

Edgar Filing: APACHE CORP - Form 10-Q/A

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 September 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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

YES  NO

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Number of shares of Registrant's common stock, outstanding as of October 31, 2003.....324,075,864

### EXPLANATORY NOTE

We are filing this Amendment No. 1 to our Quarterly Report on Form 10-Q for the quarter ended September 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 November 14, 2003, the filing date of our Quarterly Report on Form 10-Q for the fiscal quarter ended September 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 SEPTEMBER 30,		FO E
	2003	2002	20
	(In thousands, except per com		
<b>REVENUES AND OTHER:</b>			
Oil and gas production revenues.....	\$ 1,110,015	\$ 655,917	\$ 3,1
Other.....	(5,474)	(10,728)	
	1,104,541	645,189	3,1
<b>OPERATING EXPENSES:</b>			
Depreciation, depletion and amortization.....	292,885	208,788	7
Asset retirement obligation accretion.....	11,342	-	

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International impairments.....	-	-	
Lease operating costs.....	194,574	116,314	5
Gathering and transportation costs.....	16,948	9,869	
Severance and other taxes.....	41,587	16,064	
General and administrative.....	34,692	25,463	
Financing costs:			
Interest expense.....	48,784	38,787	1
Amortization of deferred loan costs.....	557	530	
Capitalized interest.....	(14,222)	(10,029)	(
Interest income.....	(1,247)	(1,215)	
	-----	-----	-----
	625,900	404,571	1,6
	-----	-----	-----
PREFERRED INTERESTS OF SUBSIDIARIES.....	1,976	3,922	
	-----	-----	-----
INCOME BEFORE INCOME TAXES.....	476,665	236,696	1,4
Provision for income taxes.....	199,704	90,168	6
	-----	-----	-----
INCOME BEFORE CHANGE IN ACCOUNTING PRINCIPLE.....	276,961	146,528	8
Cumulative effect of change in accounting principle, net of income tax.....	-	-	
	-----	-----	-----
NET INCOME.....	276,961	146,528	8
Preferred stock dividends.....	1,420	1,406	
	-----	-----	-----
INCOME ATTRIBUTABLE TO COMMON STOCK.....	\$ 275,541	\$ 145,122	\$ 8
	=====	=====	=====
BASIC NET INCOME PER COMMON SHARE:			
Before change in accounting principle.....	\$ .85	\$ .48	\$
Cumulative effect of change in accounting principle.....	-	-	
	-----	-----	-----
	\$ .85	\$ .48	\$
	=====	=====	=====
DILUTED NET INCOME PER COMMON SHARE:			
Before change in accounting principle.....	\$ .84	\$ .48	\$
Cumulative effect of change in accounting principle.....	-	-	
	-----	-----	-----
	\$ .84	\$ .48	\$
	=====	=====	=====

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

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FOR THE NINE MONTHS  
SEPTEMBER

2003

(In thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income .....	\$	860,271	\$
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortization .....		779,590	
Asset retirement obligation accretion .....		27,100	
Provision for deferred income taxes .....		352,479	
International impairments .....		-	
Cumulative effect of change in accounting principle .....		(26,632)	
Other .....		21,650	
Changes in operating assets and liabilities:			
(Increase) decrease in receivables .....		(75,366)	
(Increase) decrease in inventories .....		(3,680)	
(Increase) decrease in drilling advances and other .....		(937)	
(Increase) decrease in deferred charges and other .....		(22,046)	
Increase (decrease) in accounts payable .....		61,612	
Increase (decrease) in accrued expenses .....		142,089	
Increase (decrease) in advances from gas purchasers .....		(11,667)	
Increase (decrease) in deferred credits and noncurrent liabilities....		(25,354)	
		-----	
Net cash provided by operating activities .....		2,079,109	
		-----	

CASH FLOWS FROM INVESTING ACTIVITIES:

Additions to property and equipment .....		(1,115,349)	
Acquisition of BP properties .....		(1,154,962)	
Acquisition of Shell properties .....		(201,813)	
Acquisition of Occidental properties .....		(22,000)	
Proceeds from sales of oil and gas properties .....		16,202	
Proceeds from sale of short-term investments .....		-	
Other, net .....		(44,302)	
		-----	
Net cash used in investing activities .....		(2,522,224)	
		-----	

CASH FLOWS FROM FINANCING ACTIVITIES:

Long-term borrowings .....		1,769,658	
Payments on long-term debt .....		(1,414,929)	
Dividends paid .....		(51,967)	
Common stock activity .....		574,349	
Treasury stock activity, net .....		4,275	
Cost of debt and equity transactions .....		(4,520)	
Repurchase of preferred interests of subsidiaries .....		(443,000)	
		-----	
Net cash provided by (used in) financing activities .....		433,866	
		-----	

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS .....

(9,249)

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR .....

51,886

CASH AND CASH EQUIVALENTS AT END OF PERIOD .....

\$ 42,637

=====

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

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APACHE CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET  
(UNAUDITED)

SEPTEMBER 30, DE  
2003

(In thousand)

ASSETS

CURRENT ASSETS:

Cash and cash equivalents .....	\$	42,637	\$
Receivables, net of allowance .....		619,508	
Inventories .....		126,180	
Drilling advances .....		31,509	
Prepaid assets and other .....		49,505	
		-----	
		869,339	
		-----	

PROPERTY AND EQUIPMENT:

Oil and gas, on the basis of full cost accounting:			
Proved properties .....		15,702,029	
Unproved properties and properties under development, not being amortized .....		1,033,869	
Gas gathering, transmission and processing facilities .....		804,194	
Other .....		230,007	
		-----	
		17,770,099	
Less: Accumulated depreciation, depletion and amortization .....		(6,646,795)	
		-----	
		11,123,304	
		-----	

OTHER ASSETS:

Goodwill, net .....		189,252	
Deferred charges and other .....		58,150	
		-----	
	\$	12,240,045	\$
		=====	

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

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APACHE CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET  
(UNAUDITED)

SEPTEMBER 30,  
2003

(In thousands)

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:

Accounts payable .....	\$ 284,941
Accrued operating expense .....	83,133
Accrued exploration and development .....	181,140
Accrued compensation and benefits .....	41,432
Accrued interest .....	45,736
Accrued income taxes .....	105,000
Oil and gas derivative instruments .....	22,078
Other .....	65,844

829,304

LONG-TERM DEBT ..... 2,514,118

DEFERRED CREDITS AND OTHER NONCURRENT LIABILITIES:

Income taxes .....	1,520,586
Advances from gas purchasers .....	113,786
Asset retirement obligation .....	778,673
Oil and gas derivative instruments .....	12,068
Other .....	174,425

2,599,538

PREFERRED INTERESTS OF SUBSIDIARIES ..... -

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, \$.625 par, 430,000,000 shares authorized, 331,979,616 and 310,929,080 shares issued, respectively .....	207,487
Paid-in capital .....	4,023,754
Retained earnings .....	2,204,487
Treasury stock, at cost, 8,118,532 and 8,422,656 shares, respectively .....	(106,564)
Accumulated other comprehensive loss .....	(130,466)

6,297,085

\$ 12,240,045

=====

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
	-----	-----	-----
BALANCE AT DECEMBER 31, 2001.....		\$ 98,387	\$ 208,207
Comprehensive income (loss):			
Net income.....	\$ 373,510	-	-
Currency translation adjustments.....	5,328	-	-
Commodity hedges, net of income tax benefit of \$8,105.....	(11,300)	-	-
Marketable securities, net of income tax benefit of \$67.....	(125)	-	-
	-----		
Comprehensive income.....	\$ 367,413		
	=====		
Dividends:			
Preferred.....		-	-
Common (\$.15 per share).....		-	-
Common shares issued.....		-	-
Conversion of Series C Preferred Stock.....		-	(208,207)
Treasury shares issued, net.....		-	-
Other.....		-	-
		-----	-----
BALANCE AT SEPTEMBER 30, 2002.....		\$ 98,387	\$ -
		=====	=====
BALANCE AT DECEMBER 31, 2002.....		\$ 98,387	\$ -
Comprehensive income (loss):			
Net income.....	\$ 860,271	-	-
Commodity hedges, net of income tax benefit of \$10,157.....	(17,530)	-	-
	-----		
Comprehensive income.....	\$ 842,741		
	=====		
Dividends:			
Preferred.....		-	-
Common (\$.16 per share).....		-	-
Five percent common stock dividend.....		-	-
Common shares issued.....		-	-
Treasury shares issued, net.....		-	-
Other.....		-	-

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(In thousands)	RETAINED EARNINGS	TREASURY STOCK	ACCUMU OTH COMPREH INCOME
	-----	-----	-----
BALANCE AT SEPTEMBER 30, 2003.....		\$ 98,387	\$ -
		=====	=====
BALANCE AT DECEMBER 31, 2001.....	\$ 1,336,478	\$ (111,885)	\$ (101,000)
Comprehensive income (loss):			
Net income.....	373,510	-	5,000
Currency translation adjustments.....	-	-	-
Commodity hedges, net of income tax benefit of \$8,105.....	-	-	(11,000)
Marketable securities, net of income tax benefit of \$67.....	-	-	-
Comprehensive income.....			
Dividends:			
Preferred.....	(9,395)	-	-
Common (\$.15 per share).....	(42,512)	-	-
Common shares issued.....	-	-	-
Conversion of Series C Preferred Stock.....	-	-	-
Treasury shares issued, net.....	-	1,269	-
Other.....	-	-	-
	-----	-----	-----
BALANCE AT SEPTEMBER 30, 2002.....	\$ 1,658,081	\$ (110,616)	\$ (107,000)
	=====	=====	=====
BALANCE AT DECEMBER 31, 2002.....	\$ 1,427,607	\$ (110,559)	\$ (112,000)
Comprehensive income (loss):			
Net income.....	860,271	-	-
Commodity hedges, net of income tax benefit of \$10,157.....	-	-	(17,000)
Comprehensive income.....			
Dividends:			
Preferred.....	(4,260)	-	-
Common (\$.16 per share).....	(53,217)	-	-
Five percent common stock dividend.....	(25,914)	-	-
Common shares issued.....	-	-	-
Treasury shares issued, net.....	-	3,995	-
Other.....	-	-	-
	-----	-----	-----
BALANCE AT SEPTEMBER 30, 2003.....	\$ 2,204,487	\$ (106,564)	\$ (130,000)
	=====	=====	=====

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



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(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.

