

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

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2004

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

Number of shares of Registrant's common stock, outstanding as of September 30, 2004.....326,471,301

## PART I - FINANCIAL INFORMATION

## ITEM 1 - FINANCIAL STATEMENTS

APACHE CORPORATION AND SUBSIDIARIES  
STATEMENT OF CONSOLIDATED OPERATIONS  
(UNAUDITED)

	FOR THE QUARTER ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2004	2003	2004	2003
	(In thousands, except per common share data)			
REVENUES AND OTHER:				
Oil and gas production revenues.....	\$ 1,414,128	\$ 1,110,015	\$ 3,814,294	\$ 3,129,507
Other.....	(7,126)	(5,474)	(16,620)	(4,001)
	1,407,002	1,104,541	3,797,674	3,125,506
OPERATING EXPENSES:				
Depreciation, depletion and amortization.....	313,520	292,885	895,485	779,590
Asset retirement obligation accretion.....	11,071	11,342	32,723	27,100
Lease operating costs.....	204,890	194,574	608,016	514,995
Share appreciation plan - lease operating costs.....	874	-	11,866	-
Gathering and transportation costs.....	20,902	16,948	60,698	43,940
Severance and other taxes.....	47,148	41,587	77,691	98,883
General and administrative.....	35,121	34,692	115,450	93,097
Share appreciation plan - general and administrative.....	854	-	11,866	-
China litigation provision.....	-	-	71,216	-
Financing costs:				
Interest expense.....	41,753	48,784	122,495	127,908
Amortization of deferred loan costs.....	652	557	1,814	1,624
Capitalized interest.....	(12,593)	(14,222)	(38,951)	(38,072)
Interest income.....	(962)	(1,247)	(1,795)	(2,749)
	663,230	625,900	1,968,574	1,646,316
PREFERRED INTERESTS OF SUBSIDIARIES.....	-	1,976	-	8,668
INCOME BEFORE INCOME TAXES.....	743,772	476,665	1,829,100	1,470,522
Provision for income taxes.....	310,037	199,704	673,143	636,883
INCOME BEFORE CHANGE IN ACCOUNTING PRINCIPLE.....	433,735	276,961	1,155,957	833,639
Cumulative effect of change in accounting principle, net of income tax.....	-	-	-	26,632
NET INCOME.....	433,735	276,961	1,155,957	860,271
Preferred stock dividends.....	1,420	1,420	4,260	4,260
INCOME ATTRIBUTABLE TO COMMON STOCK.....	\$ 432,315	\$ 275,541	\$ 1,151,697	\$ 856,011
BASIC NET INCOME PER COMMON SHARE:				
Before change in accounting principle.....	\$ 1.32	\$ .85	\$ 3.54	\$ 2.58
Cumulative effect of change in accounting principle..	-	-	-	.08
	\$ 1.32	\$ .85	\$ 3.54	\$ 2.66
DILUTED NET INCOME PER COMMON SHARE:				
Before change in accounting principle.....	\$ 1.31	\$ .84	\$ 3.50	\$ 2.56
Cumulative effect of change in accounting principle..	-	-	-	.08
	\$ 1.31	\$ .84	\$ 3.50	\$ 2.64

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

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

FOR THE NINE MONTHS ENDED  
SEPTEMBER 30,

	2004	2003
(In thousands)		
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income.....	\$ 1,155,957	\$ 860,271
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization.....	895,485	779,590
Asset retirement obligation accretion.....	32,723	27,100
Provision for deferred income taxes.....	215,464	352,479
Cumulative effect of change in accounting principle.....	-	(26,632)
Other.....	40,971	21,650
Changes in operating assets and liabilities:		
(Increase) decrease in receivables.....	(143,155)	(75,366)
(Increase) decrease in drilling advances and other.....	(13,514)	(937)
(Increase) decrease in inventories.....	5,123	(3,680)
(Increase) decrease in deferred charges and other.....	(44,880)	(22,046)
Increase (decrease) in accounts payable.....	114,512	61,612
Increase (decrease) in accrued expenses.....	80,698	142,089
Increase (decrease) in advances from gas purchasers.....	(13,116)	(11,667)
Increase (decrease) in deferred credits and noncurrent liabilities.....	(5,730)	(25,354)
	2,320,538	2,079,109
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Additions to property and equipment.....	(1,682,037)	(1,115,349)
Acquisition of BP properties.....	-	(1,154,962)
Acquisition of Shell properties.....	-	(201,813)
Acquisition of Occidental properties.....	-	(22,000)
Acquisition of Anadarko properties.....	(92,699)	-
Acquisition of ExxonMobil properties.....	(347,352)	-
Restricted cash for acquisition settlement.....	(444,734)	-
Proceeds from sales of oil and gas properties.....	-	16,202
Other, net.....	(55,422)	(44,302)
	(2,622,244)	(2,522,224)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Long-term borrowings.....	543,366	1,769,658
Payments on long-term debt.....	(135,300)	(1,414,929)
Dividends paid.....	(62,825)	(51,967)
Common stock activity.....	19,324	574,881
Treasury stock activity, net.....	11,412	3,743
Cost of debt and equity transactions.....	(2,250)	(4,520)
Repurchase of preferred interests of subsidiaries.....	-	(443,000)
	373,727	433,866
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....</b>	<b>72,021</b>	<b>(9,249)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....</b>	<b>33,503</b>	<b>51,886</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD.....</b>	<b>\$ 105,524</b>	<b>\$ 42,637</b>

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

APACHE CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET  
(UNAUDITED)

	SEPTEMBER 30, 2004	DECEMBER 31, 2003
----- (In thousands) -----		
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents.....	\$ 105,524	\$ 33,503
Restricted cash for acquisition settlement.....	444,734	-
Receivables, net of allowance.....	783,681	639,055
Inventories.....	137,453	125,867
Drilling advances.....	64,494	58,062
Prepaid assets and other.....	51,304	42,585
	-----	-----
	1,587,190	899,072
	-----	-----
PROPERTY AND EQUIPMENT:		
Oil and gas, on the basis of full cost accounting:		
Proved properties.....	18,677,148	16,277,930
Unproved properties and properties under development, not being amortized.....	673,179	795,161
Gas gathering, transmission and processing facilities.....	887,514	828,169
Other.....	274,237	239,548
	-----	-----
	20,512,078	18,140,808
Less: Accumulated depreciation, depletion and amortization.....	(7,774,786)	(6,880,723)
	-----	-----
	12,737,292	11,260,085
	-----	-----
OTHER ASSETS:		
Goodwill, net.....	189,252	189,252
Deferred charges and other.....	108,981	67,717
	-----	-----
	\$ 14,622,715	\$ 12,416,126
	=====	=====

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

APACHE CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET  
(UNAUDITED)

SEPTEMBER 30,                      DECEMBER 31,  
2004                                      2003  
-----  
(In thousands)

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:

Accounts payable.....	\$ 440,288	\$ 300,598
Accrued operating expense.....	59,080	72,250
Accrued exploration and development.....	265,428	212,028
Accrued compensation and benefits.....	54,806	56,237
Accrued interest.....	45,630	32,621
Accrued income taxes.....	100,446	18,936
Derivative instruments.....	83,898	63,542
Other.....	95,252	64,166
	-----	-----
	1,144,828	820,378
	-----	-----

LONG-TERM DEBT.....

