unconditionally guaranteed by Apache. Interest is payable semi-annually on May 15 and November 15 of each year commencing on November 15, 2003. The notes were sold pursuant to Rule 144A and Regulation S, and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act of 1933, as amended.

If changes in relevant tax laws occur that would require Apache Finance Canada to pay additional amounts under the terms of the indenture, Apache Finance Canada has the right to redeem the notes prior to maturity. In addition, the notes are redeemable, as a whole or in part, at Apache Finance Canada's option, subject to a make-whole premium. The proceeds were used to reduce bank debt and outstanding commercial paper and for general corporate purposes.

4. CAPITAL STOCK

On January 22, 2003, the Company completed a public offering of 19.8 million shares of Apache common stock, adjusted for the five percent common stock dividend and two-for-one common stock split, including underwriters' over-allotment option, for net proceeds of approximately \$554 million. The proceeds were used to purchase producing properties in the North Sea and the Gulf of Mexico from BP.

5. FOREIGN CURRENCY TRANSLATION

The Company accounts for foreign currency gains and losses in accordance with SFAS 52 "Foreign Currency Translation." Foreign currency translation gains and losses related to deferred taxes are recorded as a component of its provision for income taxes, while all other foreign currency gains and losses are reflected in revenues other. For the first six months of 2003, the Company recorded additional deferred tax expense of \$56 million as a result of the weaker U.S. dollar. Net gains and losses reflected in revenues other totaled \$.5 million for the six-month period.

6. NET INCOME PER COMMON SHARE

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

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| | 2003 | | | | 2 |
|--|---|---------|-----------|-----------|---|
| | INCOME | SHARES | PER SHARE | INCOME | |
| | (In thousands, except per share amount) | | | | |
| BASIC: | | | | | |
| Income attributable to common stock. | \$242,961 | 323,409 | \$.75 | \$143,229 | 2 |
| | | | ===== | | |
| EFFECT OF DILUTIVE SECURITIES: | | | | | |
| Stock options and other..... | - | 2,711 | | - | |
| Series C Preferred Stock | - | - | | 1,661 | |
| | ----- | ----- | | ----- | |
| DILUTED: | | | | | |
| Income attributable to common stock, including assumed conversions..... | \$242,961 | 326,120 | \$.74 | \$144,890 | 3 |
| | ===== | ===== | ===== | ===== | |

FOR THE SIX MONTHS ENDED JUNE 30,

| | 2003 | | | | 2 |
|--|---|---------|-----------|-----------|---|
| | INCOME | SHARES | PER SHARE | INCOME | |
| | (In thousands, except per share amount) | | | | |
| BASIC: | | | | | |
| Income attributable to common stock. | \$580,470 | 320,973 | \$ 1.81 | \$218,993 | 2 |
| | | | ===== | | |
| EFFECT OF DILUTIVE SECURITIES: | | | | | |
| Stock options and other..... | - | 2,681 | | - | |
| Series C Preferred Stock | - | - | | 5,149 | |
| | ----- | ----- | | ----- | |
| DILUTED: | | | | | |
| Income attributable to common stock, including assumed conversions..... | \$580,470 | 323,654 | \$ 1.79 | \$224,142 | 3 |
| | ===== | ===== | ===== | ===== | |

7. STOCK-BASED COMPENSATION

On June 30, 2003, the Company had several stock-based employee compensation plans. The Company accounts for those plans under the recognition and measurement principles of Accounting Principals Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Under this method, the Company records no compensation expense for stock options granted when the exercise price of those options is equal to or greater than the

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market price of the Company's common stock on the date of grant, unless the awards are subsequently modified. The following table illustrates the effect on income attributable to common stock and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," as amended, to stock-based employee compensation for the Company's option and performance plans.

| | FOR THE QUARTER ENDED JUNE 30, | | FOR |
|--|---|------------|-----------|
| | 2003 | 2002 | 2001 |
| | (In thousands, except for per common share amounts) | | |
| Income attributable to common stock, as reported..... | \$ 242,961 | \$ 143,229 | \$ 58,000 |
| Add: Stock-based employee compensation expense included in reported net income, net of related tax effects..... | 34 | - | |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects... | (6,364) | (5,252) | (1,000) |
| Pro forma income attributable to common stock..... | \$ 236,631 | \$ 137,977 | \$ 56,000 |
| Net Income per Common Share: | | | |
| Basic: | | | |
| As reported..... | \$.75 | \$.48 | \$.48 |
| Pro forma..... | .73 | .47 | |
| Diluted: | | | |
| As reported..... | .75 | .48 | |
| Pro forma..... | .72 | .46 | |

The effects of applying SFAS No. 123, as amended, in this pro forma disclosure should not be interpreted as being indicative of future effects. SFAS No. 123, as amended, does not apply to awards prior to 1995, and the extent and timing of additional future awards cannot be predicted.

During the second quarter of 2003, the Company issued a total of 1,802,210 stock appreciation rights (SARs) to non-executive employees in lieu of stock options. The Company issued 121,000 shares of restricted common stock to executives in May of 2003. The SARs will be settled in cash upon exercise, if the price on the date of exercise is equal to or greater than the closing price of the Company's stock on the date of grant. The vesting period is over four years and the Company will record compensation expense on the vested SARs outstanding as the price of the Company's common stock fluctuates. The related second-quarter expense was \$.3 million after tax.

8. SUPPLEMENTAL CASH FLOW INFORMATION

The following table provides supplemental disclosure of cash flow information:

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| | FOR THE SIX MONTHS |
|--|------------------------|
| | ----- 2003 ----- |
| | (In thousands) |
| Cash paid during the period for: | |
| Interest (net of amounts capitalized)..... | \$ 47,471 |
| Income taxes (net of refunds)..... | 166,762 |

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9. BUSINESS SEGMENT INFORMATION

Apache has five reportable segments which are primarily in the business of natural gas and crude oil exploration and production. The Company evaluates segment performance based on results from oil and gas sales and lease-level expenses. Apache's reportable segments are managed separately because of their geographic locations. Financial information by operating segment is presented below:

| | UNITED STATES | CANADA | EGYPT | AUSTRALIA | NORWAY |
|---|------------------|-------------|-------------|------------|--------------|
| | ----- | | | | |
| | (IN THOUSANDS) | | | | |
| FOR THE SIX MONTHS ENDED JUNE 30, 2003 | | | | | |
| Oil and Gas Production Revenues..... | \$ 994,699 | \$ 427,940 | \$ 320,274 | \$ 194,952 | \$ 1,000,000 |
| | ===== | | | | |
| Operating Income (1)..... | \$ 570,629 | \$ 248,346 | \$ 190,795 | \$ 98,060 | \$ 1,000,000 |
| | ===== | | | | |
| Revenues other (Expense): | | | | | |
| Other revenues..... | | | | | |
| General and administrative..... | | | | | |
| Preferred interests of subsidiaries.... | | | | | |
| Financing costs, net..... | | | | | |
| Income Before Income Taxes..... | | | | | |
| Total Assets..... | \$5,340,053 | \$2,775,921 | \$1,684,445 | \$ 936,575 | \$ 9,000,000 |
| | ===== | | | | |
| FOR THE SIX MONTHS ENDED JUNE 30, 2002 | | | | | |
| Oil and Gas Production Revenues..... | \$ 514,825 | \$ 256,711 | \$ 254,203 | \$ 152,952 | \$ 1,000,000 |
| | ===== | | | | |

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| | | | | | | | | | |
|---|----|-----------|----|-----------|----|-----------|----|---------|----|
| Operating Income (Loss) (1)..... | \$ | 172,278 | \$ | 100,579 | \$ | 139,725 | \$ | 71,000 | \$ |
| | | | | | | | | | |
| Revenues other (Expense): | | | | | | | | | |
| Other revenues..... | | | | | | | | | |
| General and administrative..... | | | | | | | | | |
| Preferred interests of subsidiaries.... | | | | | | | | | |
| Financing costs, net..... | | | | | | | | | |
| Income Before Income Taxes..... | | | | | | | | | |
| | | | | | | | | | |
| Total Assets..... | \$ | 4,100,006 | \$ | 2,318,998 | \$ | 1,632,287 | \$ | 948,496 | \$ |
| | | | | | | | | | |

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

10. LITIGATION

In June 2003, Apache and Cinergy Marketing and Trading, LLC (Cinergy) agreed to terminate their agreement concerning marketing of Apache's U.S. natural gas production and to dismiss the arbitration between them. The parties reached an amicable settlement, the amounts of which were immaterial to Apache's financial position and results of operations. Consequently, the Company began marketing its U.S. natural gas production previously marketed by Cinergy beginning with July 2003 production.

11. NEW ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2003, the Company adopted SFAS No. 143, "Accounting for Asset Retirement Obligations," which resulted in an increase to net oil and gas properties of \$410 million and additional liabilities related to asset retirement obligations of \$369 million. These entries reflect the asset retirement obligation of Apache had the provisions of SFAS No. 143 been applied since inception and resulted in a non-cash cumulative-effect increase to earnings of \$27 million (\$41 million pretax). Prior to adoption of SFAS No. 143, abandonment obligations were accrued over the productive lives of the assets through depreciation, depletion and amortization of oil and gas properties without recording a separate liability for such amounts.

The following table describes all changes to the Company's asset retirement obligation liability since adoption (in thousands):

| | | |
|---|----|---------|
| Asset retirement obligation upon adoption on January 1, 2003..... | \$ | 368,537 |
| Liabilities incurred..... | | 331,692 |
| Liabilities settled..... | | (4,583) |
| Accretion expense..... | | 15,758 |
| | | ----- |

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| | | |
|---|----|---------|
| Asset retirement obligation at June 30, 2003..... | \$ | 711,404 |
| | | ===== |

Liabilities incurred during the period primarily relate to obligations assumed in connection with the Gulf of Mexico and North Sea properties acquired from BP. Liabilities settled during the period relate to individual properties plugged and abandoned or sold during the period. The pro forma asset retirement obligation would have been approximately \$334 million at January 1, 2002 had the Company adopted SFAS No. 143 on January 1, 2002. For the three and six month periods ended June 30, 2002, the pro forma effect on Income Attributable to Common Stock and Net Income per Common Share would not have been materially different than reported amounts had SFAS No. 143 been adopted by the Company on January 1, 2002.