## 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 net proceeds of approximately \$554 million from the issuance of 19.8 million shares of common stock in January 2003, adjusted for the five percent common stock dividend and the two-for-one common stock split, and proceeds from additional debt of approximately \$604 million borrowed under existing lines of credit and commercial paper.

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

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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.

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

	U.S. - GULF OF MEXICO -----	U.K. - NORTH SEA ----- (In thousands)	
Proved property	\$ 539,110	\$ 854,835	\$1,
Unproved property	57,500	65,000	
Working capital acquired, net	-	10,957	
Asset retirement obligation	(69,000)	(250,887)	(
Deferred income tax liability	-	(50,381)	
	-----	-----	---
Cash consideration	\$ 527,610 =====	\$ 629,524 =====	\$1, ---

\* 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 NINE MONTHS ENDED SEPTEMBER 30, 2003 -----		FOR THE NINE M ENDED SEPTEMBER 3 -----	
AS REPORTED	PRO FORMA	AS REPORTED	PR

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	-----	-----	-----	-----
	(In thousands, except per common share data)			
Revenues and other.....	\$ 3,125,506	\$ 3,363,468	\$ 1,829,500	\$
Net income.....	860,271	933,468	373,510	
Preferred stock dividends.....	4,260	4,260	9,395	
Income attributable to common stock.....	856,011	929,208	364,115	
Net income per common share:				
Basic.....	\$ 2.66	\$ 2.87	\$ 1.23	\$
Diluted.....	2.64	2.85	1.21	
Average common shares outstanding (1).....	321,908	323,360	295,432	

(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 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 approximately four years beginning in August 2003 for gas and November 2003 for oil. 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 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.

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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 September 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	FAIR VALUE
10/2003 - 12/2003	Gas Collars	4,600,000	\$ 3.50 / 6.09	\$
	Gas Fixed-Price Swap	18,400,000	5.17	
	Oil Fixed-Price Swap	4,600,000	26.59	
2004	Gas Collars	18,300,000	3.25 / 5.81	
	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 September 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
10/2003 - 12/2003	2,300,000	\$ 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	AFTER TAX

(In thousands)

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Unrealized loss on derivatives at December 31, 2002.....	\$ (7,141)	\$ (4,186)
Net losses realized into earnings.....	69,379	43,135
Net change in derivative fair value.....	(97,066)	(60,665)
	-----	-----
Unrealized loss on derivatives at September 30, 2003.....	\$ (34,828)	\$ (21,716)
	=====	=====

Based on current market prices, the Company recorded an unrealized loss in other comprehensive income of \$34.8 million (\$21.7 million after tax). Any loss will be realized in future earnings contemporaneously with the related sales of natural gas and crude oil production applicable to specific hedges. Were current prices to hold, a loss of \$22.8 million (\$14.2 million after tax) would 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 No. 133, as amended.

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### 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. PREFERRED INTERESTS OF SUBSIDIARIES

On September 26, 2003, Apache repurchased and retired preferred interests issued by three of its subsidiaries for approximately \$443 million, plus an additional \$1 million for accrued dividends and distributions. The transactions involved the purchase of preferred stock issued by two of the Company's subsidiaries for approximately \$82 million and the retirement of a limited partnership interest in a partnership controlled by a subsidiary of the Company for approximately \$361 million. Apache funded the transactions with available cash on hand and by issuing commercial paper under its existing commercial paper facility.

### 5. 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

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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 to purchase producing properties in the North Sea and the Gulf of Mexico from BP.

On September 12, 2003, the Company announced that its Board of Directors voted to increase the quarterly cash dividend on its common stock to 12 cents per share from 10 cents per share (six cents per share from five cents, adjusted for the two-for-one split), effective with the November 2003 payment, and to split its common stock two-for-one early in 2004, subject to shareholder approval of an increase in the authorized number of common shares.

### 6. FOREIGN CURRENCY TRANSLATION

The Company accounts for foreign currency gains and losses in accordance with SFAS No. 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 and Other. For the first nine months of 2003, the Company recorded additional deferred tax expense of \$77 million as a result of the weaker U.S. dollar. Net foreign currency gains and losses reflected in Revenues and Other totaled \$(1) million for the nine-month period.

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### 7. NET INCOME PER COMMON SHARE

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

	FOR THE QUARTER ENDED SEPTEMBER				
	2003			2002	
	INCOME	SHARES	PER SHARE	INCOME	SHARES
	(In thousands, except per share amounts)				
<b>BASIC:</b>					
Income attributable to common stock.....	\$ 275,541	323,751	\$ .85	\$145,122	302,000
			=====		
<b>EFFECT OF DILUTIVE SECURITIES:</b>					
Stock options and other.....	-	2,850		-	2,850
	-----	-----		-----	-----
<b>DILUTED:</b>					
Income attributable to common stock, including assumed conversions.....	\$ 275,541	326,601	\$ .84	\$145,122	304,850
	=====	=====	=====	=====	=====

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	FOR THE NINE MONTHS ENDED SEPTEMBER				
	2003			2002	
	INCOME	SHARES	PER SHARE	INCOME	SHARES
	(In thousands, except per share amounts)				
<b>BASIC:</b>					
Income attributable to common stock.....	\$ 856,011	321,908	\$ 2.66	\$364,115	295,000
			=====		
<b>EFFECT OF DILUTIVE SECURITIES:</b>					
Stock options and other.....	-	2,742		-	2,742
Series C Preferred Stock .....	-	-		5,149	6,000
	-----	-----		-----	-----
<b>DILUTED:</b>					
Income attributable to common stock, including assumed conversions.....	\$ 856,011	324,650	\$ 2.64	\$369,264	304,000
	=====	=====	=====	=====	=====

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8. STOCK-BASED COMPENSATION

On September 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 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 SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,
	2003	2002	2003
	(In thousands, except for per share amounts)		
Income attributable to common stock, as reported.....	\$275,541	\$145,122	\$856,011
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects.....	-	275	391
Deduct: Total stock-based employee compensation expense determined under fair value based			

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method for all awards, net of related tax effects.....	(5,567)	(5,240)	(16,433)
	-----	-----	-----
Pro forma income attributable to common stock.....	\$269,974	\$140,157	\$839,969
	=====	=====	=====
Net Income per Common Share:			
Basic:			
As reported.....	\$ .85	\$ .48	\$ 2.66
Pro forma.....	.84	.47	2.61
Diluted:			
As reported.....	\$ .84	\$ .48	\$ 2.64
Pro forma.....	.82	.46	2.56

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), adjusted for the two-for-one stock split, to non-executive employees in lieu of stock options. The SARs will be settled in cash upon exercise. 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 after tax expense was \$.7 million and \$1.0 million for the third quarter and year-to-date, respectively. The Company issued a 2003 award of 121,000 shares, adjusted for the two-for-one stock split, of restricted common stock to executives in May of 2003.

9. SUPPLEMENTAL CASH FLOW INFORMATION

The following table provides supplemental disclosure of cash flow information:

	FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2003	2002
	-----	-----
	(In thousands)	
Cash paid during the period for:		
Interest (net of amounts capitalized).....	\$ 58,821	\$57,649
Income taxes (net of refunds).....	225,667	15,363

10. BUSINESS SEGMENT INFORMATION



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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	NORT
	(IN THOUSANDS)				
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003					
Oil and Gas Production Revenues.....	\$1,527,389	\$ 627,861	\$ 482,222	\$ 297,787	\$ 18
	=====	=====	=====	=====	=====
Operating Income (1).....	\$ 849,027	\$ 350,924	\$ 287,353	\$ 150,687	\$ 2
	=====	=====	=====	=====	=====
Other Income (Expense):					
Other.....					
General and administrative.....					
Preferred interests of subsidiaries...					
Financing costs, net.....					
Income Before Income Taxes.....					
Total Assets.....	\$5,574,670	\$2,829,605	\$1,714,001	\$ 955,209	\$ 98
	=====	=====	=====	=====	=====
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002					
Oil and Gas Production Revenues.....	\$ 799,716	\$ 385,424	\$ 402,236	\$ 245,300	\$
	=====	=====	=====	=====	=====
Operating Income (Loss) (1).....	\$ 285,896	\$ 149,584	\$ 231,665	\$ 120,529	\$
	=====	=====	=====	=====	=====
Other Income (Expense):					
Other.....					
General and administrative.....					
Preferred interests of subsidiaries...					
Financing costs, net.....					
Income Before Income Taxes.....					
Total Assets.....	\$4,111,676	\$2,303,297	\$1,668,826	\$ 998,643	\$
	=====	=====	=====	=====	=====

(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,

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gathering and transportation costs, and severance and other taxes.