2,735,032                      2,326,966

DEFERRED CREDITS AND OTHER NONCURRENT LIABILITIES:

Income taxes.....	1,906,057	1,697,238
Advances from gas purchasers.....	96,091	109,207
Asset retirement obligation.....	869,778	739,775
Derivative instruments.....	26,750	5,931
Other.....	172,562	183,833
	-----	-----
	3,071,238	2,735,984
	-----	-----

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	98,387
Common stock, \$0.625 par, 430,000,000 shares authorized, 333,986,392 and 332,509,478 shares issued, respectively.....	208,741	207,818
Paid-in capital.....	4,109,811	4,038,007
Retained earnings.....	3,532,184	2,445,698
Treasury stock, at cost, 7,515,091 and 8,012,302 shares, respectively.....	(98,109)	(105,169)
Accumulated other comprehensive loss.....	(179,397)	(151,943)
	-----	-----
	7,671,617	6,532,798
	-----	-----
	\$ 14,622,715	\$ 12,416,126
	=====	=====

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

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

(In thousands)	COMPREHENSIVE INCOME	SERIES B PREFERRED STOCK	COMMON STOCK	PAID-IN CAPITAL	RETAINED EARNINGS
	-----	-----	-----	-----	-----
BALANCE AT DECEMBER 31, 2002.....		\$ 98,387	\$ 194,331	\$ 3,427,450	\$ 1,427,607
Comprehensive income (loss):					
Net income.....	\$ 860,271	-	-	-	860,271
Commodity hedges, net of income tax benefit of \$10,157.....	(17,530)	-	-	-	-
Comprehensive income.....	\$ 842,741				
	=====				
Dividends:					
Preferred.....		-	-	-	(4,260)
Common (\$.16 per share).....		-	-	-	(53,217)
Five percent common stock dividend....		-	581	25,333	(25,914)
Common shares issued.....		-	12,575	567,945	-
Treasury shares issued, net.....		-	-	2,904	-
Other.....		-	-	122	-
BALANCE AT SEPTEMBER 30, 2003.....		\$ 98,387	\$ 207,487	\$ 4,023,754	\$ 2,204,487
		=====	=====	=====	=====
BALANCE AT DECEMBER 31, 2003.....		\$ 98,387	\$ 207,818	\$ 4,038,007	\$ 2,445,698
Comprehensive income (loss):					
Net income.....	\$ 1,155,957	-	-	-	1,155,957
Commodity hedges, net of income tax benefit of \$16,280.....	(27,454)	-	-	-	-
Comprehensive income.....	\$ 1,128,503				
	=====				
Dividends:					
Preferred.....		-	-	-	(4,260)
Common (\$.20 per share).....		-	-	-	(65,211)
Common shares issued.....		-	923	59,807	-
Treasury shares issued, net.....		-	-	7,579	-
Other.....		-	-	4,418	-
BALANCE AT SEPTEMBER 30, 2004.....		\$ 98,387	\$ 208,741	\$ 4,109,811	\$ 3,532,184
		=====	=====	=====	=====

(In thousands)	TREASURY STOCK	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL SHAREHOLDERS' EQUITY
	-----	-----	-----
BALANCE AT DECEMBER 31, 2002.....	\$ (110,559)	\$ (112,936)	\$ 4,924,280
Comprehensive income (loss):			
Net income.....	-	-	860,271
Commodity hedges, net of income tax benefit of \$10,157.....	-	(17,530)	(17,530)
Comprehensive income.....			
Dividends:			
Preferred.....	-	-	(4,260)
Common (\$.16 per share).....	-	-	(53,217)
Five percent common stock dividend....	-	-	-
Common shares issued.....	-	-	580,520
Treasury shares issued, net.....	3,995	-	6,899
Other.....	-	-	122
BALANCE AT SEPTEMBER 30, 2003.....	\$ (106,564)	\$ (130,466)	\$ 6,297,085
	=====	=====	=====
BALANCE AT DECEMBER 31, 2003.....	\$ (105,169)	\$ (151,943)	\$ 6,532,798
Comprehensive income (loss):			
Net income.....	-	-	1,155,957
Commodity hedges, net of income tax benefit of \$16,280.....	-	(27,454)	(27,454)
Comprehensive income.....			
Dividends:			
Preferred.....	-	-	(4,260)
Common (\$.20 per share).....	-	-	(65,211)
Common shares issued.....	-	-	60,730
Treasury shares issued, net.....	7,060	-	14,639
Other.....	-	-	4,418
BALANCE AT SEPTEMBER 30, 2004.....	\$ (98,109)	\$ (179,397)	\$ 7,671,617
	=====	=====	=====

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

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

These financial statements have been prepared by Apache Corporation (Apache or the Company) without audit, pursuant to the rules and regulations of the Securities and Exchange Commission, and reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the results for the interim periods, on a basis consistent with the annual audited financial statements. All such adjustments are of a normal recurring nature. Certain information, accounting policies, and footnote disclosures normally included in financial statements prepared in accordance with 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 September 11, 2003, the Company declared a two-for-one stock split, distributed January 14, 2004, to shareholders of record on December 31, 2003. Share and per share information for 2003 have been restated to reflect the two-for-one stock split.

#### Reclassifications

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

#### 1. ACQUISITIONS

##### EXXONMOBIL

During the third quarter of 2004, Apache entered into separate arrangements with Exxon Mobil Corporation and its affiliates (ExxonMobil) that provided for property transfers and joint operating and exploration activity across a broad range of prospective and mature properties in (1) Western Canada, (2) West Texas and New Mexico, and (3) onshore Louisiana and the Gulf of Mexico-Outer Continental Shelf. Apache's participation included cash payments of approximately \$347 million, subject to normal post closing adjustments. The following details these transactions:

##### Western Canada

In August 2004, Apache signed a farm-in agreement with Exxon Mobil covering approximately 380,000 gross acres of undeveloped properties in the Western Canadian Province of Alberta. Under the agreement, Apache has the right to earn acreage blocks by drilling and carrying ExxonMobil on an initial well on each block earned. By drilling at least 250 wells during an initial two-year earning period, Apache earns a one-year extension to earn additional interests in the acreage. As to any interest in the properties earned by Apache from the farm-in agreement, ExxonMobil will retain a 37 1/2 percent royalty on fee lands and 35 percent of its working interest on leasehold properties. Under certain circumstances, ExxonMobil has the right to convert its 35 percent working interest into a 12 1/2 percent overriding royalty.