In January 2003, the FASB issued Interpretation No., 46, "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51." Interpretation No. 46 requires a company to consolidate a variable interest entity (VIE) if the company has a variable interest (or combination of variable interests) that is exposed to a majority of the entity's expected losses if they occur, receive a majority of the entity's expected residual returns if they occur, or both. In addition, more extensive disclosure requirements apply to the primary and other significant variable interest owners of the VIE. This interpretation applies immediately to VIEs created after January 31, 2003, and to VIEs in which an enterprise obtains an interest after that date. It is also effective for the first fiscal year or interim period beginning after June 15, 2003, to VIEs in which a company holds a variable interest that is acquired before February 1, 2003. The guidance regarding this interpretation is extremely complex and, although we do not believe we have an interest in a VIE, the Company continues to assess the impact, if any, this interpretation will have on the Company's consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150 "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards on how companies classify and measure certain financial instruments with characteristics of both liabilities and equity. The statement requires that the Company classify as liabilities the fair value of all mandatorily redeemable financial instruments that had previously been recorded as equity or elsewhere in the consolidated financial statements. This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise effective for all existing financial instruments beginning in the third quarter of 2003. Apache is continuing to assess the impact of adopting this statement, which may require a significant portion, if not all, of its Preferred Interests of Subsidiaries to be reclassified as a component of debt. In any event, the Company has in the past provided pro forma information about how viewing the Company's Preferred Interests of Subsidiaries as debt would impact its debt-as-a-percentage-of-capitalization calculation (see page 2 of Annual Report on Form 10-K for the year ended December 31, 2002). Preferred Interests related to any portion reclassified would prospectively be reflected as interest expense instead of Preferred Interests of Subsidiaries in the Consolidated Statement of Operations.

12. RECENT ACCOUNTING DEVELOPMENTS

The Company has taken note of a July 2003 inquiry to the Financial Accounting Standards Board regarding whether or not contract-based oil and gas mineral rights held by lease or contract ("mineral rights") should be recorded or disclosed as intangible assets. The inquiry presents a view that these

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mineral rights are intangible assets as defined in SFAS No. 141, "Business Combinations," and, therefore, should be classified separately on the balance sheet as intangible assets. SFAS No. 141, and SFAS No. 142, "Goodwill and Other Intangible Assets," became effective for transactions subsequent to June 30, 2001 with the disclosure requirements of SFAS No. 142 required as of January 1, 2002. SFAS No. 141 requires that all business combinations initiated after June 30, 2001 be accounted for using the purchase method and that intangible assets be disaggregated and reported separately from goodwill. SFAS No. 142 established new accounting guidelines for both finite lived intangible assets and indefinite lived intangible assets. Under the statement, intangible assets should be separately reported on the face of the balance sheet and accompanied by disclosure in the notes to financial statements. SFAS No. 142 scopes out accounting utilized by the oil and gas industry as prescribed by SFAS No. 19, and is silent about whether or not its disclosure

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provisions apply to oil and gas companies. Apache does not believe that SFAS No. 141 or 142 change the classification of oil and gas mineral rights and the Company continues to classify these assets as part of oil and gas properties. The Emerging Issues Task Force (EITF) has added the treatment of oil and gas mineral rights to an upcoming agenda, which may result in a change in how Apache classifies these assets.

Should such a change be required, the amounts related to business combinations and major asset purchases after June 30, 2001 that would be classified as "intangible undeveloped mineral interest" was \$192 million as of June 30, 2003. The amounts related to business combinations and major asset purchases after June 30, 2001 that would be classified as "intangible developed mineral interest" was \$1.2 billion as of June 30, 2003. Intangible developed mineral interest amounts are presented net of accumulated depletion, depreciation and amortization (DD&A). Accumulated DD&A was estimated using historical depletion rates applied proportionately to the costs of the acquisitions to be classified as "intangible developed mineral interest". The amounts noted above only include mineral rights acquired in business combinations or major asset purchases, and exclude those acquired individually or in groups as we have not historically tracked these in this manner. The Company has also not historically tracked the amount of mineral rights in the proved property balances related to producing leases or relinquished leases. We are currently identifying a methodology to do so for transactions subsequent to June 30, 2001.

The numbers above are based on our understanding of the issue before the EITF, if all mineral rights associated with unevaluated property and producing reserves were deemed to be intangible assets:

- mineral rights with proved reserves that were acquired after June 30, 2001 and mineral rights with no proved reserves would be classified as intangible assets and would not be included in oil and gas properties on our consolidated balance sheet;

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- results of operations and cash flows would not be materially affected because mineral rights would continue to be amortized in accordance with full cost accounting rules; and
- disclosures required by SFAS Nos. 141 and 142 relative to intangibles would be included in the notes to our financial statements.

If the accounting for mineral rights is ultimately changed, transitional guidance for intangible assets permits the reclassification of only amounts acquired after the effective date of SFAS Nos. 141 and 142 if records were not previously maintained to track acquisition costs based on their intangible or tangible nature. Lack of these records prior to the effective date could result in the loss of comparability between historical balances of tangible and intangible asset balances and among companies in the industry.

13. SUPPLEMENTAL GUARANTOR INFORMATION

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

Each of the companies presented in the condensed consolidating financial statements has been fully consolidated in Apache's consolidated financial statements. As such, the condensed consolidating financial statements should be read in conjunction with the financial statements of Apache and subsidiaries and 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, 2003

| | APACHE CORPORATION | APACHE NORTH AMERICA | APACHE FINANC AUSTRAL |
|--|-----------------------|-------------------------|-----------------------------|
| | ----- | ----- | ----- |
| | (IN THOUSANDS) | | |
| REVENUES AND OTHER: | | | |
| Oil and gas production revenues..... | \$ 438,796 | \$ - | \$ 10, |
| Equity in net income (loss) of affiliates..... | 76,802 | 7,782 | 10, |
| Other..... | (2,641) | - | - |
| | ----- | ----- | ----- |
| | 512,957 | 7,782 | 10, |
| | ----- | ----- | ----- |

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| | | | |
|--|---|-------------------------------------|--------------|
| OPERATING EXPENSES: | | | |
| Depreciation, depletion and amortization..... | 93,593 | - | |
| Asset retirement obligation accretion..... | 3,778 | - | |
| Lease operating costs..... | 66,007 | - | |
| Gathering and transportation costs..... | 4,412 | - | |
| Severance and other taxes..... | 13,042 | - | |
| General and administrative..... | 25,138 | - | |
| Financing costs, net..... | 27,345 | - | 4, |
| | ----- | ----- | ----- |
| | 233,315 | - | 4, |
| | ----- | ----- | ----- |
| PREFERRED INTERESTS OF SUBSIDIARIES..... | - | - | |
| | ----- | ----- | ----- |
| INCOME (LOSS) BEFORE INCOME TAXES..... | 279,642 | 7,782 | 6, |
| Provision (benefit) for income taxes..... | 35,261 | - | (1, |
| | ----- | ----- | ----- |
| INCOME (LOSS) BEFORE CHANGE IN ACCOUNTING PRINCIPLE..... | 244,381 | 7,782 | 7, |
| Cumulative effect of change in accounting principle, net of income tax..... | - | - | |
| | ----- | ----- | ----- |
| NET INCOME..... | 244,381 | 7,782 | 7, |
| Preferred stock dividends..... | 1,420 | - | |
| | ----- | ----- | ----- |
| INCOME ATTRIBUTABLE TO COMMON STOCK..... | \$ 242,961 | \$ 7,782 | \$ 7, |
| | ===== | ===== | ===== |
| | | | |
| | ALL OTHER SUBSIDIARIES OF APACHE CORPORATION | RECLASSIFICATIONS & ELIMINATIONS | CONSOLIDATED |
| | ----- | ----- | ----- |
| | | (IN THOUSANDS) | |
| REVENUES AND OTHER: | | | |
| Oil and gas production revenues..... | \$ 648,859 | \$ (43,325) | \$ 1,04 |
| Equity in net income (loss) of affiliates..... | (9,681) | (92,070) | |
| Other..... | 12,667 | - | 1 |
| | ----- | ----- | ----- |
| | 651,845 | (135,395) | 1,05 |
| | ----- | ----- | ----- |
| OPERATING EXPENSES: | | | |
| Depreciation, depletion and amortization..... | 178,763 | - | 27 |
| Asset retirement obligation accretion..... | 6,667 | - | 1 |
| Lease operating costs..... | 163,604 | (43,325) | 18 |
| Gathering and transportation costs..... | 10,719 | - | 1 |
| Severance and other taxes..... | 19,689 | - | 3 |
| General and administrative..... | 5,436 | - | 3 |
| Financing costs, net..... | (12,950) | - | 2 |
| | ----- | ----- | ----- |
| | 371,928 | (43,325) | 57 |
| | ----- | ----- | ----- |
| PREFERRED INTERESTS OF SUBSIDIARIES..... | 3,330 | - | |
| | ----- | ----- | ----- |

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| | | | |
|--|-----------|-------------|-------|
| INCOME (LOSS) BEFORE INCOME TAXES..... | 276,587 | (92,070) | 47 |
| Provision (benefit) for income taxes..... | 199,785 | - | 23 |
| | ----- | ----- | ----- |
| INCOME (LOSS) BEFORE CHANGE IN ACCOUNTING PRINCIPLE..... | 76,802 | (92,070) | 24 |
| Cumulative effect of change in accounting principle, net of income tax..... | - | - | |
| | ----- | ----- | ----- |
| NET INCOME..... | 76,802 | (92,070) | 24 |
| Preferred stock dividends..... | - | - | |
| | ----- | ----- | ----- |
| INCOME ATTRIBUTABLE TO COMMON STOCK..... | \$ 76,802 | \$ (92,070) | \$ 24 |
| | ===== | ===== | ===== |

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APACHE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE QUARTER ENDED JUNE 30, 2002

| | APACHE CORPORATION | APACHE NORTH AMERICA | APACHE FINANCIAL AUSTRALIA |
|--|-----------------------|-------------------------|----------------------------------|
| | ----- | ----- | ----- |
| | (IN THOUSANDS) | | |
| REVENUES AND OTHER: | | | |
| Oil and gas production revenues..... | \$ 214,891 | \$ - | \$ - |
| Equity in net income (loss) of affiliates..... | 104,111 | 4,582 | 7,000 |
| Other..... | (90) | - | |
| | ----- | ----- | ----- |
| | 318,912 | 4,582 | 7,000 |
| | ----- | ----- | ----- |
| OPERATING EXPENSES: | | | |
| Depreciation, depletion and amortization..... | 61,143 | - | |
| International impairments..... | - | - | |
| Lease operating costs..... | 49,359 | - | |
| Gathering and transportation costs..... | 5,068 | - | |
| Severance and other taxes..... | 8,501 | - | |
| General and administrative..... | 23,911 | - | |
| Financing costs, net..... | 20,359 | - | 4,000 |
| | ----- | ----- | ----- |
| | 168,341 | - | 4,000 |
| | ----- | ----- | ----- |
| PREFERRED INTERESTS OF SUBSIDIARIES..... | - | - | |
| | ----- | ----- | ----- |
| INCOME (LOSS) BEFORE INCOME TAXES..... | 150,571 | 4,582 | 3,000 |
| Provision (benefit) for income taxes..... | 4,261 | - | (1,000) |
| | ----- | ----- | ----- |