### 11. 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.

### 12. NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires that an asset retirement obligation (ARO) associated with the retirement of a tangible long-lived asset be recognized as a liability in the period in which it is incurred and becomes determinable, with an offsetting increase in the carrying amount of the associated asset. The cost of the tangible asset, including the initially recognized ARO, is depleted such that the cost of the ARO is recognized over the useful life of the asset. The ARO is recorded at fair value, and accretion

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expense will be recognized over time as the discounted liability is accreted to its expected settlement value. The fair value of the ARO is measured using expected future cash outflows discounted at the company's credit-adjusted risk-free interest rate.

The company adopted SFAS No. 143 on January 1, 2003, 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 amounts reflect the ARO of the company 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). In accordance with the provisions of SFAS No. 143, Apache records an abandonment liability associated with its oil and gas wells and platforms when those assets are placed in service, rather than its past practice of accruing the expected abandonment costs on a unit-of-production basis over the productive life of the associated full-cost pool. Under SFAS No. 143 depletion expense is reduced since a discounted ARO is depleted in the property balance rather than the undiscounted value previously depleted under the old rules. The lower depletion expense under SFAS No. 143 is offset, however, by accretion expense, which is recognized over time as the discounted liability is accreted to its expected settlement value.

Inherent in the present value calculation of ARO are numerous assumptions and judgments including the ultimate settlement amounts, inflation factors, credit adjusted discount rates, timing of settlement, and changes in the legal, regulatory, environmental and political environments. To the extent future revisions to these assumptions impact the present value of the existing

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ARO liability, a corresponding adjustment is made to the oil and gas property balance.

The \$27 million (\$41 million pretax) cumulative increase to earnings upon adoption did not take into consideration potential impacts of adopting SFAS No. 143 on previous full-cost property impairment tests. The company chose not to re-calculate historical full-cost impairment tests ("ceiling test") upon adoption even though historical oil and gas property balances would have been higher had we applied the provisions of the statement. Management believes this approach is appropriate because SFAS No. 143 is silent on this issue and was not effective during the prior ceiling test periods. Had we re-calculated the historical full-cost ceiling tests and included the impact as a component of the cumulative effect of adoption, the ultimate gain recognized would have potentially been reduced. A ceiling test calculation was performed upon adoption and at the end of each reporting period subsequent to adoption and no impairment was necessary. In calculating ceiling limitations, the company includes the undiscounted ARO as part of future development costs, essentially reducing the present value of its future net revenues and full-cost ceiling limit. To compare the property balance, which included the ARO component, to the full-cost ceiling limit, which has been reduced by a similar abandonment cost, we net the ARO liability against the property balance. The company believes this is appropriate since there must be a comparable basis between the net book value of the properties and the full-cost ceiling limitation.

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.....	389,480
Liabilities settled.....	(6,444)
Accretion expense.....	27,100
	-----
Asset retirement obligation at September 30, 2003.....	\$778,673
	=====

Liabilities incurred during the period primarily relate to asset retirement obligations assumed in connection with the BP Gulf of Mexico, BP North Sea and Shell property acquisitions. 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 nine-month periods ended September 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 December 31, 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. As stated in Note 4, the Company paid off the Preferred Interests of Subsidiaries in September 2003; therefore, this statement did not have a material impact on the Company's financial statements.

13. 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 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 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 \$265 million as of September 30, 2003. The amounts related to business combinations and major asset

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purchases after June 30, 2001 that would be classified as "intangible developed mineral interest" was \$1.4 billion as of September 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.

#### 14. 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.

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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 SEPTEMBER 30, 2003

	APACHE CORPORATION	APACHE NORTH AMERICA	APACHE FINANCE AUSTRALIA
	-----	-----	-----
	(IN THOUSANDS)		
REVENUES AND OTHER:			
Oil and gas production revenues.....	\$ 452,358	\$ -	\$ -
Equity in net income (loss) of affiliates.....	171,661	6,614	9,591
Other.....	(331)	-	-
	-----	-----	-----
	623,688	6,614	9,591
	-----	-----	-----
OPERATING EXPENSES:			
Depreciation, depletion and amortization.....	104,743	-	-
Asset retirement obligation accretion.....	4,674	-	-
Lease operating costs.....	80,068	-	-
Gathering and transportation costs.....	5,522	-	-
Severance and other taxes.....	11,233	-	-
General and administrative.....	26,499	-	-
Financing costs, net.....	27,042	-	4,509
	-----	-----	-----
	259,781	-	4,509
	-----	-----	-----
PREFERRED INTERESTS OF SUBSIDIARIES.....	(25)	-	-
	-----	-----	-----
INCOME (LOSS) BEFORE INCOME TAXES.....	363,932	6,614	5,082
Provision (benefit) for income taxes.....	86,971	-	(1,532)
	-----	-----	-----
INCOME (LOSS) BEFORE CHANGE IN ACCOUNTING PRINCIPLE.....	276,961	6,614	6,614
Cumulative effect of change in accounting principle, net of income tax.....	-	-	-
	-----	-----	-----
NET INCOME.....	276,961	6,614	6,614
Preferred stock dividends.....	1,420	-	-
	-----	-----	-----
INCOME ATTRIBUTABLE TO COMMON STOCK.....	\$ 275,541	\$ 6,614	\$ 6,614
	=====	=====	=====

ALL OTHER

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	SUBSIDIARIES OF APACHE CORPORATION	RECLASSIFICATIONS & ELIMINATIONS	CONSOLIDATED
		(IN THOUSANDS)	
REVENUES AND OTHER:			
Oil and gas production revenues .....	\$ 704,664	\$ (47,007)	\$ 1,110,015
Equity in net income (loss) of affiliates...	(9,303)	(209,372)	-
Other .....	(5,143)	-	(5,474)
	-----	-----	-----
	690,218	(256,379)	1,104,541
	-----	-----	-----
OPERATING EXPENSES:			
Depreciation, depletion and amortization....	188,142	-	292,885
Asset retirement obligation accretion .....	6,668	-	11,342
Lease operating costs .....	161,513	(47,007)	194,574
Gathering and transportation costs .....	11,426	-	16,948
Severance and other taxes .....	30,354	-	41,587
General and administrative .....	8,193	-	34,692
Financing costs, net .....	(7,624)	-	33,872
	-----	-----	-----
	398,672	(47,007)	625,900
	-----	-----	-----
PREFERRED INTERESTS OF SUBSIDIARIES .....	2,001	-	1,976
	-----	-----	-----
INCOME (LOSS) BEFORE INCOME TAXES .....	289,545	(209,372)	476,665
Provision (benefit) for income taxes .....	117,884	-	199,704
	-----	-----	-----
INCOME (LOSS) BEFORE CHANGE IN ACCOUNTING PRINCIPLE .....	171,661	(209,372)	276,961
Cumulative effect of change in accounting principle, net of income tax .....	-	-	-
	-----	-----	-----
NET INCOME .....	171,661	(209,372)	276,961
Preferred stock dividends .....	-	-	1,420
	-----	-----	-----
INCOME ATTRIBUTABLE TO COMMON STOCK .....	\$ 171,661	\$ (209,372)	\$ 275,541
	=====	=====	=====

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

APACHE CORPORATION	APACHE NORTH AMERICA	APACHE FINANCE AUSTRALIA	APACHE FINANC CANADA
-----	-----	-----	-----
(IN THOUSANDS)			

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REVENUES AND OTHER:				
Oil and gas production revenues .....	\$ 206,029	\$ -	\$ -	\$ -
Equity in net income (loss) of affiliates...	105,002	6,534	9,512	15,7
Other .....	(497)	-	-	-
	-----	-----	-----	-----
	310,534	6,534	9,512	15,7
	-----	-----	-----	-----
OPERATING EXPENSES:				
Depreciation, depletion and amortization....	46,851	-	-	-
Lease operating costs .....	52,289	-	-	-
Gathering and transportation costs .....	4,250	-	-	-
Severance and other taxes .....	8,695	-	-	-
General and administrative .....	21,496	-	-	-
Financing costs, net .....	18,470	-	4,512	10,2
	-----	-----	-----	-----
	152,051	-	4,512	10,3
	-----	-----	-----	-----
PREFERRED INTERESTS OF SUBSIDIARIES .....	-	-	-	-
	-----	-----	-----	-----
INCOME (LOSS) BEFORE INCOME TAXES .....	158,483	6,534	5,000	5,3
Provision (benefit) for income taxes .....	11,955	-	(1,534)	(4,9
	-----	-----	-----	-----
NET INCOME .....	146,528	6,534	6,534	10,3
Preferred stock dividends .....	1,406	-	-	-
	-----	-----	-----	-----
INCOME ATTRIBUTABLE TO COMMON STOCK .....	\$ 145,122	\$ 6,534	\$ 6,534	\$ 10,3
	=====	=====	=====	=====