##### West Texas and New Mexico

In September 2004, Apache acquired interests from ExxonMobil in 23 mature producing oil and gas fields in West Texas and New Mexico for \$318 million and contributed approximately \$29 million into a partnership to obtain additional interests in the properties. ExxonMobil will retain interests in the properties through the partnership, including the right to receive, on certain fields, 60 percent of the oil proceeds above \$30 per barrel in 2004, \$29 per barrel in 2005 and \$28 per barrel during the period from 2006 thru 2009.

The partnership is subject to the provisions of Financial Accounting Standards Board (FASB) Interpretation 46 "variable interest entities" (FIN46). Apache has concluded that it is not the primary beneficiary of the partnership as defined in that interpretation and will proportionately consolidate its portion of the oil and gas properties. Apache's maximum exposure to loss as a result of its involvement with the partnership is equal to the Company's contribution to the partnership, which is currently \$29 million. Under the partnership agreement, the Company's subsidiaries are also subject to environmental and legal claims that could arise in the ordinary course of business. Apache will operate the oil and gas properties under contract for the partnership.

## Louisiana and Gulf of Mexico-Outer Continental Shelf

Also in September 2004, Apache and ExxonMobil entered into joint exploration agreements to explore approximately 800,000 gross acres in South Louisiana and the Gulf of Mexico-Outer Continental Shelf. The agreements provide for an initial term of five years, with the potential for an additional five years based on expenditures by ExxonMobil. Pursuant to the agreement covering South Louisiana, Apache leased 50 percent of its interests below certain producing or productive formations in the acreage to ExxonMobil, subject to retention of a 20 percent royalty interest. Pursuant to the agreement covering the Gulf of Mexico-Outer Continental Shelf, no assignments will be made until a prospect has been proposed and the initial well has been drilled. Apache will retain all rights in each prospect above certain producing or productive formations and further will retain a three percent overriding royalty interest in any property assigned to ExxonMobil.

## ANADARKO PETROLEUM

On August 20, 2004, Apache signed a definitive agreement to acquire all of Anadarko Petroleum Corporation's (Anadarko) Gulf of Mexico-Outer Continental Shelf properties (excluding certain deepwater properties) for \$537 million, subject to normal post-closing adjustments, including preferential rights. The purchase agreement is effective as of October 1, 2004. Prior to the transaction, Morgan Stanley Capital Group, Inc. (Morgan Stanley) paid Anadarko \$646 million to acquire an overriding royalty interest in these properties. Anadarko's sale of an overriding royalty interest to Morgan Stanley is commonly known in the industry as a volumetric production payment (VPP), the obligations of which Apache assumed along with its purchase. Under the terms of the VPP, Morgan Stanley is to receive a fixed volume of oil and natural gas production over four years beginning in October 2004. The VPP reserves and production will not be recorded by Apache.

Apache closed the transaction with Anadarko in two stages. Properties subject to preferential rights that had expired or been waived and non-preferential right properties closed on September 24, 2004. At that time, Apache paid Anadarko \$92 million and deposited \$445 million into escrow awaiting resolution of third-party preferential rights to purchase these properties. This escrow balance is reflected as restricted cash on the accompanying September 30, 2004 balance sheet. The escrow properties closed on October 22, 2004 in the amount of \$435 million.

In total, Apache paid \$527 million for the properties and will record estimated proved reserves of 60 million barrels of oil equivalent (boe), of which 50 percent is natural gas. In addition, an \$84 million liability for the future cost to produce and deliver VPP volumes 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. Apache will record abandonment obligations for the properties estimated at \$134 million and other obligations assumed from Anadarko in the amount of \$27 million. The acquisition included interests in 74 fields covering 232 offshore blocks (approximately 664,000 acres), including 89 undeveloped blocks and 104 platforms. Apache will operate 49 of the fields with 70 percent of the production. The purchase price was funded by borrowings under the Company's lines of credit and commercial paper program.

PRO FORMA DISCLOSURE

In January 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. (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 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	
	AS REPORTED	PRO FORMA
	----- (In thousands, except per common share data)	
Revenues and other.....	\$ 3,125,506	\$ 3,363,468
Net income.....	860,271	933,468
Preferred stock dividends.....	4,260	4,260
Income attributable to common stock.....	856,011	929,208
Net income per common share:		
Basic.....	\$ 2.66	\$ 2.87
Diluted.....	2.64	2.85
Average common shares outstanding (1).....	321,908	323,360

(1) 2003 Pro forma shares include the January 22, 2003, public offering of 19.8 million common shares (adjusted for the two-for-one common stock split) issued on January 14, 2003, as if they were issued on January 1, 2003.

2. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Apache uses a variety of strategies to manage its exposure to fluctuations in crude oil and natural gas 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.

Apache entered into, and designated as cash flow hedges, various fixed-price swaps, option collars and puts in conjunction with the BP, ExxonMobil, Anadarko and certain South Louisiana property acquisitions. These Nymex positions were entered into in accordance with the Company's hedging policy and involved several counterparties, all of which are rated A+ or better. As of September 30, 2004, the outstanding positions of our natural gas and crude oil cash flow hedges were as follows:

PRODUCTION PERIOD	INSTRUMENT TYPE	TOTAL VOLUMES (MMBTU/BBL)	WEIGHTED AVERAGE FLOOR/CEILING	FAIR VALUE ASSET/ (LIABILITY)
----- (In thousands)				
10/2004 - 12/2004	Gas Collars	4,600,000	\$ 3.25 / 5.81	\$ (4,806)
	Gas Fixed-Price Swap	12,880,000	4.40	(29,288)
	Gas Put Option	5,520,000	5.85	556
	Oil Collars	736,000	35.00 / 42.20	(5,252)
	Oil Put Option	276,000	39.00	41
2005	Gas Collars	34,600,000	5.28 / 6.36	(31,258)
	Oil Collars	3,577,000	33.51 / 41.72	(17,100)
	Oil Put Option	1,533,000	28.00	169
2006	Gas Collars	32,850,000	5.50 / 6.66	(6,386)
	Oil Collars	4,307,000	32.07 / 40.66	(10,966)
	Oil Put Option	1,533,000	28.00	753
2007	Gas Collars	24,570,000	5.25 / 6.20	(1,626)
	Oil Collars	1,911,000	33.00 / 39.25	(2,698)

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. This contract terminates on December 31, 2004. As of September 30, 2004, 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
10/2004 - 12/2004	3,680,000	\$ 22.06

In June 2004, Apache began hedging a portion of its foreign currency exchange risk associated with its forecasted Canadian and North Sea lease operating expenditures by entering into forward purchase contracts. The Company purchased a total of \$89 million Canadian dollars at an average exchange rate of .747 and 27 million British Pounds at an average exchange rate of 1.841. The forward contracts mature in July through December 2004. The fair market value of the remaining contracts as of September 30, 2004 was \$1.7 million (\$1.1 million after tax). Future changes in market value are recorded in other comprehensive income (loss).