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| | | | |
|--|---|-------------------------------------|---------|
| NET INCOME..... | 146,310 | 4,582 | 4, |
| Preferred stock dividends..... | 3,081 | - | |
| | ----- | ----- | ----- |
| INCOME ATTRIBUTABLE TO COMMON STOCK..... | \$ 143,229 | \$ 4,582 | \$ 4, |
| | ===== | ===== | ===== |
| | ALL OTHER SUBSIDIARIES OF APACHE CORPORATION | RECLASSIFICATIONS & ELIMINATIONS | CONSOLI |
| | ----- | ----- | ----- |
| | | (IN THOUSANDS) | |
| REVENUES AND OTHER: | | | |
| Oil and gas production revenues..... | \$ 484,631 | \$ (47,258) | \$ 65 |
| Equity in net income (loss) of affiliates..... | (8,751) | (130,167) | |
| Other..... | 4,141 | - | |
| | ----- | ----- | ----- |
| | 480,021 | (177,425) | 65 |
| | ----- | ----- | ----- |
| OPERATING EXPENSES: | | | |
| Depreciation, depletion and amortization..... | 149,647 | - | 21 |
| International impairments..... | - | - | |
| Lease operating costs..... | 109,986 | (47,258) | 11 |
| Gathering and transportation costs..... | 6,044 | - | 1 |
| Severance and other taxes..... | 8,827 | - | 1 |
| General and administrative..... | 4,104 | - | 2 |
| Financing costs, net..... | (4,658) | - | 3 |
| | ----- | ----- | ----- |
| | 273,950 | (47,258) | 40 |
| | ----- | ----- | ----- |
| PREFERRED INTERESTS OF SUBSIDIARIES..... | 5,129 | - | |
| | ----- | ----- | ----- |
| INCOME (LOSS) BEFORE INCOME TAXES..... | 200,942 | (130,167) | 24 |
| Provision (benefit) for income taxes..... | 96,831 | - | 9 |
| | ----- | ----- | ----- |
| NET INCOME..... | 104,111 | (130,167) | 14 |
| Preferred stock dividends..... | - | - | |
| | ----- | ----- | ----- |
| INCOME ATTRIBUTABLE TO COMMON STOCK..... | \$ 104,111 | \$ (130,167) | \$ 14 |
| | ===== | ===== | ===== |

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| | APACHE CORPORATION | APACHE NORTH AMERICA | FINANCIAL AUSTRALASIA |
|--|-----------------------|-------------------------|--------------------------|
| | (IN THOUSANDS) | | |
| REVENUES AND OTHER: | | | |
| Oil and gas production revenues..... | \$ 814,963 | \$ - | \$ - |
| Equity in net income (loss) of affiliates..... | 256,160 | 16,729 | 22,000 |
| Other..... | (6,257) | - | - |
| | ----- | ----- | ----- |
| | 1,064,866 | 16,729 | 22,000 |
| | ----- | ----- | ----- |
| OPERATING EXPENSES: | | | |
| Depreciation, depletion and amortization..... | 161,211 | - | - |
| Asset retirement obligation accretion..... | 6,542 | - | - |
| Lease operating costs..... | 124,774 | - | - |
| Gathering and transportation costs..... | 8,897 | - | - |
| Severance and other taxes..... | 27,399 | - | - |
| General and administrative..... | 48,841 | - | - |
| Financing costs, net..... | 48,444 | - | 9,000 |
| | ----- | ----- | ----- |
| | 426,108 | - | 9,000 |
| | ----- | ----- | ----- |
| PREFERRED INTERESTS OF SUBSIDIARIES..... | - | - | - |
| | ----- | ----- | ----- |
| INCOME (LOSS) BEFORE INCOME TAXES..... | 638,758 | 16,729 | 13,000 |
| Provision (benefit) for income taxes..... | 75,205 | - | (3,000) |
| | ----- | ----- | ----- |
| INCOME (LOSS) BEFORE CHANGE IN ACCOUNTING PRINCIPLE..... | 563,553 | 16,729 | 16,000 |
| Cumulative effect of change in accounting principle, net of income tax..... | 19,757 | - | - |
| | ----- | ----- | ----- |
| NET INCOME..... | 583,310 | 16,729 | 16,000 |
| Preferred stock dividends..... | 2,840 | - | - |
| | ----- | ----- | ----- |
| INCOME ATTRIBUTABLE TO COMMON STOCK..... | \$ 580,470 | \$ 16,729 | \$ 16,000 |
| | ===== | ===== | ===== |

| | ALL OTHER SUBSIDIARIES OF APACHE CORPORATION | RECLASSIFICATIONS & ELIMINATIONS | CONSOLIDATED |
|--|---|-------------------------------------|--------------|
| | (IN THOUSANDS) | | |
| REVENUES AND OTHER: | | | |
| Oil and gas production revenues..... | \$ 1,303,126 | \$ (98,597) | \$ 2,010,000 |
| Equity in net income (loss) of affiliates..... | (18,758) | (311,418) | - |
| Other..... | 7,730 | - | - |
| | ----- | ----- | ----- |
| | 1,292,098 | (410,015) | 2,020,000 |
| | ----- | ----- | ----- |
| OPERATING EXPENSES: | | | |
| Depreciation, depletion and amortization..... | 325,494 | - | 48,000 |

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| | | | |
|--|------------|--------------|-------|
| Asset retirement obligation accretion..... | 9,216 | - | 1 |
| Lease operating costs..... | 294,244 | (98,597) | 32 |
| Gathering and transportation costs..... | 18,095 | - | 2 |
| Severance and other taxes..... | 29,844 | - | 5 |
| General and administrative..... | 9,564 | - | 5 |
| Financing costs, net..... | (22,809) | - | 5 |
| | ----- | ----- | ----- |
| | 663,648 | (98,597) | 1,02 |
| | ----- | ----- | ----- |
| PREFERRED INTERESTS OF SUBSIDIARIES..... | 6,692 | - | |
| | ----- | ----- | ----- |
| INCOME (LOSS) BEFORE INCOME TAXES..... | 621,758 | (311,418) | 99 |
| Provision (benefit) for income taxes..... | 372,473 | - | 43 |
| | ----- | ----- | ----- |
| INCOME (LOSS) BEFORE CHANGE IN ACCOUNTING PRINCIPLE..... | 249,285 | (311,418) | 55 |
| Cumulative effect of change in accounting principle, net of income tax..... | 6,875 | - | 2 |
| | ----- | ----- | ----- |
| NET INCOME..... | 256,160 | (311,418) | 58 |
| Preferred stock dividends..... | - | - | |
| | ----- | ----- | ----- |
| INCOME ATTRIBUTABLE TO COMMON STOCK..... | \$ 256,160 | \$ (311,418) | \$ 58 |
| | ===== | ===== | ===== |

17

APACHE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2002

| | APACHE CORPORATION | APACHE NORTH AMERICA | APACHE FINANCIAL AUSTRALIA |
|--|-----------------------|-------------------------|----------------------------------|
| | ----- | ----- | ----- |
| | (IN THOUSANDS) | | |
| REVENUES AND OTHER: | | | |
| Oil and gas production revenues..... | \$ 376,760 | \$ - | \$ 15, |
| Equity in net income (loss) of affiliates..... | 172,727 | 9,084 | 15, |
| Other..... | 95 | - | |
| | ----- | ----- | ----- |
| | 549,582 | 9,084 | 15, |
| | ----- | ----- | ----- |
| OPERATING EXPENSES: | | | |
| Depreciation, depletion and amortization..... | 114,847 | - | |
| International impairments..... | - | - | |
| Lease operating costs..... | 100,326 | - | |
| Gathering and transportation costs..... | 8,009 | - | |
| Severance and other taxes..... | 15,133 | - | |

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| | | | |
|--|---|-------------------------------------|--------------|
| General and administrative..... | 45,386 | - | |
| Financing costs, net..... | 36,042 | - | 9, |
| | <u>319,743</u> | <u>-</u> | <u>9,</u> |
| PREFERRED INTERESTS OF SUBSIDIARIES..... | - | - | |
| INCOME (LOSS) BEFORE INCOME TAXES..... | 229,839 | 9,084 | 6, |
| Provision (benefit) for income taxes..... | 2,857 | - | (3, |
| NET INCOME..... | 226,982 | 9,084 | 9, |
| Preferred stock dividends..... | 7,989 | - | |
| INCOME ATTRIBUTABLE TO COMMON STOCK..... | <u>\$ 218,993</u> | <u>\$ 9,084</u> | <u>\$ 9,</u> |
| | | | |
| | ALL OTHER SUBSIDIARIES OF APACHE CORPORATION | RECLASSIFICATIONS & ELIMINATIONS | CONSOLI |
| | | (IN THOUSANDS) | |
| REVENUES AND OTHER: | | | |
| Oil and gas production revenues..... | \$ 892,172 | \$ (87,279) | \$ 1,18 |
| Equity in net income (loss) of affiliates..... | (17,503) | (216,451) | |
| Other..... | 2,563 | - | |
| | <u>877,232</u> | <u>(303,730)</u> | <u>1,18</u> |
| OPERATING EXPENSES: | | | |
| Depreciation, depletion and amortization..... | 306,982 | - | 42 |
| International impairments..... | 4,600 | - | |
| Lease operating costs..... | 210,183 | (87,279) | 22 |
| Gathering and transportation costs..... | 11,336 | - | 1 |
| Severance and other taxes..... | 17,546 | - | 3 |
| General and administrative..... | 7,981 | - | 5 |
| Financing costs, net..... | (9,057) | - | 5 |
| | <u>549,571</u> | <u>(87,279)</u> | <u>81</u> |
| PREFERRED INTERESTS OF SUBSIDIARIES..... | 8,662 | - | |
| INCOME (LOSS) BEFORE INCOME TAXES..... | 318,999 | (216,451) | 36 |
| Provision (benefit) for income taxes..... | 146,272 | - | 13 |
| NET INCOME..... | 172,727 | (216,451) | 22 |
| Preferred stock dividends..... | - | - | |
| INCOME ATTRIBUTABLE TO COMMON STOCK..... | <u>\$ 172,727</u> | <u>\$ (216,451)</u> | <u>\$ 21</u> |