	ALL OTHER SUBSIDIARIES OF APACHE CORPORATION	RECLASSIFICATIONS & ELIMINATIONS	CONSOLIDATED
	-----	-----	-----
		(IN THOUSANDS)	
REVENUES AND OTHER:			
Oil and gas production revenues .....	\$ 485,979	\$ (36,091)	\$ 655,917
Equity in net income (loss) of affiliates..	(8,388)	(128,374)	-
Other .....	(10,231)	-	(10,728)
	-----	-----	-----
	467,360	(164,465)	645,189
	-----	-----	-----
OPERATING EXPENSES:			
Depreciation, depletion and amortization...	161,937	-	208,788
Lease operating costs .....	100,116	(36,091)	116,314
Gathering and transportation costs .....	5,619	-	9,869
Severance and other taxes .....	7,279	-	16,064
General and administrative .....	3,967	-	25,463
Financing costs, net .....	(5,177)	-	28,073
	-----	-----	-----
	273,741	(36,091)	404,571
	-----	-----	-----
PREFERRED INTERESTS OF SUBSIDIARIES .....	3,922	-	3,922
	-----	-----	-----



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INCOME (LOSS) BEFORE INCOME TAXES .....	189,697	(128,374)	236,696
Provision (benefit) for income taxes .....	84,695	-	90,168
	-----	-----	-----
NET INCOME .....	105,002	(128,374)	146,528
Preferred stock dividends .....	-	-	1,406
	-----	-----	-----
INCOME ATTRIBUTABLE TO COMMON STOCK .....	\$ 105,002	\$ (128,374)	\$ 145,122
	=====	=====	=====

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APACHE CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003

	APACHE CORPORATION	APACHE NORTH AMERICA	APACHE FINANCE AUSTRALIA	APA FIN CAN
	-----	-----	-----	-----
	(IN THOUSANDS)			
REVENUES AND OTHER:				
Oil and gas production revenues .....	\$ 1,267,321	\$ -	\$ -	\$ -
Equity in net income (loss) of affiliates..	427,821	23,343	32,276	
Other .....	(6,588)	-	-	
	-----	-----	-----	-----
	1,688,554	23,343	32,276	
	-----	-----	-----	-----
OPERATING EXPENSES:				
Depreciation, depletion and amortization...	265,954	-	-	
Asset retirement obligation accretion .....	11,216	-	-	
Lease operating costs .....	204,842	-	-	
Gathering and transportation costs .....	14,419	-	-	
Severance and other taxes .....	38,632	-	-	
General and administrative .....	75,340	-	-	
Financing costs, net .....	75,486	-	13,534	
	-----	-----	-----	-----
	685,889	-	13,534	
	-----	-----	-----	-----
PREFERRED INTERESTS OF SUBSIDIARIES .....	(25)	-	-	
	-----	-----	-----	-----
INCOME (LOSS) BEFORE INCOME TAXES .....	1,002,690	23,343	18,742	
Provision (benefit) for income taxes .....	162,176	-	(4,601)	
	-----	-----	-----	-----
INCOME (LOSS) BEFORE CHANGE IN ACCOUNTING PRINCIPLE .....	840,514	23,343	23,343	
Cumulative effect of change in accounting principle, net of income tax .....	19,757	-	-	
	-----	-----	-----	-----
NET INCOME .....	860,271	23,343	23,343	

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Preferred stock dividends .....	4,260	-	-	-
INCOME ATTRIBUTABLE TO COMMON STOCK .....	\$ 856,011	\$ 23,343	\$ 23,343	\$
	=====	=====	=====	=====
	ALL OTHER SUBSIDIARIES OF APACHE CORPORATION	RECLASSIFICATIONS & ELIMINATIONS	CONSOLIDATED	
	-----	-----	-----	
		(IN THOUSANDS)		
REVENUES AND OTHER:				
Oil and gas production revenues .....	\$ 2,007,790	\$ (145,604)	\$ 3,129,507	
Equity in net income (loss) of affiliates..	(28,061)	(520,790)	-	
Other .....	2,587	-	(4,001)	
	-----	-----	-----	
	1,982,316	(666,394)	3,125,506	
	-----	-----	-----	
OPERATING EXPENSES:				
Depreciation, depletion and amortization...	513,636	-	779,590	
Asset retirement obligation accretion .....	15,884	-	27,100	
Lease operating costs .....	455,757	(145,604)	514,995	
Gathering and transportation costs .....	29,521	-	43,940	
Severance and other taxes .....	60,198	-	98,883	
General and administrative .....	17,757	-	93,097	
Financing costs, net .....	(30,433)	-	88,711	
	-----	-----	-----	
	1,062,320	(145,604)	1,646,316	
	-----	-----	-----	
PREFERRED INTERESTS OF SUBSIDIARIES .....	8,693	-	8,668	
	-----	-----	-----	
INCOME (LOSS) BEFORE INCOME TAXES .....	911,303	(520,790)	1,470,522	
Provision (benefit) for income taxes .....	490,357	-	636,883	
	-----	-----	-----	
INCOME (LOSS) BEFORE CHANGE IN ACCOUNTING PRINCIPLE .....	420,946	(520,790)	833,639	
Cumulative effect of change in accounting principle, net of income tax .....	6,875	-	26,632	
	-----	-----	-----	
NET INCOME .....	427,821	(520,790)	860,271	
Preferred stock dividends .....	-	-	4,260	
	-----	-----	-----	
INCOME ATTRIBUTABLE TO COMMON STOCK .....	\$ 427,821	\$ (520,790)	\$ 856,011	
	=====	=====	=====	

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	APACHE CORPORATION	APACHE NORTH AMERICA	APACHE FINANCE AUSTRALIA	APA FIN CAN
	(IN THOUSANDS)			
REVENUES AND OTHER:				
Oil and gas production revenues .....	\$ 582,789	\$ -	\$ -	\$
Equity in net income (loss) of affiliates..	277,729	15,618	24,552	
Other .....	(402)	-	-	
	860,116	15,618	24,552	
OPERATING EXPENSES:				
Depreciation, depletion and amortization...	161,698	-	-	
International impairments .....	-	-	-	
Lease operating costs .....	152,615	-	-	
Gathering and transportation costs .....	12,259	-	-	
Severance and other taxes .....	23,828	-	-	
General and administrative .....	66,882	-	-	
Financing costs, net .....	54,512	-	13,537	
	471,794	-	13,537	
PREFERRED INTERESTS OF SUBSIDIARIES .....	-	-	-	
INCOME (LOSS) BEFORE INCOME TAXES .....	388,322	15,618	11,015	
Provision (benefit) for income taxes .....	14,812	-	(4,603)	
NET INCOME .....	373,510	15,618	15,618	
Preferred stock dividends .....	9,395	-	-	
INCOME ATTRIBUTABLE TO COMMON STOCK .....	\$ 364,115	\$ 15,618	\$ 15,618	\$
	ALL OTHER SUBSIDIARIES OF APACHE CORPORATION	RECLASSIFICATIONS & ELIMINATIONS	CONSOLIDATED	
	(IN THOUSANDS)			
REVENUES AND OTHER:				
Oil and gas production revenues .....	\$ 1,378,151	\$ (123,370)	\$ 1,837,570	
Equity in net income (loss) of affiliates..	(25,891)	(344,825)	-	
Other .....	(7,668)	-	(8,070)	
	1,344,592	(468,195)	1,829,500	
OPERATING EXPENSES:				
Depreciation, depletion and amortization...	468,919	-	630,617	
International impairments .....	4,600	-	4,600	
Lease operating costs .....	310,299	(123,370)	339,544	
Gathering and transportation costs .....	16,955	-	29,214	

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Severance and other taxes .....	24,825	-	48,769
General and administrative .....	11,948	-	78,830
Financing costs, net .....	(14,234)	-	84,530
	-----	-----	-----
	823,312	(123,370)	1,216,104
	-----	-----	-----
PREFERRED INTERESTS OF SUBSIDIARIES .....	12,584	-	12,584
	-----	-----	-----
INCOME (LOSS) BEFORE INCOME TAXES .....	508,696	(344,825)	600,812
Provision (benefit) for income taxes .....	230,967	-	227,302
	-----	-----	-----
NET INCOME .....	277,729	(344,825)	373,510
Preferred stock dividends .....	-	-	9,395
	-----	-----	-----
INCOME ATTRIBUTABLE TO COMMON STOCK .....	\$ 277,729	\$ (344,825)	\$ 364,115
	=====	=====	=====

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

	APACHE CORPORATION	APACHE NORTH AMERICA	APACHE FINANCE AUSTRALIA
	-----	-----	-----
	(IN THOUSANDS)		
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES .....	\$ 883,634	\$ -	\$ (13,791)
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to property and equipment .....	(325,918)	-	-
Acquisitions .....	(739,072)	-	-
Proceeds from sales of oil and gas properties .....	4,192	-	-
Investment in subsidiaries, net .....	(542,452)	(12,525)	-
Other, net .....	(23,531)	-	-
	-----	-----	-----
NET CASH USED IN INVESTING ACTIVITIES .....	(1,626,781)	(12,525)	-
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Long-term borrowings .....	1,531,596	-	1,266
Payments on long-term debt .....	(1,227,288)	-	-
Dividends paid .....	(51,967)	-	-
Common stock activity .....	574,349	12,525	12,525
Treasury stock activity, net .....	4,275	-	-
Cost of debt and equity transactions .....	(4,520)	-	-
Repurchase of preferred interests of subsidiaries..	(82,000)	-	-
	-----	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES .....	744,445	12,525	13,791