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

	GROSS	AFTER TAX
	(In thousands)	
Unrealized loss on derivatives at December 31, 2003.....	\$ (69,316)	\$ (43,193)
Net losses realized into earnings.....	64,205	40,118
Net change in derivative fair value.....	(107,939)	(67,572)
Unrealized loss on derivatives at September 30, 2004.....	\$ (113,050)	\$ (70,647)

Based on current market prices, the Company recorded an unrealized loss in other comprehensive income (loss) of \$113 million (\$71 million after tax), primarily representing oil and gas derivative hedges. Any loss will be realized in future earnings contemporaneously with the related sales of natural gas and crude oil production applicable to specific hedges. Of the \$113 million unrealized loss on derivatives at September 30, 2004, approximately \$83 million (\$52 million after tax) applies to the next 12 months. However, these amounts are likely to 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.

3. DEBT

On May 28, 2004, the Company's \$750 million 364-day U.S. credit facility matured and was replaced with a new five-year credit facility. The financial covenants of the new five-year facility require the Company to maintain a ratio of debt-to-capitalization of not greater than 60 percent at the end of any fiscal quarter. At the Company's option, the interest rate is based on (i) the greater of (a) The JPMorgan Chase Bank prime rate or (b) the federal funds rate plus one-half of one percent or (ii) the London Interbank Offered Rate (LIBOR) plus a margin determined by the Company's senior long-term debt rating. The facility also allows the Company to borrow under competitive auctions. On September 30, 2004, the margin over LIBOR for committed loans was .27 percent. If the total amount of the loans borrowed under the facility equals or exceeds 50 percent of the total facility commitments, then an additional .10 percent will be added to the margins over LIBOR. The Company also pays a quarterly facility fee of .08 percent on the total amount of the facility.

Also on May 28, 2004, the Company amended its existing global credit facility agreements in order to make their terms consistent with the new five-year credit facility. Significant changes included raising the cross default threshold and eliminating covenants which established minimum levels for tangible net worth and book values for assets of Apache and certain subsidiaries.

4. CAPITAL STOCK

On January 26, 2004, the Nasdaq Stock Market, Inc. (NASDAQ) approved Apache for listing on the Nasdaq National Market, an intention we first announced on January 12, 2004. Apache's common stock is now listed on the NASDAQ as well as the New York Stock Exchange and the Chicago Stock Exchange.

On September 16, 2004, the Company announced that its Board of Directors voted to increase the quarterly cash dividend on its common stock to eight cents per share from six cents per share, effective with the November 2004 payment.

5. NET INCOME PER COMMON SHARE

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

	FOR THE QUARTER ENDED SEPTEMBER 30,					
	2004			2003		
	INCOME	SHARES	PER SHARE	INCOME	SHARES	PER SHARE
	(In thousands, except per share amounts)					
<b>BASIC:</b>						
Income attributable to common stock..	\$432,315	326,294	\$ 1.32	\$275,541	323,751	\$ .85
<b>EFFECT OF DILUTIVE SECURITIES:</b>						
Stock options and other.....	-	3,899		-	2,850	
<b>DILUTED:</b>						
Income attributable to common stock, including assumed conversions.....	\$432,315	330,193	\$ 1.31	\$275,541	326,601	\$ .84

	FOR THE NINE MONTHS ENDED SEPTEMBER 30,					
	2004			2003		
	INCOME	SHARES	PER SHARE	INCOME	SHARES	PER SHARE
	(In thousands, except per share amounts)					
<b>BASIC:</b>						
Income attributable to common stock..	\$1,151,697	325,657	\$ 3.54	\$856,011	321,908	\$ 2.66
<b>EFFECT OF DILUTIVE SECURITIES:</b>						
Stock options and other.....	-	3,801		-	2,742	
<b>DILUTED:</b>						
Income attributable to common stock, including assumed conversions.....	\$1,151,697	329,458	\$ 3.50	\$856,011	324,650	\$ 2.64

6. STOCK-BASED COMPENSATION

Effective January 1, 2003, the Company adopted the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, prospectively to all employee awards granted, modified, or settled after January 1, 2003. However, on May 1, 2003, the Company began issuing stock appreciation rights to certain employees in lieu of stock options. The Company records compensation expense with respect to stock appreciation rights as the price of the Company's common stock fluctuates and the awards vest. On May 1, 2003 and May 6, 2004, Apache granted stock appreciation rights for 1,802,210 shares and 1,328,400 shares of Apache common stock, respectively. On September 30, 2004, stock appreciation rights for 2,836,581 shares of Apache common stock were outstanding with an average exercise price of \$35.11.

For stock options granted prior to 2003, the Company accounted for its stock-based employee compensation plans under the recognition and measurement principles of Accounting Principals Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Since these stock options, granted prior to 2003, had an exercise price equal to the market value of the underlying common stock on the date of grant, no material stock-based employee compensation cost is reflected in net income.

In October 2000, the Company adopted the 2000 Share Appreciation Plan under which grants were made to the Company's officers and substantially all full-time employees. The 2000 Share Appreciation Plan provides for issuance of Apache common stock, based on attainment of one or more of three share price goals (Share Price Goals) and/or a separate production goal. The Share Price Goals are based on achieving a closing share price for Apache stock of \$43.29, \$51.95 and \$77.92 per share (\$100, \$120 and \$180 before five and 10 percent stock dividends and the two-for-one stock split) on 10 days out of any 30 consecutive trading days before January 1, 2005. On April 28, 2004, Apache's share price exceeded the \$43.29 threshold for the 10-day requirement. As such, Apache will issue approximately 900,000 shares of its common stock, after minimum tax withholding requirements, in three equal installments. The first installment was issued in May 2004 and will reduce Apache's 2004 net income by approximately \$16 million after tax, or \$.05 per diluted common share. The second and third installments will be issued in 2005 and 2006 to employees remaining with the Company during those periods.