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APACHE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2003

| | APACHE CORPORATION | APACHE NORTH AMERICA | APACHE FINANCIAL AUSTRALIA |
|--|---|-------------------------------------|----------------------------------|
| | (IN THOUSANDS) | | |
| CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES..... | \$ (189,177) | \$ - | \$ (10,000) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Additions to property and equipment..... | (191,034) | - | - |
| Acquisitions..... | (527,610) | - | - |
| Investment in subsidiaries, net..... | 407,659 | (9,025) | - |
| Other, net..... | (15,393) | - | - |
| NET CASH USED IN INVESTING ACTIVITIES..... | (326,378) | (9,025) | - |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Long-term borrowings..... | 660,873 | - | 1,000 |
| Payments on long-term debt..... | (678,900) | - | - |
| Dividends paid..... | (34,366) | - | - |
| Common stock activity..... | 570,024 | 9,025 | 9,000 |
| Treasury stock activity, net..... | 3,738 | - | - |
| Cost of debt and equity transactions..... | (4,039) | - | - |
| NET CASH PROVIDED BY FINANCING ACTIVITIES..... | 517,330 | 9,025 | 10,000 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS..... | 1,775 | - | - |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR..... | 224 | - | - |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD..... | \$ 1,999 | \$ - | \$ - |
| | ALL OTHER SUBSIDIARIES OF APACHE CORPORATION | RECLASSIFICATIONS & ELIMINATIONS | CONSOLIDATED |
| | (IN THOUSANDS) | | |
| CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES..... | \$ 1,097,260 | \$ - | \$ 1,224,000 |

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| | | | |
|--|-------------|-----------|---------|
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Additions to property and equipment..... | (580,012) | - | (771) |
| Acquisitions..... | (629,524) | - | (1,157) |
| Investment in subsidiaries, net..... | 156,790 | (555,424) | |
| Other, net..... | (16,949) | - | (32) |
| NET CASH USED IN INVESTING ACTIVITIES..... | (1,069,695) | (555,424) | (1,960) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Long-term borrowings..... | 76,315 | 651,126 | 1,042 |
| Payments on long-term debt..... | (173,405) | - | (852) |
| Dividends paid..... | - | - | (34) |
| Common stock activity..... | 56,990 | (95,702) | 570 |
| Treasury stock activity, net..... | - | - | 3 |
| Cost of debt and equity transactions..... | - | - | (4) |
| NET CASH PROVIDED BY FINANCING ACTIVITIES..... | (40,100) | 555,424 | 725 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS..... | (12,535) | - | (10) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR..... | 51,533 | - | 51 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD..... | \$ 38,998 | \$ - | \$ 40 |

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APACHE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2002

| | APACHE CORPORATION | APACHE NORTH AMERICA |
|---|-----------------------|-------------------------|
| CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES..... | \$ 300,039 | \$ - |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Additions to property and equipment..... | (119,011) | - |
| Proceeds from sales of oil and gas properties..... | - | - |
| Proceeds from sale of U.S. Government Agency Notes..... | - | - |
| Investment in subsidiaries, net..... | (218,462) | (9,025) |
| Other, net..... | (6,065) | - |

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| | | |
|--|---|-----------------------------------|
| NET CASH USED IN INVESTING ACTIVITIES..... | (343,538) | (9,025) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Long-term debt activity..... | 1,048,884 | - |
| Payments on long-term debt..... | (982,731) | - |
| Dividends paid..... | (37,257) | - |
| Common stock activity..... | 15,542 | 9,025 |
| Treasury stock activity, net..... | 1,715 | - |
| Cost of debt and equity transactions..... | (6,487) | - |
| NET CASH PROVIDED BY FINANCING ACTIVITIES..... | 39,666 | 9,025 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS..... | (3,833) | - |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR..... | 6,383 | - |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD..... | \$ 2,550 | \$ - |
| | ALL OTHER SUBSIDIARIES OF APACHE CORPORATION | RECLASSIFICATION & ELIMINATION |
| | | (IN THOUSANDS) |
| CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES..... | \$ 336,753 | \$ - |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Additions to property and equipment..... | (345,217) | - |
| Proceeds from sales of oil and gas properties..... | - | - |
| Proceeds from sale of U.S. Government Agency Notes..... | 17,006 | - |
| Investment in subsidiaries, net..... | (138,451) | 365,93 |
| Other, net..... | (8,846) | - |
| NET CASH USED IN INVESTING ACTIVITIES..... | (475,508) | 365,93 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Long-term debt activity..... | 344,682 | (291,38) |
| Payments on long-term debt..... | (162,239) | - |
| Dividends paid..... | - | - |
| Common stock activity..... | 56,499 | (74,54) |
| Treasury stock activity, net..... | - | - |
| Cost of debt and equity transactions..... | - | - |
| NET CASH PROVIDED BY FINANCING ACTIVITIES..... | 238,942 | (365,93) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS..... | 100,187 | - |
| CASH AND CASH EQUIVALENTS AT | | |

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| | | |
|--|------------|----|
| BEGINNING OF YEAR..... | 29,240 | |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD..... | \$ 129,427 | \$ |

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APACHE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATING BALANCE SHEET
AS OF JUNE 30, 2003

| | APACHE CORPORATION | APACHE NORTH AMERICA |
|---|-----------------------|-------------------------|
| (IN TH | | |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents..... | \$ 1,999 | \$ - |
| Receivables, net of allowance..... | 257,011 | - |
| Inventories..... | 13,970 | - |
| Drilling advances and others..... | 34,672 | - |
| | ----- | ----- |
| | 307,652 | - |
| | ----- | ----- |
| PROPERTY AND EQUIPMENT, NET..... | 4,267,550 | - |
| | ----- | ----- |
| OTHER ASSETS: | | |
| Intercompany receivable, net..... | 526,127 | - |
| Goodwill, net..... | - | - |
| Equity in affiliates..... | 3,921,624 | 167,952 |
| Deferred charges and other..... | 34,611 | - |
| | ----- | ----- |
| | \$ 9,057,564 | \$ 167,952 |
| | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable..... | \$ 165,426 | \$ - |
| Other accrued expenses..... | 249,165 | - |
| | ----- | ----- |
| | 414,591 | - |
| | ----- | ----- |
| LONG-TERM DEBT..... | 1,377,308 | - |
| | ----- | ----- |
| DEFERRED CREDITS AND OTHER NONCURRENT LIABILITIES: | | |
| Income taxes..... | 743,104 | - |
| Advances from gas purchasers..... | 117,365 | - |
| Asset retirement obligation..... | 266,826 | - |

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| | | |
|--|---|------------------------------------|
| Oil and gas derivative instruments..... | 26,274 | - |
| Other..... | 112,572 | - |
| | <u>1,266,141</u> | <u>-</u> |
| PREFERRED INTERESTS OF SUBSIDIARIES..... | - | - |
| COMMITMENTS AND CONTINGENCIES | | |
| SHAREHOLDERS' EQUITY..... | 5,999,524 | 167,952 |
| | <u>\$ 9,057,564</u> | <u>\$ 167,952</u> |
| | | |
| | ALL OTHER SUBSIDIARIES OF APACHE CORPORATION | RECLASSIFICATION & ELIMINATIONS |
| | | (IN THOUSANDS) |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents..... | \$ 38,998 | \$ - |
| Receivables, net of allowance..... | 441,104 | - |
| Inventories..... | 104,302 | - |
| Drilling advances and others..... | 60,400 | - |
| | <u>644,804</u> | <u>-</u> |
| PROPERTY AND EQUIPMENT, NET..... | 6,437,946 | - |
| OTHER ASSETS: | | |
| Intercompany receivable, net..... | (430,648) | - |
| Goodwill, net..... | 189,252 | - |
| Equity in affiliates..... | (992,390) | (4,532,068) |
| Deferred charges and other..... | 9,478 | - |
| | <u>\$ 5,858,442</u> | <u>\$ (4,532,068)</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable..... | \$ 105,790 | \$ - |
| Other accrued expenses..... | 223,290 | - |
| | <u>329,080</u> | <u>-</u> |
| LONG-TERM DEBT..... | 56,592 | - |
| DEFERRED CREDITS AND OTHER | | |
| NONCURRENT LIABILITIES: | | |
| Income taxes..... | 640,224 | - |
| Advances from gas purchasers..... | - | - |
| Asset retirement obligation..... | 444,578 | - |
| Oil and gas derivative instruments..... | - | - |

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| | | |
|--|--------------|----------------|
| Other..... | 28,729 | - |
| | ----- | ----- |
| | 1,113,531 | - |
| | ----- | ----- |
| PREFERRED INTERESTS OF SUBSIDIARIES..... | 437,615 | - |
| | ----- | ----- |
| COMMITMENTS AND CONTINGENCIES | | |
| SHAREHOLDERS' EQUITY..... | 3,921,624 | (4,532,068) |
| | ----- | ----- |
| | \$ 5,858,442 | \$ (4,532,068) |
| | ===== | ===== |

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APACHE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATING BALANCE SHEET
AS OF DECEMBER 31, 2002

| | APACHE CORPORATION | APACHE NORTH AMERICA |
|--------------------------------------|-----------------------|-------------------------|
| | ----- | ----- |
| | | (IN TH |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents..... | \$ 224 | \$ - |
| Receivables, net of allowance..... | 121,410 | - |
| Inventories..... | 15,509 | - |
| Drilling advances and others..... | 19,468 | - |
| | ----- | ----- |
| | 156,611 | - |
| | ----- | ----- |
| PROPERTY AND EQUIPMENT, NET..... | 3,403,716 | - |
| | ----- | ----- |
| OTHER ASSETS: | | |
| Intercompany receivable, net..... | 1,146,086 | - |
| Goodwill, net..... | - | - |
| Equity in affiliates..... | 2,994,954 | 142,422 |
| Deferred charges and other..... | 31,804 | - |
| | ----- | ----- |
| | \$ 7,733,171 | \$ 142,422 |
| | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable..... | \$ 124,152 | \$ - |
| Other accrued expenses..... | 134,191 | - |