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	-----	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS .....	1,298	-	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR .....	224	-	2
CASH AND CASH EQUIVALENTS AT END OF PERIOD .....	\$ 1,522	\$ -	\$ 2
	=====	=====	=====
	ALL OTHER SUBSIDIARIES OF APACHE CORPORATION	RECLASSIFICATIONS & ELIMINATIONS	CONSOL
	-----	-----	-----
		(IN THOUSANDS)	
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES .....	\$ 1,232,159	\$ -	\$ 2,07
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to property and equipment .....	(789,431)	-	(1,11
Acquisitions .....	(639,703)	-	(1,37
Proceeds from sales of oil and gas properties .....	12,010	-	1
Investment in subsidiaries, net .....	(617)	555,594	
Other, net .....	(20,771)	-	(4
	-----	-----	-----
NET CASH USED IN INVESTING ACTIVITIES .....	(1,438,512)	555,594	(2,52
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Long-term borrowings .....	(385,108)	619,801	1,76
Payments on long-term debt .....	(187,641)	-	(1,41
Dividends paid .....	-	-	(5
Common stock activity .....	1,129,682	(1,175,395)	57
Treasury stock activity, net .....	-	-	
Cost of debt and equity transactions .....	-	-	(
Repurchase of preferred interests of subsidiaries..	(361,000)	-	(44
	-----	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES .....	195,933	(555,594)	43
	-----	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS .....	(10,420)	-	(
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR .....	51,533	-	5
	-----	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD .....	\$ 41,113	\$ -	\$ 4
	=====	=====	=====

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

	APACHE CORPORATION	APACHE NORTH AMERICA	APACHE FINANCE AUSTRALIA
	-----	-----	-----
	(IN THOUSANDS)		
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES .....	\$ 379,276	\$ -	\$ (12,525)
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to property and equipment .....	(182,908)	-	-
Acquisitions .....	(11,000)	-	-
Proceeds from sales of oil and gas properties .....	-	-	-
Proceeds from sale of U.S. Government Agency Notes..	-	-	-
Investment in subsidiaries, net .....	(270,250)	(12,525)	-
Other, net .....	(10,757)	-	-
	-----	-----	-----
NET CASH USED IN INVESTING ACTIVITIES .....	(474,915)	(12,525)	-
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Long-term borrowings .....	1,259,436	-	-
Payments on long-term debt .....	(1,136,800)	-	-
Dividends paid .....	(53,059)	-	-
Common stock activity .....	27,407	12,525	12,525
Treasury stock activity, net .....	1,861	-	-
Cost of debt and equity transactions .....	(6,741)	-	-
	-----	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES .....	92,104	12,525	12,525
	-----	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS .....	(3,535)	-	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR .....	6,383	-	2
	-----	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD .....	\$ 2,848	\$ -	\$ 2
	=====	=====	=====
	ALL OTHER SUBSIDIARIES OF APACHE CORPORATION	RECLASSIFICATIONS & ELIMINATIONS	CONS
	-----	-----	-----
		(IN THOUSANDS)	
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES .....	\$ 671,099	\$ -	\$ 1
	-----	-----	-----

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CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to property and equipment .....	(564,308)	-	
Acquisitions .....	-	-	
Proceeds from sales of oil and gas properties .....	-	-	
Proceeds from sale of U.S. Government Agency Notes..	17,006	-	
Investment in subsidiaries, net .....	(238,450)	521,225	
Other, net .....	(13,749)	-	
	-----	-----	
NET CASH USED IN INVESTING ACTIVITIES .....	(799,501)	521,225	
	-----	-----	
CASH FLOWS FROM FINANCING ACTIVITIES:			
Long-term borrowings .....	358,522	(375,111)	1
Payments on long-term debt .....	(190,671)	-	(1
Dividends paid .....	-	-	
Common stock activity .....	95,932	(146,114)	
Treasury stock activity, net .....	-	-	
Cost of debt and equity transactions .....	-	-	
	-----	-----	
NET CASH PROVIDED BY FINANCING ACTIVITIES .....	263,783	(521,225)	
	-----	-----	
NET INCREASE (DECREASE) IN CASH AND			
CASH EQUIVALENTS .....	135,381	-	
CASH AND CASH EQUIVALENTS AT			
BEGINNING OF YEAR .....	29,240	-	
	-----	-----	
CASH AND CASH EQUIVALENTS AT			
END OF PERIOD .....	\$ 164,621	\$ -	\$
	=====	=====	=====

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

	APACHE CORPORATION	APACHE NORTH AMERICA	APACHE FINANCE AUSTRALIA	A FI C
	-----	-----	-----	-----
(IN THOUSANDS)				
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents .....	\$ 1,522	\$ -	\$ 2	\$
Receivables, net of allowance .....	202,341	-	-	
Inventories .....	17,851	-	-	
Drilling advances and other .....	29,663	-	-	
	-----	-----	-----	-----
	251,377	-	2	
	-----	-----	-----	-----

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PROPERTY AND EQUIPMENT, NET .....	4,587,732	-	-	
	-----	-----	-----	-----
OTHER ASSETS:				
Intercompany receivable, net .....	262,764	-	(1,785)	
Goodwill, net .....	-	-	-	
Equity in affiliates .....	4,658,877	178,018	434,743	
Deferred charges and other .....	35,155	-	-	
	-----	-----	-----	-----
	\$ 9,795,905	\$ 178,018	\$ 432,960	\$
	=====	=====	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Accounts payable .....	\$ 180,489	\$ -	\$ -	\$
Other accrued expenses .....	224,518	-	(1,944)	
	-----	-----	-----	-----
	405,007	-	(1,944)	
	-----	-----	-----	-----
LONG-TERM DEBT .....	1,593,098	-	268,938	
	-----	-----	-----	-----
DEFERRED CREDITS AND OTHER				
NONCURRENT LIABILITIES:				
Income taxes .....	858,436	-	(12,052)	
Advances from gas purchasers .....	113,786	-	-	
Asset retirement obligation .....	326,905	-	-	
Oil and gas derivative instruments .....	34,146	-	-	
Other .....	167,442	-	-	
	-----	-----	-----	-----
	1,500,715	-	(12,052)	
	-----	-----	-----	-----
COMMITMENTS AND CONTINGENCIES				
SHAREHOLDERS' EQUITY .....	6,297,085	178,018	178,018	
	-----	-----	-----	-----
	\$ 9,795,905	\$ 178,018	\$ 432,960	\$
	=====	=====	=====	=====

ALL OTHER  
SUBSIDIARIES  
OF APACHE  
CORPORATION

RECLASSIFICATIONS  
& ELIMINATIONS  
-----  
(IN THOUSANDS)

CONSOLIDATED  
-----

ASSETS

CURRENT ASSETS:				
Cash and cash equivalents .....	\$ 41,113	\$ -	\$ 42,637	
Receivables, net of allowance .....	417,167	-	619,508	
Inventories .....	108,329	-	126,180	
Drilling advances and other .....	51,351	-	81,014	
	-----	-----	-----	-----
	617,960	-	869,339	
	-----	-----	-----	-----
PROPERTY AND EQUIPMENT, NET .....	6,535,572	-	11,123,304	
	-----	-----	-----	-----



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OTHER ASSETS:			
Intercompany receivable, net .....	(354,732)	-	-
Goodwill, net .....	189,252	-	189,252
Equity in affiliates .....	(815,243)	(5,497,236)	-
Deferred charges and other .....	18,162	-	58,150
	-----	-----	-----
	\$ 6,190,971	\$ (5,497,236)	\$ 12,240,045
	=====	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable .....	\$ 104,452	\$ -	\$ 284,941
Other accrued expenses .....	310,306	-	544,363
	-----	-----	-----
	414,758	-	829,304
	-----	-----	-----
LONG-TERM DEBT .....	5,356	-	2,514,118
	-----	-----	-----
DEFERRED CREDITS AND OTHER			
NONCURRENT LIABILITIES:			
Income taxes .....	675,307	-	1,520,586
Advances from gas purchasers .....	-	-	113,786
Asset retirement obligation .....	451,768	-	778,673
Oil and gas derivative instruments .....	(22,078)	-	12,068
Other .....	6,983	-	174,425
	-----	-----	-----
	1,111,980	-	2,599,538
	-----	-----	-----
COMMITMENTS AND CONTINGENCIES			
SHAREHOLDERS' EQUITY .....	4,658,877	(5,497,236)	6,297,085
	-----	-----	-----
	\$ 6,190,971	\$ (5,497,236)	\$ 12,240,045
	=====	=====	=====

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

	APACHE CORPORATION	APACHE NORTH AMERICA	APACHE FINANCE AUSTRALIA	APACHE FINANCE CANADA
	-----	-----	-----	-----
	(IN THOUSANDS)			
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents .....	\$ 224	\$ -	\$ 2	\$ -
Receivables, net of allowance .....	121,410	-	-	-
Inventories .....	15,509	-	-	-