On October 26, 2004, Apache's share price exceeded the \$51.95 threshold for the 10-day requirement. As such, Apache will issue approximately 2.2 million additional shares of its common stock, after minimum tax withholding requirements, in three equal installments. The first installment will be issued in November 2004 and will reduce Apache's 2004 net income by approximately \$54 million after tax, or \$.16 per diluted common share. The second and third installments will be issued in 2005 and 2006 to employees remaining with the Company during those periods.

Timing of expense recognition under the 2000 Share Appreciation Plan is based on employee service period, beginning with adoption of the plan in 2000 and ending with the final vesting in 2006. Since roughly four years out of the full six year service period was complete upon achievement of the \$43.29 and \$51.95 thresholds, expense is more heavily waited to the 2004 period. The 2004 expense associated with achievement of both the first and second thresholds will total \$70 million after tax, or \$.21 per diluted common share. Future expense associated with both these thresholds is estimated to total \$16 million after tax, or \$.05 per diluted common share, over the next two years.

The cost related to stock-based employee compensation included in the determination of net income for 2003 and 2004 is different than that which would have been recognized if the fair value based method had been applied to all awards. The following table illustrates the effect on income attributable to common stock and earnings per share had the fair value based provisions of SFAS No. 123, as amended, been applied to all outstanding and unvested awards.

	FOR THE QUARTER ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2004	2003	2004	2003
	(In thousands, except for per common share amounts)			
Income attributable to common stock, as reported.....	\$ 432,315	\$ 275,541	\$1,151,697	\$ 856,011
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects.....	2,114	-	17,586	391
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects...	(4,702)	(5,567)	(15,344)	(16,433)
Pro forma income attributable to common stock.....	<u>\$ 429,727</u>	<u>\$ 269,974</u>	<u>\$1,153,939</u>	<u>\$ 839,969</u>
Net Income per Common Share:				
Basic:				
As reported.....	\$ 1.32	\$ .85	\$ 3.54	\$ 2.66
Pro forma.....	1.32	.84	3.54	2.61
Diluted:				
As reported.....	1.31	.84	3.50	2.64
Pro forma.....	1.30	.82	3.50	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.

7. SUPPLEMENTAL CASH FLOW INFORMATION

The following table provides supplemental disclosure of cash flow information:

	FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2004	2003
	(In thousands)	
Cash paid during the period for:		
Interest (net of amounts capitalized).....	\$ 63,333	\$ 58,821
Income taxes (net of refunds).....	352,585	225,667

8. PENSION AND POST-RETIREMENT BENEFITS

Pension Plan

Effective July 1, 2003, as part of the BP North Sea acquisition, Apache assumed a defined benefit pension plan covering existing BP North Sea employees hired by the Company as part of the acquisition. The pension plan provides defined benefits based on years of service and projected future salary.

Apache disclosed in its financial statements for the year ended December 31, 2003, that it expected to contribute \$5 million to its pension plan throughout 2004. Approximately \$4 million of the original estimate was contributed as of September 30, 2004. The remaining \$1 million is expected to be contributed by year end. Apache also contributed an additional \$11 million to fund prior years' benefit obligations.

Post-Retirement Benefit Plan

The Company did not make any material contributions to the post-retirement benefit plan during the period and does not anticipate any material contributions or benefit payments to be made in future years.

The following table sets forth the components of the net periodic cost of Apache's pension and other post-retirement benefit plans for the nine-month period ended September 30, 2004. The pension and post-retirement benefit plans did not materially impact the Company for equivalent prior-year periods.

	FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004	
	PENSION BENEFITS	POST-RETIREMENT BENEFITS
	(In thousands)	
COMPONENTS OF NET PERIODIC BENEFIT COSTS		
Service cost.....	\$ 4,091	\$ 727
Interest cost.....	2,718	471
Expected return on assets.....	(2,689)	-
Amortization of:		
Transition obligation.....	-	33
Actuarial (gain)/loss.....	-	187
Net periodic benefit cost.....	\$ 4,120	\$ 1,418

9. BUSINESS SEGMENT INFORMATION

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

	UNITED STATES	CANADA	EGYPT	AUSTRALIA	NORTH SEA	OTHER INTERNATIONAL	TOTAL
(IN THOUSANDS)							
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004							
Oil and Gas Production Revenues.....	\$1,683,181	\$ 723,266	\$ 671,346	\$ 345,600	\$ 321,353	\$ 69,548	\$ 3,814,294
Operating Income (1).....	\$ 922,926	\$ 398,751	\$ 472,829	\$ 168,578	\$ 134,677	\$ 30,054	\$ 2,127,815
Other Income (Expense):							
Other.....							(16,620)
General and administrative.....							(115,450)
Share Appreciation Plan - general and administrative.....							(11,866)
China litigation provision.....							(71,216)
Financing costs, net.....							(83,563)
Income Before Income Taxes.....							\$ 1,829,100
Total Assets.....	\$6,949,034	\$3,364,170	\$ 1,960,751	\$1,036,576	\$1,121,214	\$ 190,970	\$14,622,715
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003							
Oil and Gas Production Revenues.....	\$1,527,389	\$ 627,861	\$ 482,222	\$ 297,787	\$ 181,389	\$ 12,859	\$ 3,129,507
Operating Income (1).....	\$ 849,027	\$ 350,924	\$ 287,353	\$ 150,687	\$ 22,536	\$ 4,472	\$ 1,664,999
Other Income (Expense):							
Other.....							(4,001)
General and administrative.....							(93,097)
Preferred interests of subsidiaries.....							(8,668)
Financing costs, net.....							(88,711)
Income Before Income Taxes.....							\$ 1,470,522
Total Assets.....	\$5,574,670	\$2,829,605	\$ 1,714,001	\$ 955,209	\$ 981,240	\$ 185,320	\$12,240,045

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

10. ASSET RETIREMENT OBLIGATIONS

Effective January 1, 2003, the Company adopted SFAS No. 143, "Accounting for Asset Retirement Obligations," which 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 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. Apache's asset retirement obligations primarily relate to the plugging and abandonment of oil and gas properties.

The following table describes all changes to the Company's ARO liability for the current year (in thousands):

Asset retirement obligation as of December 31, 2003.....	\$ 739,775
Liabilities incurred.....	137,026
Liabilities settled.....	(39,746)
Accretion expense.....	32,723
	-----
Asset retirement obligation as of September 30, 2004.....	\$ 869,778
	=====

Liabilities incurred during the period primarily relate to abandonment obligations assumed in connection with the ExxonMobil acquisition and the portion of the Anadarko properties closed in September 2004. Liabilities settled during the period primarily relate to individually immaterial properties plugged and abandoned or sold during the period.