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| | | |
|--|---|-----------------------------------|
| | 258,343 | - |
| LONG-TERM DEBT..... | 1,550,645 | - |
| DEFERRED CREDITS AND OTHER | | |
| NONCURRENT LIABILITIES: | | |
| Income taxes..... | 736,661 | - |
| Advances from gas purchasers..... | 125,453 | - |
| Oil and gas derivative instruments..... | 3,507 | - |
| Other..... | 134,282 | - |
| | 999,903 | - |
| PREFERRED INTERESTS OF SUBSIDIARIES..... | - | - |
| COMMITMENTS AND CONTINGENCIES | | |
| SHAREHOLDERS' EQUITY..... | 4,924,280 | 142,422 |
| | \$ 7,733,171 | \$ 142,422 |
| | ALL OTHER SUBSIDIARIES OF APACHE CORPORATION | RECLASSIFICATION & ELIMINATION |
| | | (IN THOUSAND) |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents..... | \$ 51,533 | \$ |
| Receivables, net of allowance..... | 406,277 | |
| Inventories..... | 93,695 | |
| Drilling advances and others..... | 58,536 | |
| | 610,041 | |
| PROPERTY AND EQUIPMENT, NET..... | 5,061,869 | |
| OTHER ASSETS: | | |
| Intercompany receivable, net..... | (891,573) | |
| Goodwill, net..... | 189,252 | |
| Equity in affiliates..... | (808,503) | (3,689,85) |
| Deferred charges and other..... | 3,957 | |
| | \$ 4,165,043 | \$ (3,689,85) |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable..... | \$ 90,136 | \$ |
| Other accrued expenses..... | 180,264 | |

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| | | |
|--|--------------|--------------|
| | 270,400 | |
| | ----- | ----- |
| LONG-TERM DEBT..... | 42,356 | |
| | ----- | ----- |
| DEFERRED CREDITS AND OTHER | | |
| NONCURRENT LIABILITIES: | | |
| Income taxes..... | 396,663 | |
| Advances from gas purchasers..... | - | |
| Oil and gas derivative instruments..... | - | |
| Other..... | 24,044 | |
| | ----- | ----- |
| | 420,707 | |
| | ----- | ----- |
| PREFERRED INTERESTS OF SUBSIDIARIES..... | 436,626 | |
| | ----- | ----- |
| COMMITMENTS AND CONTINGENCIES | | |
| SHAREHOLDERS' EQUITY..... | 2,994,954 | (3,689,85 |
| | ----- | ----- |
| | \$ 4,165,043 | \$ (3,689,85 |
| | ===== | ===== |

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

OVERVIEW

Apache reported earnings totaling \$580 million for the first half of 2003, establishing a new record for a six-month period and representing a 165 percent increase over the prior-year period. Cash provided by operating activities totaled \$1.2 billion and nearly doubled the comparable 2002 period, establishing a six-month period record. Results for the second quarter of 2003, while down from our record first quarter, were nonetheless strong.

Several milestones were achieved during the second quarter, as we assimilated the assets acquired from BP p.l.c. (BP) into our operations:

- Apache achieved record production of approximately 429,000 barrels of oil equivalent (boe) per day, an increase of 26 percent from the prior-year period. Oil production increased 40 percent to 211,701 barrels per day, while daily gas production rose 15 percent to 1.25 billion cubic feet (Bcf).
- Second-quarter oil and gas production revenues crossed the billion dollar threshold, another quarterly-first for Apache.
- Fifty-four percent of our equivalent production came from outside the U.S., as we commenced operations in the U.K. North Sea, continuing the multi-year trend to establish a

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diversified base of production and reserves.

- Single-day gross oil production records were set in Egypt and from the Legendre field offshore Western Australia.

We had numerous drilling successes during the quarter, the most significant of which was the Legendre North 4H, which flowed up to 25,000 gross barrels per day and helped establish the daily production record in Australia mentioned above. We also announced several significant discoveries in July which are discussed below.

During the quarter, the Company issued \$350 million of 12-year unsecured notes at a 4.375-percent coupon rate; and filed a shelf registration with the Securities and Exchange Commission that, when effective, will allow Apache to sell up to \$1.5 billion in stock and debt securities. Proceeds from the 12-year unsecured notes were used to reduce bank debt and outstanding commercial paper, and for general corporate purposes.

We had a very active first-half, and at mid-year we are encouraged by the outlook for the remainder of 2003. Current NYMEX futures markets show oil and natural gas prices remaining above historical trends for the balance of the year, at a time in which Apache is establishing new production records. While we are very pleased with our first-half results, our July 2003 acquisition and several other important events (discussed below) are not reflected in our reported results. Based on the expected impact of these events and our existing production profile, we believe we are well positioned for the second half of 2003.

Below are several important events that will play a pivotal role in defining not only the second half of the year but Apache's future for years to come:

- Consistent with our policy of continued expansion through selective acquisitions, Apache consummated an agreement effective July 1, 2003 with Shell Exploration and Production Company (Shell) to acquire interests in 26 oil and gas fields on the outer Continental Shelf of the Gulf of Mexico and two onshore gas plants for \$200 million. Prior to the transaction, Morgan Stanley Capital Group, Inc. (Morgan Stanley) paid Shell \$300 million to acquire an overriding royalty interest in a portion of the reserves to be produced over the next four years. Shell's sale of an overriding royalty interest to Morgan Stanley is commonly known in the industry as a volumetric production payment (VPP). Under the terms of the VPP, Morgan Stanley is to receive a fixed volume of oil and gas production over the four-year term. The VPP reserves and production will not be recorded by Apache. In addition, a \$60 million liability for the future cost to produce and deliver volumes subject to the VPP will be recorded by the Company because the overriding royalties are not burdened by production costs. This liability will be amortized as the volumes are produced and delivered to Morgan Stanley. Subject to preferential rights, this acquisition will add approximately 124.6 Bcf of natural gas and 6.6 million barrels of oil to Apache's reserves. We estimate it

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will add an average of 70 million cubic feet (MMcf) of natural gas and 4,600 barrels of oil to our daily production in the second half of 2003.

- Apache also began to market its U.S. natural gas effective with July 2003 production. With our North American daily natural gas production exceeding one Bcf, we felt it was prudent to bring this responsibility back in-house.

- Production was initiated on the Zhao Dong block in the Bohai Bay, offshore China in mid-July. Gross production is projected to peak at 22,000 barrels a day during the first quarter of 2004.

- In July 2003, we announced two important exploration wells in Egypt, the Qasr-1X on the Khalda Concession and the Alexandrite-1X on the Matruh Concession. The Qasr-1X well tested at a combined rate of 51.8 MMcf of natural gas and 2,688 barrels of condensate per day from two zones. One interval on the Alexandrite-1X tested at a combined rate of 20 MMcf and 1,683 barrels of condensate per day.

- In July 2003, we announced that our Ravensworth-1 well discovered oil in the Exmouth Sub-Basin offshore Western Australia. This well creates a new play for Apache in an oil-prone area south of existing operations in the Carnarvon Basin and adds a new dimension to our exploration program offshore Western Australia.

CRITICAL ACCOUNTING POLICY

The Company has taken note of a July 2003 inquiry to the Financial Accounting Standards Board regarding whether or not contract-based oil and gas mineral rights held by lease or contract ("mineral rights") should be recorded or disclosed as intangible assets. The inquiry presents a view that these mineral rights are intangible assets as defined in SFAS No. 141, "Business Combinations," and, therefore, should be classified separately on the balance sheet as intangible assets. SFAS No. 141, and SFAS No. 142, "Goodwill and Other Intangible Assets," became effective for transactions subsequent to June 30, 2001 with the disclosure requirements of SFAS No. 142 required as of January 1, 2002. SFAS No. 141 requires that all business combinations initiated after June 30, 2001 be accounted for using the purchase method and that intangible assets be disaggregated and reported separately from goodwill. SFAS No. 142 established new accounting guidelines for both finite lived intangible assets and indefinite lived intangible assets. Under the statement, intangible assets should be separately reported on the face of the balance sheet and accompanied by disclosure in the notes to financial statements. SFAS No. 142 scopes out accounting utilized by the oil and gas industry as prescribed by SFAS No. 19, and is silent about whether or not its disclosure provisions apply to oil and

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gas companies. Apache does not believe that SFAS No. 141 or 142 change the classification of oil and gas mineral rights and the Company continues to classify these assets as part of oil and gas properties. The Emerging Issues Task Force (EITF) has added the treatment of oil and gas mineral rights to an upcoming agenda, which may result in a change in how Apache classifies these assets.

Should such a change be required, the amounts related to business combinations and major asset purchases after June 30, 2001 that would be classified as "intangible undeveloped mineral interest" was \$192 million as of June 30, 2003. The amounts related to business combinations and major asset purchases after June 30, 2001 that would be classified as "intangible developed mineral interest" was \$1.2 billion as of June 30, 2003. Intangible developed mineral interest amounts are presented net of accumulated depletion, depreciation and amortization (DD&A). Accumulated DD&A was estimated using historical depletion rates applied proportionately to the costs of the acquisitions to be classified as "intangible developed mineral interest". The amounts noted above only include mineral rights acquired in business combinations or major asset purchases, and exclude those acquired individually or in groups as we have not historically tracked these in this manner. The Company has also not historically tracked the amount of mineral rights in the proved property balances related to producing leases or relinquished leases. We are currently identifying a methodology to do so for transactions subsequent to June 30, 2001.

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The numbers above are based on our understanding of the issue before the EITF, if all mineral rights associated with unevaluated property and producing reserves were deemed to be intangible assets:

- mineral rights with proved reserves that were acquired after June 30, 2001 and mineral rights with no proved reserves would be classified as intangible assets and would not be included in oil and gas properties on our consolidated balance sheet;
- results of operations and cash flows would not be materially affected because mineral rights would continue to be amortized in accordance with full cost accounting rules; and
- disclosures required by SFAS Nos. 141 and 142 relative to intangibles would be included in the notes to our financial statements.

If the accounting for mineral rights is ultimately changed, transitional guidance for intangible assets permits the reclassification of only amounts acquired after the effective date of SFAS Nos. 141 and 142 if records were not previously maintained to track acquisition costs based on their intangible or tangible nature. Lack of these records prior to the effective date

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could result in the loss of comparability between historical balances of tangible and intangible asset balances and among companies in the industry.