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Drilling advances and other .....	19,468	-	-	-
	-----	-----	-----	-----
	156,611	-	2	
	-----	-----	-----	-----
PROPERTY AND EQUIPMENT, NET .....	3,403,716	-	-	
	-----	-----	-----	-----
OTHER ASSETS:				
Intercompany receivable, net .....	1,146,086	-	(662)	(25)
Goodwill, net .....	-	-	-	
Equity in affiliates .....	2,994,954	142,422	402,596	95
Deferred charges and other .....	31,804	-	-	
	-----	-----	-----	-----
	\$ 7,733,171	\$ 142,422	\$ 401,936	\$ 70
	=====	=====	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Accounts payable .....	\$ 124,152	\$ -	\$ -	\$ -
Other accrued expenses .....	134,191	-	2,229	
	-----	-----	-----	-----
	258,343	-	2,229	
	-----	-----	-----	-----
LONG-TERM DEBT .....	1,550,645	-	268,795	29
	-----	-----	-----	-----
DEFERRED CREDITS AND OTHER				
NONCURRENT LIABILITIES:				
Income taxes .....	736,661	-	(11,510)	(
Advances from gas purchasers .....	125,453	-	-	
Oil and gas derivative instruments .....	3,507	-	-	
Other .....	134,282	-	-	
	-----	-----	-----	-----
	999,903	-	(11,510)	(
	-----	-----	-----	-----
PREFERRED INTERESTS OF SUBSIDIARIES .....	-	-	-	
	-----	-----	-----	-----
COMMITMENTS AND CONTINGENCIES				
SHAREHOLDERS' EQUITY .....	4,924,280	142,422	142,422	41
	-----	-----	-----	-----
	\$ 7,733,171	\$ 142,422	\$ 401,936	\$ 70
	=====	=====	=====	=====
		ALL OTHER		
		SUBSIDIARIES		
		OF APACHE		
		CORPORATION	RECLASSIFICATIONS	CONSOLIDATED
			& ELIMINATIONS	
			(IN THOUSANDS)	
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents .....	\$ 51,533	\$ -	\$ -	\$ 51,886
Receivables, net of allowance .....	406,277	-	-	527,687
Inventories .....	93,695	-	-	109,204
Drilling advances and other .....	58,536	-	-	78,004

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	610,041	-	766,781
PROPERTY AND EQUIPMENT, NET .....	5,061,869	-	8,465,585
OTHER ASSETS:			
Intercompany receivable, net .....	(891,573)	-	-
Goodwill, net .....	189,252	-	189,252
Equity in affiliates .....	(808,503)	(3,689,851)	-
Deferred charges and other .....	3,957	-	38,233
	\$ 4,165,043	\$ (3,689,851)	\$ 9,459,851
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable .....	\$ 90,136	\$ -	\$ 214,288
Other accrued expenses .....	180,264	-	317,947
	270,400	-	532,235
LONG-TERM DEBT .....	42,356	-	2,158,815
DEFERRED CREDITS AND OTHER			
NONCURRENT LIABILITIES:			
Income taxes .....	396,663	-	1,120,609
Advances from gas purchasers .....	-	-	125,453
Oil and gas derivative instruments .....	-	-	3,507
Other .....	24,044	-	158,326
	420,707	-	1,407,895
PREFERRED INTERESTS OF SUBSIDIARIES .....	436,626	-	436,626
COMMITMENTS AND CONTINGENCIES			
SHAREHOLDERS' EQUITY .....	2,994,954	(3,689,851)	4,924,280
	\$ 4,165,043	\$ (3,689,851)	\$ 9,459,851

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

OVERVIEW

Apache reported third-quarter earnings of \$276 million, 90 percent above the \$145 million reported in the prior-year quarter. Third-quarter cash from operating activities of \$855 million set a new quarterly record and compared to \$385 million in the 2002 period. The quarter-over-quarter gains were primarily fueled by:

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- Record oil production of 228,698 Bopd, 51 percent above the prior-year period.
- Record gas production of 1.26 Bcf/d, 19 percent above the comparable 2002 quarter.
- A 62 percent rise in natural gas price realizations.

Other notable operational highlights include:

- Production was initiated on the Zhao Dong block in the Bohai Bay, offshore China in late July, further diversifying our production base.
- We completed the acquisition of fields in the Gulf of Mexico from Shell Exploration and Production Company (Shell).
- We announced two significant exploration successes in Egypt during the second quarter of 2003, the Qasr-1X well in the Khalda Concession, and the Alexandrite-1X well in the Matruh Concession. The Qasr-1X tested at a combined rate of 51.8 million cubic feet per day (MMcf/d) and 2,688 barrels of condensate per day from two zones. The Alexandrite-1X well flowed at a daily rate of 20 MMcf/d and 1,683 barrels of condensate per day from one interval. Initial production is anticipated in the fourth quarter of 2003. Apache operates with a 100 percent contractor interest in both concessions. On November 5, 2003, we completed drilling of the Qasr-2X appraisal well, which confirmed the Qasr-1X discovery announced in July. The Qasr-2X well has a 707-foot gross hydrocarbon column and logs indicate net Jurassic pay at 669 feet. We expect additional exploratory drilling and 3-D seismic acquisition in the near future.
- We announced two oil discoveries in Western Australia's offshore Exmouth Sub-Basin, the Ravensworth-1 discovered in July, 2003 and the Crosby-1 discovered in early October 2003. The Crosby-1 discovery provides additional assurance that we have opened a new oil-play south of our existing Carnarvon Basin operations. Appraisal of both fields along with additional exploration drilling will be undertaken in early 2004.

For the nine-month period ending September 30, 2003, we reported record earnings of \$856 million, 135 percent above the comparable prior-year period. Cash from operating activities, which totaled a record \$2.1 billion, more than doubled the 2002 nine-month period.

The outlook for the fourth quarter remains strong. Current NYMEX futures markets are showing oil and natural gas prices remaining above historical trends through the end of the year. Coupled with our current production profile, we expect solid results in the fourth quarter.

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On September 12, 2003, Apache's Board of Directors voted to increase the quarterly cash dividend on our common stock 20 percent to 12 cents per share from 10 cents (six cents per share from five cents, adjusted for the two-for-one stock split). The Board also voted to split the stock two-for-one early in 2004, subject to shareholder approval of an increase in the authorized number of common shares.

To take advantage of historically low interest rates on commercial paper and better position ourselves to pay down debt, if we so elect, the Company, on September 26, 2003, repurchased and retired preferred interests issued by three of its subsidiaries for approximately \$443 million, plus an additional \$1 million for accrued dividends and distributions.

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### 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 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 \$265 million as of September 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 \$1.4 billion as of September 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

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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;
- 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.

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### 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 SEPTEMBER 30,		GAS REVENUES FOR THE QUARTER ENDED SEPTEMBER 30,	
	2003 ----	2002 ----	2003 ----	2002 ----
United States.....	33%	36%	64%	53%

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Canada.....	11%	16%	25%	25%
	---	---	---	---
North America.....	44%	52%	89%	78%
Egypt.....	21%	28%	8%	16%
Australia.....	15%	20%	3%	6%
North Sea.....	18%	-	-	-
Other International.....	2%	-	-	-
	---	---	---	---
Total.....	100%	100%	100%	100%
	===	===	===	===

	OIL REVENUES FOR THE NINE MONTHS ENDED SEPTEMBER 30,		GAS REVENUES FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2003	2002	2003	2002
United States.....	34%	36%	62%	52%
Canada.....	13%	15%	27%	28%
	---	---	---	---
North America.....	47%	51%	89%	80%
Egypt.....	23%	29%	8%	15%
Australia.....	17%	20%	3%	5%
North Sea.....	12%	-	-	-
Other International.....	1%	-	-	-
	---	---	---	---
Total.....	100%	100%	100%	100%
	===	===	===	===

Crude Oil Contribution

The geographic mix of our 2003 third quarter oil revenues changed appreciably compared to the 2002 comparable quarter with the addition of the North Sea properties, which contributed 18 percent of consolidated oil revenues. North America's oil revenues declined eight percent, to 44 percent, with the U.S. contributing 33 percent and Canada contributing 11 percent. Egypt and Australia contributed 21 percent and 15 percent, respectively.

On a year-to-date basis, the North Sea, with two quarters of revenue, contributed 12 percent of consolidated oil revenues. The U.S. contributed 34 percent, while Canada's contribution totaled 13 percent. Egypt and Australia's contributions totaled 23 percent and 17 percent, respectively.

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### Natural Gas Contribution

Third quarter North American natural gas revenues totaled 89 percent of consolidated natural gas revenues, an increase of 11 percent over the comparable quarter of 2002. The U.S. contribution rose 11 percent to 64 percent, while Canada's contribution remained constant at 25 percent. Egypt and Australia contributed eight percent and three percent, respectively.