#### 11. LITIGATION

China - Apache recorded a reserve in the second quarter of 2004 to fully reflect a pre-tax \$71 million international arbitration award to Texaco China B.V. (Texaco China). In September 2001, Texaco China initiated an arbitration proceeding against Apache China Corporation LDC (Apache China), later adding Apache Bohai Corporation LDC (Apache Bohai) to the arbitration. In the arbitration Texaco China claimed damages, plus interest, arising from Apache Bohai's alleged failure to drill three wells, prior to re-assignment of the interest to Texaco China. Apache believes that the finding of the arbitrator is unsupported by the facts and the law, and Apache has filed and is pursuing an application to vacate the award in federal court. Texaco China has filed an application to confirm the award in the same court.

Canada - In September 2004, the court in Canada that is hearing The Predator Corporation Ltd. (Predator) counterclaim filed in February 2001 granted Apache Canada's motion for summary judgment, in part dismissing more than \$3.3 billion Canadian dollars of Predator's claims against the Company and Murphy Oil Corporation (Murphy), and dismissing all claims against both Murphy's president and Apache Canada's president. Predator has appealed the dismissal. Only Predator's claims against Murphy and Apache Canada for mismanaging operations survive in the trial court at this time. Those claims total approximately \$363 million Canadian dollars, plus interest and attorneys' fees. Apache's share of this exposure, under the joint operating agreement, would be approximately 37 percent of the total. Management believes that Predator's claim is without merit and the likelihood of success is remote. Apache and Murphy's claims against Predator, filed in December 2000, are still pending.

#### 12. CHANGE IN CRITICAL ACCOUNTING POLICY

In September 2004, the SEC issued Staff Accounting Bulletin No. 106 ("SAB 106") to provide new guidance on how asset retirement obligations should impact the calculation of the "ceiling test" or limitation on the amount of properties that can be capitalized on the balance sheet under the full cost method of accounting for oil and gas companies. The new guidance dictates that since the asset retirement obligation is now reported on the balance sheet, related costs in the future net cash flow calculation should be omitted to avoid double-counting these costs. As allowed under existing guidance, Apache includes such costs in its future net cash flow calculation, but adjusts the corresponding amount on the balance sheet. The Company does not believe that adoption of SAB 106 will have a material impact on financial results. Apache will apply the new guidance outlined in SAB 106 prospectively.

#### 13. SUPPLEMENTAL GUARANTOR INFORMATION

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

Each of the companies presented in the condensed consolidating financial statements has been fully consolidated in Apache's consolidated financial statements. As such, the condensed consolidating financial statements should be read in conjunction with the financial statements of Apache Corporation and Subsidiaries and notes thereto of which this note is an integral part.

APACHE CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS  
FOR THE QUARTER ENDED SEPTEMBER 30, 2004

	APACHE CORPORATION	APACHE NORTH AMERICA	APACHE FINANCE AUSTRALIA	APACHE FINANCE CANADA	ALL OTHER SUBSIDIARIES OF APACHE CORPORATION	RECLASSIFICATIONS & ELIMINATIONS	CONSOLIDATED
(IN THOUSANDS)							
<b>REVENUES AND OTHER:</b>							
Oil and gas production revenues...	\$ 581,632	\$ -	\$ -	\$ -	\$ 909,350	\$ (76,854)	\$ 1,414,128
Equity in net income (loss) of affiliates.....	239,994	11,286	14,242	25,869	(14,362)	(277,029)	-
Other.....	(2,547)	-	-	-	(4,579)	-	(7,126)
	819,079	11,286	14,242	25,869	890,409	(353,883)	1,407,002
<b>OPERATING EXPENSES:</b>							
Depreciation, depletion and amortization.....	136,169	-	-	-	177,351	-	313,520
Asset retirement obligation accretion.....	5,897	-	-	-	5,174	-	11,071
Lease operating costs.....	88,589	-	-	-	193,155	(76,854)	204,890
Share appreciation plan - LOE.....	445	-	-	-	429	-	874
Gathering and transportation costs	7,154	-	-	-	13,748	-	20,902
Severance and other taxes.....	17,527	-	-	-	29,621	-	47,148
General and administrative.....	27,506	-	-	-	7,615	-	35,121
Share appreciation plan - G&A.....	778	-	-	-	76	-	854
Financing costs, net.....	19,572	-	4,512	9,936	(5,170)	-	28,850
	303,637	-	4,512	9,936	421,999	(76,854)	663,230
<b>INCOME (LOSS) BEFORE INCOME TAXES....</b>	<b>515,442</b>	<b>11,286</b>	<b>9,730</b>	<b>15,933</b>	<b>468,410</b>	<b>(277,029)</b>	<b>743,772</b>
Provision (benefit) for income taxes.....	81,707	-	(1,556)	1,470	228,416	-	310,037
<b>NET INCOME.....</b>	<b>433,735</b>	<b>11,286</b>	<b>11,286</b>	<b>14,463</b>	<b>239,994</b>	<b>(277,029)</b>	<b>433,735</b>
Preferred stock dividends.....	1,420	-	-	-	-	-	1,420
<b>INCOME ATTRIBUTABLE TO COMMON STOCK..</b>	<b>\$ 432,315</b>	<b>\$ 11,286</b>	<b>\$ 11,286</b>	<b>\$ 14,463</b>	<b>\$ 239,994</b>	<b>\$ (277,029)</b>	<b>\$ 432,315</b>