RESULTS OF OPERATIONS

Revenues

The following table presents each segment's oil revenues and gas revenues as a percentage of total oil revenues and gas revenues, respectively.

| | OIL REVENUES FOR THE QUARTER ENDED JUNE 30 , | | GAS REVENUES FOR THE QUARTER ENDED JUNE 30 , | |
|--------------------------|--|-------|--|-------|
| | 2003 | 2002 | 2003 | 2002 |
| United States..... | 35% | 37% | 63% | 53% |
| Canada..... | 13% | 16% | 27% | 29% |
| | ---- | ---- | ---- | ---- |
| North America..... | 48% | 53% | 90% | 82% |
| Egypt..... | 21% | 29% | 7% | 13% |
| Australia..... | 16% | 18% | 3% | 5% |
| North Sea..... | 15% | - | - | - |
| Other International..... | - | - | - | - |
| | ---- | ---- | ---- | ---- |
| Total..... | 100% | 100% | 100% | 100% |
| | ===== | ===== | ===== | ===== |

| | OIL REVENUES FOR THE SIX MONTHS ENDED JUNE 30, | | GAS REVENUES FOR THE SIX MONTHS ENDED JUNE 30, | |
|--------------------------|--|------|--|------|
| | 2003 | 2002 | 2003 | 2002 |
| United States..... | 35% | 36% | 61% | 52% |
| Canada..... | 14% | 15% | 28% | 29% |
| | ---- | ---- | ---- | ---- |
| North America..... | 49% | 51% | 89% | 81% |
| Egypt..... | 25% | 29% | 9% | 14% |
| Australia..... | 18% | 20% | 2% | 5% |
| North Sea..... | 8% | - | - | - |
| Other International..... | - | - | - | - |
| | ---- | ---- | ---- | ---- |

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| | | | | |
|------------|------|------|------|------|
| Total..... | 100% | 100% | 100% | 100% |
| | ==== | ==== | ==== | ==== |

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Crude Oil Contribution

The geographic mix of our 2003 second quarter oil revenues changed appreciably compared to the 2002 second quarter with the addition of the North Sea properties, which contributed 15 percent of consolidated oil revenues in its inaugural quarter. North America's oil revenues declined five percent, to 48 percent, with the U.S. contributing 35 percent and Canada contributing 13 percent. Egypt and Australia contributed 21 percent and 16 percent, respectively.

On a year-to-date basis, the North Sea, with only one quarter of revenues, contributed eight percent of consolidated oil revenues. The U.S. contributed 35 percent, while Canada's contribution totaled 14 percent. Egypt and Australia's contributions totaled 25 percent and 18 percent, respectively.

Natural Gas Contribution

Second quarter North American natural gas revenues totaled 90 percent of consolidated natural gas revenues, an increase of eight percent over the second quarter of 2002. The U.S. contribution rose 10 percent to 63 percent, while Canada's contribution fell two percent, to 27 percent. Egypt and Australia contributed seven percent and three percent, respectively.

For the six-month period, North American natural gas revenues totaled 89 percent of consolidated natural gas revenues, up eight percent for the comparable prior-year period. Egypt and Australia contributed nine percent and two percent, respectively.

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

| FOR THE QUARTER ENDED JUNE 30, | | | FO |
|--------------------------------|-------|------------------------|-------|
| 2003 | 2002 | INCREASE (DECREASE) | 20 |
| ----- | ----- | ----- | ----- |

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Revenues (in thousands):

| | | | | |
|--------------------------|--------------|------------|-----|--------|
| Natural gas..... | \$ 523,478 | \$ 298,156 | 76% | \$ 1,0 |
| Oil..... | 504,468 | 342,143 | 47% | 9 |
| Natural gas liquids..... | 16,384 | 11,965 | 37% | |
| | ----- | ----- | | ----- |
| Total..... | \$ 1,044,330 | \$ 652,264 | 60% | \$ 2,0 |
| | ===== | ===== | | ===== |

Natural Gas Volume - Mcf per day:

| | | | | |
|--------------------|-----------|-----------|-------|-------|
| United States..... | 702,109 | 514,740 | 36% | 6 |
| Canada..... | 317,079 | 321,641 | (1%) | 3 |
| Egypt | 113,169 | 118,101 | (4%) | 1 |
| Australia..... | 106,698 | 126,670 | (16%) | 1 |
| North Sea..... | 2,103 | - | - | |
| Argentina..... | 7,741 | 8,607 | (10%) | |
| | ----- | ----- | | ----- |
| Total..... | 1,248,899 | 1,089,759 | 15% | 1,1 |
| | ===== | ===== | | ===== |

Average Natural Gas price - Per Mcf:

| | | | | |
|--------------------|---------|---------|-----|----|
| United States..... | \$ 5.19 | \$ 3.35 | 55% | \$ |
| Canada..... | 4.81 | 2.97 | 62% | |
| Egypt | 3.77 | 3.63 | 4% | |
| Australia..... | 1.40 | 1.31 | 7% | |
| North Sea..... | 2.08 | - | - | |
| Argentina..... | .50 | .38 | 32% | |
| Total..... | 4.61 | 3.01 | 53% | |

Oil Volume - Barrels per day:

| | | | | |
|--------------------|---------|---------|------|-------|
| United States..... | 72,477 | 54,462 | 33% | |
| Canada..... | 24,890 | 24,965 | - | |
| Egypt | 47,687 | 43,945 | 9% | |
| Australia..... | 32,673 | 27,515 | 19% | |
| North Sea..... | 33,387 | - | - | |
| Argentina..... | 587 | 593 | (1%) | |
| | ----- | ----- | | ----- |
| Total..... | 211,701 | 151,480 | 40% | 1 |
| | ===== | ===== | | ===== |

Average Oil price - Per barrel:

| | | | | |
|--------------------|----------|----------|-----|----|
| United States..... | \$ 26.90 | \$ 25.55 | 5% | \$ |
| Canada..... | 27.80 | 23.50 | 18% | |
| Egypt | 24.45 | 24.36 | - | |
| Australia..... | 26.61 | 25.34 | 5% | |
| North Sea..... | 25.50 | - | - | |
| Argentina..... | 27.02 | 22.87 | 18% | |
| Total..... | 26.19 | 24.82 | 6% | |

Natural Gas Liquids (NGL)

Volume - Barrels per day:

| | | | | |
|--------------------|-------|-------|-----|-------|
| United States..... | 7,448 | 6,869 | 8% | |
| Canada..... | 1,894 | 1,614 | 17% | |
| | ----- | ----- | | ----- |
| Total..... | 9,342 | 8,483 | 10% | |
| | ===== | ===== | | ===== |

Average NGL Price - Per barrel:

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| | | | | | | |
|--------------------|----|-------|----|-------|-----|----|
| United States..... | \$ | 20.24 | \$ | 16.31 | 24% | \$ |
| Canada..... | | 15.46 | | 12.05 | 28% | |
| Total..... | | 19.27 | | 15.50 | 24% | |

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Natural Gas Revenues

The Company's second-quarter 2003 natural gas production increased 159 million cubic feet per day (MMcf/d), compared to the same period last year, which increased natural gas revenues by \$67 million. Production in the U.S. climbed 187 MMcf/d, concentrated in the Gulf Coast region. Production in the Gulf Coast region includes production from the Gulf of Mexico properties acquired from BP in the first quarter of 2003 and production from the South Louisiana properties acquired in the fourth quarter of 2002. These increases offset natural declines in mature fields and production declines associated with well performance and facility downtime. A successful workover and recompletion program, particularly offshore, helped to stem the natural declines in the U.S. In Australia, a gas contract expired in October 2002, resulting in a net decrease in production of 20 MMcf/d compared to the second quarter of 2002. Higher natural gas prices contributed \$159 million to second-quarter worldwide natural gas revenues.

Apache uses a variety of strategies to manage its exposure to fluctuations in natural gas prices, including fixed-price physical contracts and derivatives. Approximately eight percent of our second quarter 2003 U.S. natural gas production was subject to long-term fixed-price physical contracts, down from 11 percent in the second quarter of 2002. We continue to amortize the unrealized gains and losses of derivative positions closed in October and November 2001, which were negligible in the second quarter of 2003. The following table shows the impact on average prices of each of these items:

| | FOR THE QUARTER ENDED JUNE 30, | | FOR THE SIX MONTHS JUNE 30, | |
|---------------------------|-----------------------------------|----------|--------------------------------|----------|
| | 2003 | 2002 | 2003 | 2002 |
| | (Per Mcf) | | | |
| Fixed-price physical..... | \$ (.09) | \$ (.01) | \$ (.05) | \$ (.01) |
| Derivatives..... | (.02) | - | (.09) | - |
| Amortization..... | (.01) | .04 | (.01) | .04 |

Year-to-date natural gas production increased seven percent compared to the same period last year, increasing our natural gas revenues by \$70 million. Production rates in the U.S. were higher and production rates in Australia were lower as discussed above. Canada saw a marginal decline in production, while Egypt's production was flat. Natural gas prices increased 86 percent increasing natural gas revenues by \$450 million.

Approximately 10 percent of our first six month 2003 domestic natural gas production was subject to long-term fixed-price physical contracts, down from 11 percent in the 2002 period.

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Crude Oil Revenues

The Company's second-quarter 2003 oil production increased 60,221 barrels per day (b/d), increasing second-quarter crude oil revenues by \$144 million. Production growth was concentrated in the Gulf Coast region and the North Sea, which benefited by the acquisitions discussed above. Australia and Egypt also contributed to the production growth as new production from drilling and workovers offset natural declines. A six percent increase in oil price contributed \$19 million to crude oil revenues.

Apache also manages its exposure to fluctuations in crude oil prices using derivatives. We continue to amortize the unrealized gains and losses over the original production life of derivative positions closed in October and November 2001. The following table shows the impact on prices of each of these items:

| | FOR THE QUARTER ENDED JUNE 30, | | FOR THE SIX MONTHS JUNE 30, | |
|-------------------|-----------------------------------|------|--------------------------------|------|
| | 2003 | 2002 | 2003 | 2002 |
| | (Per bbl) | | | |
| Derivatives..... | \$ (.54) | \$ - | \$ (1.00) | \$ - |
| Amortization..... | .02 | .08 | .03 | .03 |

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Year-to-date oil production increased 19 percent for the reasons discussed above, contributing \$153 million to oil sales. Realized oil prices rose 24 percent, increasing oil sales by \$153 million.

Operating Expenses

The table below presents a detail of our expenses:

| | FOR THE QUARTER ENDED JUNE 30, | | FOR THE SIX MONTHS JUNE 30, | |
|--|--------------------------------|--------|--------------------------------|--------|
| | 2003 | 2002 | 2003 | 2002 |
| | (In millions) | | | |
| Depreciation, depletion and amortization (DD&A): | | | | |
| Oil and gas property and equipment..... | \$ 255 | \$ 196 | \$ 501 | \$ 392 |
| Other assets..... | 17 | 15 | 32 | 30 |
| Asset retirement obligation accretion..... | 10 | - | 10 | - |
| International impairments..... | - | - | - | - |
| Lease operating costs (LOE)..... | 186 | 112 | 372 | 224 |
| Gathering and transportation costs..... | 15 | 11 | 30 | 22 |
| Severance and other taxes..... | 33 | 17 | 50 | 27 |
| General and administrative expense (G&A)..... | 31 | 28 | 62 | 56 |
| Financing costs, net..... | 29 | 31 | 58 | 62 |

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| | | | |
|------------|--------|--------|----|
| Total..... | \$ 576 | \$ 410 | \$ |
| | ===== | ===== | == |

Depreciation, Depletion and Amortization

Apache's full-cost DD&A expense is driven by many factors including certain costs incurred in the exploration, development, and acquisition of producing reserves, production levels, estimates of proved reserve quantities and future development and abandonment costs.