For the six-month period, North American natural gas revenues totaled 89 percent of consolidated natural gas revenues, up nine percent from the comparable prior-year period. Egypt and Australia contributed eight percent and three 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 SEPTEMBER 30,			FOR THE NINE MONTH	
	2003	2002	INCREASE (DECREASE)	2003	2002
Revenues (in thousands):					
Natural gas.....	\$ 517,891	\$ 267,768	93%	\$ 1,561,729	\$ 1,561,729
Oil.....	575,201	377,437	52%	1,518,012	1,518,012
Natural gas liquids.....	16,923	10,712	58%	49,766	49,766
Total.....	\$ 1,110,015	\$ 655,917	69%	\$ 3,129,507	\$ 3,129,507
Natural Gas Volume - Mcf per day:					
United States.....	717,988	492,165	46%	658,231	658,231
Canada.....	319,522	316,307	1%	315,307	315,307
Egypt.....	100,965	117,781	(14%)	112,534	112,534
Australia.....	114,248	122,922	(7%)	107,415	107,415
North Sea.....	3,321	-	-	1,820	1,820
China.....	-	-	-	-	-
Argentina.....	7,858	11,250	(30%)	7,466	7,466
Total.....	1,263,902	1,060,425	19%	1,202,773	1,202,773
Average Natural Gas price - Per Mcf:					
United States.....	\$ 5.00	\$ 3.13	60%	\$ 5.40	\$ 5.40
Canada.....	4.47	2.29	95%	4.87	4.87
Egypt.....	4.31	4.06	6%	4.20	4.20
Australia.....	1.47	1.34	10%	1.39	1.39
North Sea.....	1.88	-	-	1.95	1.95
China.....	-	-	-	-	-



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Argentina.....	.50	.40	25%	.48	
Total.....	4.45	2.74	62%	4.76	
Oil Volume - Barrels per day:					
United States.....	75,593	52,510	44%	68,535	
Canada.....	25,790	25,231	2%	25,143	
Egypt.....	48,788	42,319	15%	47,406	
Australia.....	32,711	30,462	7%	31,949	
North Sea.....	42,111	-	-	25,320	
China.....	3,131	-	-	1,055	
Argentina.....	574	621	(8%)	586	
	-----	-----		-----	-----
Total.....	228,698	151,143	51%	199,994	
	=====	=====		=====	=====
Average Oil price - Per barrel:					
United States.....	\$ 27.03	\$ 27.81	(3%)	\$ 27.52	\$
Canada.....	27.90	25.98	7%	29.23	
Egypt.....	27.16	26.72	2%	27.30	
Australia.....	29.04	27.55	5%	29.45	
North Sea.....	26.58	-	-	26.10	
China.....	25.10	-	-	25.10	
Argentina.....	28.42	26.67	7%	29.14	
Total.....	27.34	27.14	1%	27.80	
Natural Gas Liquids (NGL)					
Volume - Barrels per day:					
United States.....	8,241	6,745	22%	7,265	
Canada.....	1,445	1,336	8%	1,582	
	-----	-----		-----	-----
Total.....	9,686	8,081	20%	8,847	
	=====	=====		=====	=====
Average NGL Price - Per barrel:					
United States.....	\$ 19.23	\$ 14.33	34%	\$ 20.99	\$
Canada.....	17.62	14.82	19%	18.85	
Total.....	18.99	14.41	32%	20.60	

Natural Gas Revenues

The Company's third-quarter 2003 natural gas production increased 203 MMcf/d, compared to the same period last year, which increased natural gas revenues by \$83 million. Production in the U.S. climbed 226 MMcf/d,

concentrated in the Gulf Coast region. Production in the Gulf Coast region includes production from Gulf of Mexico properties acquired from Shell in July 2003, BP p.l.c. (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, facility downtime and a hurricane. The Gulf Coast region, which contributed 71 percent of Apache's U.S. 2003 production, is characterized by reservoirs which demonstrate high initial rates followed by steep declines when compared to other U.S. producing regions. A successful workover and recompletion program, particularly offshore, helped to stem the natural declines in the U.S. Natural decline drove down production in our U.S. Central region.

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Egypt's lower production is related to scheduled facility downtime on the Khalda Salam gas plant for maintenance and unrelated operational problems experienced during start-up, following maintenance. The impact on production from the gas plant events was partially offset by new wells on the Ras El Hekma and Matruh concessions. In Australia, a gas contract expired in October 2002, reflecting lower customer demand and resulting in 9 MMcf/d of lower sales in the third quarter of 2003 versus the same period last year. Higher natural gas prices contributed \$167 million to third-quarter 2003 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 third-quarter 2003 U.S. natural gas production was subject to long-term fixed-price physical contracts, down from 11 percent in the third 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 third quarter of 2003. The following table shows the impact on average prices of each of these items:

	FOR THE QUARTER ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2003	2002	2003	2002
	(Per Mcf)			
Fixed-price physical.....	\$ (0.05)	\$ 0.01	\$ (0.04)	\$ 0.01
Derivatives.....	0.02	-	(0.05)	-
Amortization.....	(0.01)	0.04	(0.01)	0.01

Year-to-date natural gas production increased 11 percent compared to the same period last year, increasing our natural gas revenues by \$156 million. Higher production rates in the U.S. Gulf Coast region, primarily for the reasons discussed above, were partially offset by lower demand in Australia. Canada saw a marginal decline in production, while Egypt's production was down four percent year-over-year for the reasons discussed above. Natural gas prices increased 78 percent, increasing natural gas revenues by \$613 million.

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

### Crude Oil Revenues

The Company's third-quarter 2003 oil production increased 77,555 barrels per day (b/d), compared to the same period last year, increasing third-quarter crude oil revenues by \$195 million. Production growth occurred in all regions, primarily concentrated in the U.S. Gulf Coast and North Sea, which benefited by the acquisitions discussed above. Egypt's production rose 15 percent as several new wells on the East Bahariya, South Umbarka, Umbarka and Ras El Hekma concessions were brought online, more than offsetting lower production from the Qarun concession related to increasing water cuts. Other contributors were China, where production commenced in late July 2003, and Australia, where several new wells were brought online, offsetting natural decline on other wells. A one percent increase in oil price contributed \$3 million to crude oil revenues.

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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 SEPTEMBER 30,		FOR THE NINE MONTHS EN SEPTEMBER 30,	
	2003	2002	2003	2002
	(Per bbl)			
Derivatives.....	\$ (0.79)	\$ -	\$ (0.92)	\$ -
Amortization.....	0.02	0.22	0.03	0.00

Year-to-date oil production increased 30 percent for the reasons discussed above, contributing \$350 million to oil sales. Realized oil prices rose 15 percent, increasing oil sales by \$154 million.

Operating Expenses

The table below presents a detail of our expenses:

	FOR THE QUARTER ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,
	2003	2002	2003
	(In millions)		
Depreciation, depletion and amortization (DD&A):			
Oil and gas property and equipment.....	\$ 275	\$ 194	\$ 728
Other assets.....	18	15	52
Asset retirement obligation accretion.....	11	-	27
International impairments.....	-	-	-
Lease operating costs (LOE).....	195	116	515
Gathering and transportation costs.....	17	10	44
Severance and other taxes.....	41	16	98
General and administrative expense (G&A).....	35	26	93
Financing costs, net.....	34	28	89
Total.....	\$ 626	\$ 405	\$ 1,646

Depreciation, Depletion and Amortization

Apache's full-cost DD&A expense is driven by many factors including

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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.

Third quarter 2003 full-cost DD&A expense of \$275 million is mainly comprised of the U.S., \$135 million, Canada, \$39 million, Egypt, \$41 million, Australia, \$30 million, the North Sea, \$27 million, and China, \$3 million. Full-cost DD&A expense increased \$81 million compared to last year's third quarter. The majority of the increase in absolute costs was the U.S., up \$44 million and the North Sea, up \$27 million, related to their increases in production driven by our recent acquisitions. First production in China contributed an additional \$3 million to DD&A expense. The remaining increase in DD&A expense is concentrated in Egypt and Australia, which is consistent with their overall increase in production.

On a boe basis, our full-cost DD&A rate increased \$.39 from \$6.26 in the third quarter of 2002 to \$6.65 in 2003. The U.S. contributed \$.12 to the increase in the overall rate, reflecting the impact of our acquisitions of the Gulf of Mexico properties and Shell. The North Sea contributed \$.06 to the increase in the overall rate driven by the acquisition of the North Sea properties. Initial production activity in China increased the overall rate \$.03. Egypt contributed \$.14 and Australia contributed \$.12 to the increase in the overall rate impacted by higher finding and development costs, while Canada lowered the overall rate \$.08 per boe.

Year-to-date full-cost DD&A expense of \$728 million is mainly comprised of the U.S., \$357 million, Canada, \$113 million, Egypt, \$121 million, Australia, \$83 million, the North Sea, \$49 million, and China, \$3 million. Full-cost DD&A expense increased \$142 million compared to the same period last year. The U.S. and the North Sea contributed \$74 million and \$49 million of the increase, respectively, which is mainly related to their acquisitions as

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discussed above. China contributed \$3 million to DD&A expense, 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 \$.24 from \$6.27 in 2002 to \$6.51 in 2003. Egypt contributed \$.12 and Australia contributed \$.14 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. The North Sea contributed \$.04 to the increase in the overall rate, related to the acquisition of the North Sea properties in 2003. China contributed an additional \$.01 to the overall rate driven by initial production activity. China and the North Sea properties carry a higher DD&A rate than our historical worldwide rate, while the impact from Canada lowered the overall rate \$.08 per boe.