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

	APACHE CORPORATION	APACHE NORTH AMERICA	APACHE FINANCE AUSTRALIA	APACHE FINANCE CANADA	ALL OTHER SUBSIDIARIES OF APACHE CORPORATION	RECLASSIFICATIONS & ELIMINATIONS	CONSOLIDATED
	(IN THOUSANDS)						
<b>REVENUES AND OTHER:</b>							
Oil and gas production revenues...	\$ 452,358	\$ -	\$ -	\$ -	\$ 704,664	\$ (47,007)	\$ 1,110,015
Equity in net income (loss) of affiliates.....	171,661	6,614	9,591	30,809	(9,303)	(209,372)	-
Other.....	(331)	-	-	-	(5,143)	-	(5,474)
	-----	-----	-----	-----	-----	-----	-----
	623,688	6,614	9,591	30,809	690,218	(256,379)	1,104,541
	-----	-----	-----	-----	-----	-----	-----
<b>OPERATING EXPENSES:</b>							
Depreciation, depletion and amortization.....	104,743	-	-	-	188,142	-	292,885
Asset retirement obligation accretion.....	4,674	-	-	-	6,668	-	11,342
Lease operating costs.....	80,068	-	-	-	161,513	(47,007)	194,574
Gathering and transportation costs	5,522	-	-	-	11,426	-	16,948
Severance and other taxes.....	11,233	-	-	-	30,354	-	41,587
General and administrative.....	26,499	-	-	-	8,193	-	34,692
Financing costs, net.....	27,042	-	4,509	9,945	(7,624)	-	33,872
	-----	-----	-----	-----	-----	-----	-----
	259,781	-	4,509	9,945	398,672	(47,007)	625,900
	-----	-----	-----	-----	-----	-----	-----
PREFERRED INTERESTS OF SUBSIDIARIES..	(25)	-	-	-	2,001	-	1,976
	-----	-----	-----	-----	-----	-----	-----
INCOME (LOSS) BEFORE INCOME TAXES....	363,932	6,614	5,082	20,864	289,545	(209,372)	476,665
Provision (benefit) for income taxes.....	86,971	-	(1,532)	(3,619)	117,884	-	199,704
	-----	-----	-----	-----	-----	-----	-----
NET INCOME.....	276,961	6,614	6,614	24,483	171,661	(209,372)	276,961
Preferred stock dividends.....	1,420	-	-	-	-	-	1,420
	-----	-----	-----	-----	-----	-----	-----
INCOME ATTRIBUTABLE TO COMMON STOCK..	\$ 275,541	\$ 6,614	\$ 6,614	\$ 24,483	\$ 171,661	\$ (209,372)	\$ 275,541
	=====	=====	=====	=====	=====	=====	=====

APACHE CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004

	APACHE CORPORATION	APACHE NORTH AMERICA	APACHE FINANCE AUSTRALIA	APACHE FINANCE CANADA	ALL OTHER SUBSIDIARIES OF APACHE CORPORATION	RECLASSIFICATIONS & ELIMINATIONS	CONSOLIDATED
	(IN THOUSANDS)						
<b>REVENUES AND OTHER:</b>							
Oil and gas production revenues...	\$ 1,679,091	\$ -	\$ -	\$ -	\$ 2,367,271	\$ (232,068)	\$ 3,814,294
Equity in net income (loss) of affiliates.....	656,681	29,968	38,958	117,268	(33,672)	(809,203)	-
Other.....	(4,458)	-	-	-	(12,162)	-	(16,620)
	2,331,314	29,968	38,958	117,268	2,321,437	(1,041,271)	3,797,674
<b>OPERATING EXPENSES:</b>							
Depreciation, depletion and amortization.....	405,223	-	-	-	490,262	-	895,485
Asset retirement obligation accretion.....	17,497	-	-	-	15,226	-	32,723
Lease operating costs.....	258,716	-	-	-	581,368	(232,068)	608,016
Share appreciation plan - LOE.....	6,182	-	-	-	5,684	-	11,866
Gathering and transportation costs	22,377	-	-	-	38,321	-	60,698
Severance and other taxes.....	46,323	-	-	18	31,350	-	77,691
General and administrative.....	90,858	-	-	-	24,592	-	115,450
Share appreciation plan - G&A.....	10,812	-	-	-	1,054	-	11,866
China litigation provision.....	-	-	-	-	71,216	-	71,216
Financing costs, net.....	61,588	-	13,534	29,979	(21,538)	-	83,563
	919,576	-	13,534	29,997	1,237,535	(232,068)	1,968,574
<b>INCOME (LOSS) BEFORE INCOME TAXES....</b>	<b>1,411,738</b>	<b>29,968</b>	<b>25,424</b>	<b>87,271</b>	<b>1,083,902</b>	<b>(809,203)</b>	<b>1,829,100</b>
Provision (benefit) for income taxes.....	255,781	-	(4,544)	(5,315)	427,221	-	673,143
<b>NET INCOME.....</b>	<b>1,155,957</b>	<b>29,968</b>	<b>29,968</b>	<b>92,586</b>	<b>656,681</b>	<b>(809,203)</b>	<b>1,155,957</b>
Preferred stock dividends.....	4,260	-	-	-	-	-	4,260
<b>INCOME ATTRIBUTABLE TO COMMON STOCK..</b>	<b>\$ 1,151,697</b>	<b>\$ 29,968</b>	<b>\$ 29,968</b>	<b>\$ 92,586</b>	<b>\$ 656,681</b>	<b>\$ (809,203)</b>	<b>\$ 1,151,697</b>

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	APACHE FINANCE CANADA	ALL OTHER SUBSIDIARIES OF APACHE CORPORATION	RECLASSIFICATIONS & ELIMINATIONS	CONSOLIDATED
	(IN THOUSANDS)						
<b>REVENUES AND OTHER:</b>							
Oil and gas production revenues...	\$ 1,267,321	\$ -	\$ -	\$ -	\$ 2,007,790	\$ (145,604)	\$ 3,129,507
Equity in net income (loss) of affiliates.....	427,821	23,343	32,276	65,411	(28,061)	(520,790)	-
Other.....	(6,588)	-	-	-	2,587	-	(4,001)
	1,688,554	23,343	32,276	65,411	1,982,316	(666,394)	3,125,506
<b>OPERATING EXPENSES:</b>							
Depreciation, depletion and amortization.....	265,954	-	-	-	513,636	-	779,590
Asset retirement obligation accretion.....	11,216	-	-	-	15,884	-	27,100
Lease operating costs.....	204,842	-	-	-	455,757	(145,604)	514,995
Gathering and transportation costs	14,419	-	-	-	29,521	-	43,940
Severance and other taxes.....	38,632	-	-	53	60,198	-	98,883
General and administrative.....	75,340	-	-	-	17,757	-	93,097
Financing costs, net.....	75,486	-	13,534	30,124	(30,433)	-	88,711
	685,889	-	13,534	30,177	1,062,320	(145,604)	1,646,316
PREFERRED INTERESTS OF SUBSIDIARIES..	(25)	-	-	-	8,693	-	8,668
<b>INCOME (LOSS) BEFORE INCOME TAXES....</b>	<b>1,002,690</b>	<b>23,343</b>	<b>18,742</b>	<b>35,234</b>	<b>911,303</b>	<b>(520,790)</b>	<b>1,470,522</b>
Provision (benefit) for income taxes.....	162,176	-	(4,601)	(11,049)	490,357	-	636,883
<b>INCOME (LOSS) BEFORE CHANGE IN ACCOUNTING PRINCIPLE.....</b>	<b>840,514</b>	<b>23,343</b>	<b>23,343</b>	<b>46,283</b>	<b>420,946</b>	<b>(520,790)</b>	<b>833,639</b>
Cumulative effect of change in accounting principle, net of income tax.....	19,757	-	-	-	6,875	-	26,632
<b>NET INCOME.....</b>	<b>860,271</b>	<b>23,343</b>	<b>23,343</b>	<b>46,283</b>	<b>427,821</b>	<b>(520,790)</b>	<b>860,271</b>
Preferred stock dividends.....	4,260	-	-	-	-	-	4,260
<b>INCOME ATTRIBUTABLE TO COMMON STOCK..</b>	<b>\$ 856,011</b>	<b>\$ 23,343</b>	<b>\$ 23,343</b>	<b>\$ 46,283</b>	<b>\$ 427,821</b>	<b>\$ (520,790)</b>	<b>\$ 856,011</b>