Second quarter 2003 full-cost DD&A expense of \$255 million is mainly comprised of the U.S., \$126 million, Canada, \$37 million, Egypt, \$42 million, Australia \$28 million, and the North Sea, \$22 million. Full-cost DD&A expense increased \$59 million compared to last year's second quarter. The majority of the increase in absolute costs was the U.S., up \$31 million and the North Sea, up \$22 million, related to their increases in production driven by our recent acquisitions from BP. The remaining increase in DD&A expense is related to Egypt and Australia, which is consistent with their overall increase in production.

On a boe basis, our full-cost DD&A rate increased \$.23 from \$6.30 in the second quarter of 2002 to \$6.53 in 2003. The increase in the consolidated rate was driven by rate increases in Egypt and Australia and the addition of the North Sea properties. Egypt contributed \$.15 to the overall rate change impacted by volume variances related to the dynamics of the Production Sharing Agreement and increases in estimated future development costs. Australia contributed \$.13 to the overall rate change driven by costs incurred for several long-lead development projects and higher finding costs. The North Sea properties contributed an additional \$.06 and carry a higher DD&A rate than our historical worldwide rate, while Canada lowered the overall rate \$.09 per boe.

Full-cost DD&A expense for the first half of 2003 of \$453 million is mainly comprised of the U.S., \$222 million, Canada, \$74 million, Egypt, \$80 million, Australia, \$53 million, and the North Sea \$22 million. Full-cost DD&A expense increased \$60 million compared to the same period last year. The U.S. and the North Sea contributed \$30 million and \$22 million of the increase, respectively, which is mainly related to their acquisitions as discussed above. The remaining increase in DD&A expense is concentrated in Egypt and Australia.

On a boe basis, our full-cost DD&A rate rose \$.16 from \$6.27 in 2002 to \$6.43 in 2003. Egypt and Australia contributed \$.11 and \$.14, respectively, to the increase in the overall rate. The impact from Egypt is related to increases in estimated future development costs. The impact from Australia is primarily related to higher finding costs and development costs as discussed above. The North Sea added \$.03 to the increase in the overall rate, related to the acquisition of the North Sea properties, while Canada lowered the overall rate \$.08 per boe.

Lease Operating Costs

LOE increased \$74 million compared to last year's second quarter. Eighty percent of the increase (\$59 million) in absolute costs was related to

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the acquisition of Gulf of Mexico and North Sea properties from BP and of South

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Louisiana properties in the fourth quarter of 2003. Canada saw an increase of \$13 million primarily related to acquisitions completed in the second half of 2002, higher electricity rates, and the impact of a weaker U.S. dollar. The Company also had a higher level of workover activity compared to the prior year.

LOE increased 44 percent, or \$97 million in the first half of 2003 compared to the first half of 2002. As indicated above, 63 percent of the increase in absolute costs was related to the BP and South Louisiana acquisitions. The remaining balance was primarily related to the increase in Canada and increased workover activity.

Gathering and Transportation Costs

Apache sells oil and natural gas under two types of transactions, both of which include a transportation charge. One is a netback arrangement, under which Apache sells oil or natural gas at the wellhead and collects a price, net of transportation incurred by the purchaser. Under the other arrangement, Apache sells oil or natural gas at a specific delivery point, pays transportation to a third-party carrier and receives from the purchaser a price with no transportation deduction. In both the U.S. and Canada, Apache sells oil and natural gas under both types of arrangements. In the North Sea, Apache pays transportation to a third-party carrier and receives payments with no transportation deduction. In Egypt and Australia, oil and natural gas are sold under the netback arrangement. Gathering and transportation costs paid to third-party carriers and disclosed here vary based on the volume and distance shipped, and the fee charged by the transporter, which may be price sensitive.

In our North American operations these costs are primarily related to the transportation of natural gas. In the North Sea these costs are related to transportation of oil. Costs incurred in the second quarter of 2003 totaled \$7 million in Canada, \$5 million in the U.S. and \$3 million in the North Sea. Costs incurred in the second quarter of 2002 totaled \$ 5 million in Canada and \$ 6 million in the U.S. The increase over the 2002 second quarter primarily related to North Sea operations, where operations commenced in the second quarter of 2003.

Year-to-date costs totaled \$14 million in Canada, \$ 10 million in the U.S. and \$ 3 million in the North Sea. In the 2002 period, these costs totaled \$11 million and \$9 million in Canada and the U.S., respectively. The increase over the prior year was primarily attributable to increased volumes in North America and the addition of the North Sea properties.

Severance and Other Taxes

Severance and other taxes are comprised primarily of severance taxes on properties onshore and in state or provincial waters in the U.S. and Australia, the Australian Petroleum Resources Rent Tax (PRRT), to which Apache first became subject in 2002, the Petroleum Revenue Tax (PRT) on the North Sea properties, and the Canadian Large Corporation Tax, Saskatchewan Capital Tax, Saskatchewan Resource Surtax and Freehold Mineral Tax. Egyptian operations are not subject to

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these various taxes.

In the second quarter of 2003, severance and other taxes totaled \$33 million, consisting of the U.S., \$13 million, Australia, \$8 million, the North Sea, \$6 million, and Canada, \$5 million. The \$33 million represents a \$15 million increase from the comparable 2002 quarter. The U.S. saw a \$5 million increase in severance taxes while Australia's rose \$2 million. These increases were consistent with higher oil and gas production revenues. Canada's taxes increased \$2 million over the prior-year quarter while the North Sea's \$6 million represented initial PRT expense.

In the first half of 2003, severance and other taxes of \$57 million consisted of the U.S., \$28 million, Australia, \$15 million, Canada, \$8 million, and the North Sea, \$6 million. First-half severance and other taxes increased \$25 million, with \$17 million attributable to higher U.S. and Australian severance taxes, up \$13 million and \$4 million, respectively. The U.S. and Australian severance taxes increased for the reasons previously discussed. The balance of the increase came from Canada and the North Sea.

General and Administrative Expense

Even though the Company acquired over a billion dollars in assets from BP, our second-quarter 2003 G&A costs were only \$3 million higher than the year-ago quarter. The additional \$3 million resulted from transition costs incurred on the Gulf of Mexico properties acquired from BP and incremental G&A related to North Sea operations. On a boe basis, our G&A costs were \$.12 per boe lower than the year-ago quarter, driven by the 26 percent increase in production, discussed earlier.

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On a year-to-date basis, G&A costs were \$5 million higher than the comparable period in 2002. Forty-two percent of the increase was associated with G&A costs related to the acquisitions from BP discussed above. Eighteen percent was related to the increase in the size of our gas marketing department necessary to support the decision to market our U.S. natural gas beginning in July 2003. The balance was spread among several departments, consistent with our growth.

Financing Costs, Net

Net financing costs for the second quarter of 2003 decreased \$2 million (five percent) compared to the prior-year quarter, driven by an increase in capitalized interest resulting from a higher unproved property balance. Had financing costs included preferred interests of subsidiaries, they would have decreased \$3 million compared to the second quarter of 2002.

For the first half of 2003, net financing costs decreased \$2 million (three percent) compared to the same period in 2002. Higher unproved property balances drove a \$3 million increase in capitalized interest which was slightly offset by an increase in gross interest of \$1 million. The increase in gross interest resulted from a slightly higher average interest rate offset by lower average outstanding debt. Had financing costs included preferred interests of subsidiaries, they would have decreased \$4 million when compared to the same period in 2002.

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Provision for Income Taxes

Second-quarter 2003 income tax expense increased \$135 million or 142 percent over the comparable prior-year quarter. The increase is related to both a higher net income before taxes in the 2003 quarter and additional deferred tax expense recognized on certain foreign operations as a result of the weaker U.S. dollar. Our effective tax rate in the second quarter of 2003 increased to 48.51 percent from 39.39 percent in the 2002 quarter. For the first half of 2003, income tax expense increased \$300 million or 219 percent compared to the first half of 2002 for the reasons discussed above. Our effective tax rate was 43.99 percent for the first half of 2003 compared to 37.66 percent in 2002. The additional deferred tax expense related to changes in foreign currency exchange rates totaled \$51 million for the second quarter of 2003 and \$56 million for the first half of 2003.

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OIL AND GAS CAPITAL EXPENDITURES

| | FOR THE SIX MONTHS ENDED | |
|--|--------------------------|-------|
| | 2003 | 2002 |
| | (In thousands) | |
| Exploration and development: | | |
| United States..... | \$ 198,294 | \$ |
| Canada..... | 300,209 | |
| Egypt..... | 123,843 | |
| Australia..... | 46,396 | |
| North Sea..... | 12,577 | |
| Other International..... | 15,216 | |
| | \$ 696,535 | \$ |
| | ===== | ===== |
| Capitalized Interest..... | \$ 23,850 | \$ |
| | ===== | ===== |
| Gas gathering, transmission and processing facilities..... | \$ 6,528 | \$ |
| | ===== | ===== |
| Acquisitions: | | |
| Oil and gas properties..... | \$ 1,230,814 | \$ |
| Gas gathering, transmission and processing facilities..... | 5,484 | |
| | \$ 1,236,298 | \$ |
| | ===== | ===== |

CAPITAL RESOURCES

Apache's primary cash needs are for exploration, development and acquisition of oil and gas properties, operating expenses, repayment of principal and interest on outstanding debt, and payment of dividends. The

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Company funds its exploration and development activities primarily through internally generated cash flows. Apache budgets capital expenditures based upon projected cash flows and routinely adjusts its capital expenditures in response to changes in oil and natural gas prices and corresponding changes in cash flow. The Company cannot accurately predict future oil and gas prices.

Net Cash Provided by Operating Activities

Apache's net cash provided by operating activities during the first half of 2003 totaled \$1.2 billion, an increase of 96 percent from \$624 million in the first half of 2002. This increase generally reflects the impact of higher prices on oil and gas production revenues and higher production levels relative to the prior-year period.

LIQUIDITY

The Company had \$41 million in cash and cash equivalents on hand at June 30, 2003, down from \$52 million at December 31, 2002. Apache's ratio of current assets to current liabilities at June 30, 2003 was 1.28 compared to 1.44 at December 31, 2002.