Lease Operating Costs

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LOE increased \$78 million compared to last year's third quarter. Seventy-three percent of the increase (\$57 million) in absolute costs was related to the acquisition of Gulf of Mexico and North Sea properties in 2003 and South Louisiana properties in the fourth quarter of 2002. Canada saw an increase of \$12 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 52 percent, or \$175 million in the first nine months of 2003 compared to the same period in 2002. As indicated above, 69 percent of the increase in absolute costs was related to the BP, Shell and South Louisiana acquisitions. The remaining increase occurred in all regions, primarily in Canada as noted above.

### 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.

Third quarter costs for gathering and transportation were \$ 7 million in Canada, \$ 6 million in the U.S. and \$ 4 million in the North Sea. Canada and U.S. costs primarily related to the transportation of natural gas, while the North Sea related to the transportation of crude oil. Prior year costs totaled \$5 million in Canada and \$4 million in the U.S. The North Sea and Gulf of Mexico properties acquired from BP in the second quarter and U.S. properties acquired from Shell in the third quarter contributed to the increase over the comparable period in 2002.

Year-to-date costs totaled \$ 21 million in Canada, \$ 16 million in the U.S. and \$ 7 million in the North Sea. In the 2002 period these costs totaled \$16 million in Canada and \$13 million in the U.S. The increase over the prior year was 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

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Resource Surtax and Freehold Mineral Tax. Egyptian operations are not subject to these various taxes.

In the third quarter of 2003, severance and other taxes totaled \$42 million, primarily comprised of the North Sea, \$17 million, the U.S., \$12 million, Australia, \$6 million, and Canada, \$6 million. The \$42 million represents a \$25 million increase from the comparable 2002 quarter. Sixty-eight percent of the increase is related to the North Sea's \$17 million of PRT expense. Canada's taxes increased \$5 million, a result of higher prices, a weakened U.S. dollar, and the fact that the 2002-period benefited from a refund of Saskatchewan Resource Surtax. The U.S. and Australia's severance taxes increased \$3 million and \$1 million, respectively.

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For the first nine-month period we incurred \$99 million of severance and other taxes, primarily in the U.S., \$40 million, the North Sea, \$23 million, Australia, \$21 million, and Canada, \$14 million. Severance and other taxes more than doubled the 2002 period, increasing \$50 million. Twenty-three million dollars of the increase was associated with North Sea's PRT expense. Canadian taxes were \$7 million higher as previously discussed. U.S. and Australia severance taxes increased \$16 million and \$5 million, respectively, in line with higher production revenues.

### General and Administrative Expense

Third-quarter 2003 G&A costs were \$9 million higher than the year-ago quarter. The additional \$9 million is related to one-time transition costs incurred on the Gulf of Mexico properties acquired from Shell, incremental G&A related to North Sea operations and our new gas marketing operations. On a boe basis, our G&A costs were \$.02 per boe higher than the year-ago quarter.

On a year-to-date basis, G&A costs were \$14 million higher than the comparable period in 2002. Forty-eight percent of the increase was associated with G&A costs related to the acquisitions from BP and Shell discussed above. Fifteen 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, which began in July 2003. The remaining 37 percent was spread among several departments including higher insurance costs on our larger asset base, consistent with our growth.

### Financing Costs, Net

Net financing costs for the third quarter of 2003 increased \$6 million compared to the prior-year quarter. Interest expense increased \$10 million with \$5 million related to the write-off of unamortized fees triggered by the retirement of preferred interests of subsidiaries noted below. Capitalized interest increased \$4 million driven by a higher unproved property balance. If net financing costs included distributions from Preferred Interests of Subsidiaries, net financing costs would have increased by approximately \$4 million.

For the first nine months of 2003, net financing costs increased \$4 million compared to the same period in 2002 driven by an \$11 million increase in interest expense for the reasons discussed above. Higher unproved property balances increased capitalized interest by \$8 million. If net financing costs

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included distributions from Preferred Interests of Subsidiaries, net financing costs would have increased by less than \$1 million.

### Preferred Interests of Subsidiaries

On September 26, 2003, Apache repurchased and retired preferred interests issued by three of its subsidiaries for approximately \$443 million, plus an additional \$1 million for accrued dividends and distributions. The transactions involved the purchase of preferred stock issued by two of the Company's subsidiaries for approximately \$82 million and the retirement of a limited partnership interest in a partnership controlled by a subsidiary of the Company for approximately \$361 million. Apache funded the transactions with available cash on hand and by issuing commercial paper under its existing commercial paper facility.

### Provision for Income Taxes

Third-quarter 2003 income tax expense was \$110 million or 121 percent higher than the comparable prior-year quarter. The higher taxes related to both a higher net income in the 2003 quarter and \$21 million of deferred tax expense recognized on Canadian operations related to the weakening of the U.S. dollar relative to the Canadian dollar. Our effective tax rate in the third quarter of 2003 of 41.90 percent compared to 38.09 percent in the 2002 quarter was a consequence of the \$21 million additional deferred tax expenses discussed above. For the nine-month period of 2003, income tax expense was \$410 million or 180 percent higher than the comparable 2002-period as discussed above. Similarly, our effective tax rate of 43.31 percent for the nine-month period of 2003 compared to 37.83 percent in 2002. The additional deferred tax expense related to changes in foreign currency exchange rates totaled \$77 million for the nine-month period of 2003.

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### OIL AND GAS CAPITAL EXPENDITURES

	FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2003	2002
	(In thousands)	
Exploration and development:		
United States.....	\$ 318,490	\$ 232,
Canada.....	419,636	192,
Egypt.....	188,098	114,
Australia.....	87,544	64,
North Sea.....	23,189	
Other International.....	27,998	21,
	\$ 1,064,955	\$ 624,
	=====	=====
Capitalized Interest.....	\$ 38,072	\$ 30,
	=====	=====

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Gas gathering, transmission and processing facilities.....	\$ 14,439	\$ 23,
	=====	=====
Acquisitions:		
Oil and gas properties.....	\$ 1,501,312	\$ 29,
Gas gathering, transmission and processing facilities..	5,484	
	-----	-----
	\$ 1,506,796	\$ 29,
	=====	=====

### 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 Company funds its exploration and development activities primarily through internally generated cash flows. Apache forecasts, for internal use by management, an annual cash flow. The annual forecasts are revised monthly and capital budgets are reviewed by management and adjusted as warranted by market conditions. 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 nine months of 2003 totaled \$2.1 billion, an increase of 106 percent from \$1.0 billion in the first nine months 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.

#### Stock Transactions

On September 12, 2003, the Company announced that its Board of Directors voted to increase the quarterly cash dividend on its common stock to 12 cents per share from 10 cents (six cents per share from five cents, adjusted for the two-for-one stock split), effective with the November 2003 payment, and to split its common stock two-for-one early in 2004, subject to shareholder approval of an increase in the authorized number of common shares.

### LIQUIDITY

The Company had \$43 million in cash and cash equivalents on hand at September 30, 2003, down from \$52 million at December 31, 2002. Apache's ratio of current assets to current liabilities at September 30, 2003 was 1.05 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.



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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 September 30, 2003, Apache's available borrowing capacity under its global credit facility was \$1.2 billion.

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 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 increased our 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.

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### 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.

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### 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.

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" 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 September 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 87 percent of the Company's debt. At September 30, 2003, total debt included \$323 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 13 percent of its total debt outstanding at September 30, 2003. The impact on cash flow of a 10 percent change in the floating interest rate would be approximately \$100,000 per quarter.

On September 30, 2003, the Company had open natural gas derivative positions with a fair value of \$(22) million. A 10 percent change in natural gas prices would change the fair value by plus or minus \$38 million. The Company also had open oil price swap positions with a fair value of \$(12) million. A 10 percent change in oil prices would change the fair value by plus or minus \$17 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

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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

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contracts, swaps, options and fixed-price physical contracts 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

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None

### ITEM 5. OTHER INFORMATION

None

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

#### (a) Exhibits

12.1 - Statement of computation of ratio of earnings to fixed charges and combined fixed charges and preferred stock dividends.

31.1 - Certification of Chief Executive Officer.

31.2 - Certification of Chief Financial Officer.

32.1 - Certification of Chief Executive Officer and Chief Financial Officer.

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\* 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 September 30, 2003:

Item 5 - Other Events - dated September 12, 2003, filed September 18, 2003

Apache announced (i) an increase in the cash dividend on its common stock to 12 cents per share from 10 cents per share (six cents per share from five cents, adjusted for the two-for-one stock split) and (ii) a split of its common stock two-for-one, subject to shareholder approval of an increase in the authorized number of common shares.

Item 5 - Other Events - dated September 26, 2003, filed September 30, 2003

In a series of related transactions on September 26, 2003, the corporation repurchased and retired preferred interests issued by three of its subsidiaries for approximately \$444 million. The transactions involved the purchase of preferred stock issued by two of the corporation's subsidiaries for approximately \$82 million and the retirement of a limited partnership interest in a partnership controlled by a subsidiary of the corporation for approximately \$362 million. The amounts included \$1 million for accrued dividends and distributions.

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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

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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

- \*12.1 - Statement of computation of ratio of earnings to fixed charges and combined fixed charges and preferred stock dividends.
  
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