On January 22, 2003, the Company completed a public offering of 19.8 million shares of Apache common stock, adjusted for the five percent common stock dividend and the two-for-one common stock split, including underwriters' over-allotment option, for net proceeds of approximately \$554 million. The proceeds were used toward Apache's acquisition from BP of producing properties in the North Sea and the Gulf of Mexico.

Apache believes that cash on hand, net cash generated from operations, short-term investments, and unused committed borrowing capacity under its \$1.5 billion global credit facility will be adequate to satisfy future financial obligations and liquidity needs. The \$750 million 364-day U.S. credit facility, which was scheduled to mature on June 1, 2003, was extended on the same terms for an additional one-year period and is currently scheduled to mature on May 28, 2004. As of June 30, 2003, Apache's available borrowing capacity under its global credit facility was \$1.4 billion.

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Occasionally, the Company accesses capital markets to fund acquisitions, repay debt, and enhance liquidity. On May 15, 2003, Apache Finance Canada Corporation (Apache Finance Canada) issued \$350 million of 4.375 percent, 12-year, senior unsecured notes in a private placement. The notes are irrevocably and unconditionally guaranteed by Apache. Interest is payable semi-annually on May 15 and November 15 of each year commencing on November 15, 2003. The notes were sold pursuant to Rule 144A and Regulation S, and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act of 1933, as amended. If changes in relevant tax laws occur that would require Apache Finance Canada to pay additional amounts under the terms of the indenture, Apache Finance Canada has the right to redeem the notes prior to maturity. In addition, the notes are redeemable, as a whole or in part, at Apache Finance Canada's option, subject to a make-whole premium. The proceeds were used to reduce bank debt and outstanding commercial paper and for general corporate purposes.

FUTURE TRENDS

Our objective is to build a company of lasting value by pursuing profitable growth through a combination of drilling and acquisitions. Our

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investment decisions are subjected to strict rate of return criteria and generally fall in the categories identified below, depending on which phase of the price and cost cycle we may be in. Those categories include:

- exploiting our existing property base;
- acquiring properties to which we can add value; and
- drilling high-potential exploration prospects.

Exploiting Existing Asset Base

We seek to maximize the value of our existing asset base by increasing production and reserves while reducing operating costs per unit. In order to achieve these objectives, we actively pursue production enhancement opportunities such as workovers, recompletions and moderate risk drilling, while divesting marginal and non-strategic properties and identifying other activities to reduce costs. Given the significant acquisitions and discoveries over the last few years, including the properties recently acquired from BP and Shell, we have an abundant inventory of exploitation opportunities.

Acquiring Properties to Which We Can Add Value

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

Investing in High-Potential Exploration Prospects

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

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Major market risk exposure continues to be the pricing applicable to our oil and gas production. Realized pricing is primarily driven by the prevailing worldwide price for crude oil and spot prices applicable to our United States and Canadian natural gas production. Historically, prices received for oil and gas production have been volatile and unpredictable.

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Apache sells all of its Egyptian crude oil and natural gas production to the Egyptian General Petroleum Corporation (EGPC) for U.S. dollars. Weak economic conditions in Egypt continue to impact the timeliness of receipts from EGPC; however, the situation has not deteriorated since year-end and Apache continues to receive payments.

U.S. and Canadian energy markets continue to evolve into a single energy market. In light of this ongoing transformation, we adopted the U.S. dollar as our functional currency in Canada, effective October 1, 2002. The U.S. dollar is now the functional currency for all of our foreign operations.

The information set forth under "Commodity Risk," "Interest Rate Risk"

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and "Foreign Currency Risk" in Item 7A of our annual report on Form 10-K for the year ended December 31, 2002, is incorporated herein by reference. Information about market risks for the quarter ended June 30, 2003 does not differ materially from the disclosure in our 2002 Form 10-K, except as noted below.

The Company considers its interest rate risk exposure to be minimal as a result of fixing interest rates on approximately 93 percent of the Company's debt. At June 30, 2003, total debt included \$158 million of floating-rate debt. As a result, Apache's annual interest costs in 2003 will fluctuate based on short-term interest rates on approximately seven percent of its total debt outstanding at June 30, 2003. Additionally, our preferred interests of subsidiaries of \$438 million is subject to fluctuations in short-term interest rates. The impact on annual cash flow of a 10 percent change in the floating interest rate, including our preferred interests of subsidiaries, would be approximately \$1.5 million.

On June 30, 2003, the Company had open natural gas derivative positions with a fair value of \$(65.5) million. A 10 percent increase in natural gas prices would change the fair value by \$(57.8) million. A 10 percent decrease in prices would change the fair value by \$56.9 million. The Company also had open oil price swap positions with a fair value of \$(22.7) million. A 10 percent increase in oil prices would change the fair value by \$(32.8) million. A 10 percent decrease in oil prices would change the fair value by \$32.8 million. See Note 2 to the Company's consolidated financial statements for notional volumes associated with the Company's derivative contracts.

ITEM 4 - CONTROLS AND PROCEDURES

G. Steven Farris, the Company's President, Chief Executive Officer and Chief Operating Officer, and Roger B. Plank, the Company's Executive Vice President and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures within the last 90 days preceding the date of this report. Based on that review and as of the date of that evaluation, the Company's disclosure controls were found to be adequate, providing effective means to insure that we timely and accurately disclose the information we are required to disclose under applicable laws and regulations. Also, we made no significant changes in internal controls or any other factors that could affect our internal controls since our most recent internal controls evaluation.

FORWARD-LOOKING STATEMENTS AND RISK

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

There are numerous uncertainties inherent in estimating quantities of proved oil and gas reserves and in projecting future rates of production and the timing of development expenditures. The total amount or timing of actual future production may vary significantly from reserves and production estimates. The drilling of exploratory wells can involve significant risks, including those related to timing, success rates and cost overruns. Lease and rig availability, complex geology and other factors can affect these risks. Although Apache may make use of futures contracts, swaps, options and fixed-price physical contracts

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to mitigate risk, fluctuations in oil and gas prices, or a prolonged continuation of low prices, may adversely affect the Company's financial position, results of operations and cash flows.

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PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information set forth in Note 11 to the Consolidated Financial Statements contained in the Company's annual report on Form 10-K for the year ended December 31, 2002 (filed with the Securities and Exchange Commission on March 25, 2003) is incorporated herein by reference.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

The Company's annual meeting of stockholders was held in Houston, Texas at 10:00 a.m. local time, on Thursday, May 1, 2003. Proxies for the meeting were solicited pursuant to Regulation 14 under the Securities Exchange Act of 1934, as amended. There was no solicitation in opposition to the nominees for election as directors as listed in the proxy statement, and all nominees were elected.

Out of a total of 153,867,875 shares of the Company's common stock outstanding and entitled to vote, 138,682,470 shares were present at the meeting in person or by proxy, representing 90.1 percent. Matters voted upon at the meeting were as follows:

Election of five directors to serve on the Company's board of directors. Mr. Bohlen, Mr. Lawrence, Mr. Patton, Mr. Pitman, and Mr. Precourt were elected to serve until the annual meeting in 2006. The vote tabulation with respect to each nominee was as follows:

| NOMINEE | FOR | AUTHORITY WITHHELD |
|---------------------|-------------|-----------------------|
| Frederick M. Bohlen | 136,238,719 | 2,443,751 |
| George D. Lawrence | 97,155,702 | 41,526,768 |
| Rodman D. Patton | 132,231,888 | 6,450,582 |
| Charles J. Pitman | 136,261,535 | 2,420,935 |
| Jay A. Precourt | 136,223,297 | 2,759,173 |

The shares listed above have not been restated for the two-for-one common stock

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split declared September 11, 2003.

ITEM 5. OTHER INFORMATION

None

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ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

- 10.1 - Apache Corporation Non-Employee Directors' Compensation Plan, as amended and restated May 1, 2003, effective July 1, 2003.
- 12.1 - Statement of computation of ratio of earnings to fixed charges and combined fixed charges and preferred stock dividends.
- 31.1 - Certification of Chief Executive Officer.
- 31.2 - Certification of Chief Financial Officer.
- 32.1 - Certification of Chief Executive Officer and Chief Financial Officer.

* Previously filed.

(b) Reports filed on Form 8-K

The following current reports on Form 8-K were filed by Apache during the fiscal quarter ended June 30, 2003:

Item 2 - Acquisition or Disposition of Assets - dated March 18, 2003, filed April 17, 2003

On March 18, 2003 and April 2, 2003, Apache announced the closings of acquisitions from subsidiaries of BP p.l.c. of interests in 61 producing fields, including 113 blocks located in the Gulf of Mexico and two producing fields in the North Sea. Upon closing, Apache paid a purchase price, adjusted for normal closing and working capital adjustments and preferential purchase rights, of \$509 million for the Gulf of Mexico properties and \$630 million for the North Sea assets.

Amendment No. 1 on Form 8-K/A to Form 8-K dated March 18, 2003

On June 16, 2003, under Item 7 - Financial Statements, Pro Forma Financial Information and Exhibits, Apache filed the required financial statement and pro forma financial information in connection with Apache's acquisition of interests in producing fields located in the Gulf of Mexico and in the North Sea.

Item 5 - Other Events - dated May 15, 2003, filed May 16, 2003

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Apache announced the closing of a private offering of \$350 million principal amount of 4.375% Notes due 2015, to be issued by Apache Finance Canada Corporation, an Apache subsidiary. The notes will be irrevocably and unconditionally guaranteed by Apache and will be sold under Rule 144A and offshore under Regulation S.

Item 5 - Other Events - dated June 24, 2003, filed July 14, 2003

On June 24, 2003, Apache announced (i) that it will begin directly marketing its U.S. natural gas production, beginning with July 2003 production and (ii) the termination of marketing arrangements with Cinergy Marketing and Trading, LLC and dismissal of arbitration pending between Apache and Cinergy. On July 3, 2003, Apache announced that it had acquired producing properties located in the Gulf of Mexico from Shell Exploration and Production Company for \$200 million, subject to normal post-closing adjustments, including the exercise of preferential purchase rights. The properties were subject to a volumetric production payment, which was sold by Shell to Morgan Stanley Capital Group, Inc. for \$300 million.

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SIGNATURES

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

APACHE CORPORATION

Dated: January 23, 2004

/ s / ROGER B. PLANK

Roger B. Plank
Executive Vice President and
Chief Financial Officer

Dated: January 23, 2004

/ s / THOMAS L. MITCHELL

Thomas L. Mitchell
Vice President and Controller
(Chief Accounting Officer)

EXHIBIT INDEX

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