APACHE CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004

	APACHE CORPORATION	APACHE NORTH AMERICA	APACHE FINANCE AUSTRALIA	APACHE FINANCE CANADA	ALL OTHER SUBSIDIARIES OF APACHE CORPORATION	RECLASSIFICATIONS & ELIMINATIONS	CONSOLIDATED
	(IN THOUSANDS)						
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES.....	\$ 1,162,884	\$ -	\$ (11,831)	\$(19,435)	\$ 1,188,920	\$ -	\$ 2,320,538
CASH FLOWS FROM INVESTING ACTIVITIES:							
Additions to property and equipment	(577,697)	-	-	-	(1,104,340)	-	(1,682,037)
Acquisition of Anadarko properties.	(92,699)	-	-	-	-	-	(92,699)
Acquisition of ExxonMobil properties.....	(347,352)	-	-	-	-	-	(347,352)
Restricted cash for acquisition settlement.....	(444,734)	-	-	-	-	-	(444,734)
Investment in subsidiaries, net....	(45,720)	(12,525)	-	-	(30,748)	88,993	-
Other, net.....	(17,430)	-	-	-	(37,992)	-	(55,422)
NET CASH USED IN INVESTING ACTIVITIES	(1,525,632)	(12,525)	-	-	(1,173,080)	88,993	(2,622,244)
CASH FLOWS FROM FINANCING ACTIVITIES:							
Long-term borrowings.....	543,170	-	(694)	156	19,507	(18,773)	543,366
Payments on long-term debt.....	(135,300)	-	-	-	-	-	(135,300)
Dividends paid.....	(62,825)	-	-	-	-	-	(62,825)
Common stock activity.....	19,324	12,525	12,525	19,281	25,889	(70,220)	19,324
Treasury stock activity, net.....	11,412	-	-	-	-	-	11,412
Cost of debt and equity transactions.....	(2,250)	-	-	-	-	-	(2,250)
NET CASH PROVIDED BY FINANCING ACTIVITIES.....	373,531	12,525	11,831	19,437	45,396	(88,993)	373,727
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....	10,783	-	-	2	61,236	-	72,021
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	-	-	2	1	33,500	-	33,503
CASH AND CASH EQUIVALENTS AT END OF PERIOD.....	\$ 10,783	\$ -	\$ 2	\$ 3	\$ 94,736	\$ -	\$ 105,524

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	APACHE FINANCE CANADA	ALL OTHER SUBSIDIARIES OF APACHE CORPORATION	RECLASSIFICATIONS & ELIMINATIONS	CONSOLIDATED
	(IN THOUSANDS)						
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES.....	\$ 883,634	\$ -	\$ (13,791)	\$(22,893)	\$ 1,232,159	\$ -	\$ 2,079,109
CASH FLOWS FROM INVESTING ACTIVITIES:							
Additions to property and equipment	(325,918)	-	-	-	(789,431)	-	(1,115,349)
Acquisitions.....	(739,072)	-	-	-	(639,703)	-	(1,378,775)
Proceeds from sales of oil and gas properties.....	4,192	-	-	-	12,010	-	16,202
Investment in subsidiaries, net....	(542,452)	(12,525)	-	-	(617)	555,594	-
Other, net.....	(23,531)	-	-	-	(20,771)	-	(44,302)
NET CASH USED IN INVESTING ACTIVITIES	(1,626,781)	(12,525)	-	-	(1,438,512)	555,594	(2,522,224)
CASH FLOWS FROM FINANCING ACTIVITIES:							
Long-term borrowings.....	1,531,596	-	1,266	2,103	(385,108)	619,801	1,769,658
Payments on long-term debt.....	(1,227,288)	-	-	-	(187,641)	-	(1,414,929)
Dividends paid.....	(51,967)	-	-	-	-	-	(51,967)
Common stock activity.....	574,881	12,525	12,525	20,663	1,129,682	(1,175,395)	574,881
Treasury stock activity, net.....	3,743	-	-	-	-	-	3,743
Cost of debt and equity transactions.....	(4,520)	-	-	-	-	-	(4,520)
Repurchase of preferred interests of subsidiaries.....	(82,000)	-	-	-	(361,000)	-	(443,000)
NET CASH PROVIDED BY FINANCING ACTIVITIES.....	744,445	12,525	13,791	22,766	195,933	(555,594)	433,866
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....	1,298	-	-	(127)	(10,420)	-	(9,249)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	224	-	2	127	51,533	-	51,886
CASH AND CASH EQUIVALENTS AT END OF PERIOD.....	\$ 1,522	\$ -	\$ 2	\$ -	\$ 41,113	\$ -	\$ 42,637

APACHE CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATING BALANCE SHEET  
AS OF SEPTEMBER 30, 2004

	APACHE CORPORATION	APACHE NORTH AMERICA	APACHE FINANCE AUSTRALIA	APACHE FINANCE CANADA	ALL OTHER SUBSIDIARIES OF APACHE CORPORATION	RECLASSIFICATIONS & ELIMINATIONS	CONSOLIDATED
(IN THOUSANDS)							
<b>ASSETS</b>							
<b>CURRENT ASSETS:</b>							
Cash and cash equivalents.....	\$ 10,783	\$ -	\$ 2	\$ 3	\$ 94,736	\$ -	\$ 105,524
Restricted cash for acquisition settlement.....	444,734	-	-	-	-	-	444,734
Receivables, net of allowance.....	238,462	-	-	-	545,219	-	783,681
Inventories.....	21,039	-	-	-	116,414	-	137,453
Drilling advances and others.....	35,770	-	-	-	80,028	-	115,798
	750,788	-	2	3	836,397	-	1,587,190
<b>PROPERTY AND EQUIPMENT, NET.....</b>	<b>6,010,310</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,726,982</b>	<b>-</b>	<b>12,737,292</b>
<b>OTHER ASSETS:</b>							
Intercompany receivable, net.....	1,311,510	-	(1,114)	93,656	(1,404,052)	-	-
Goodwill, net.....	-	-	-	-	189,252	-	189,252
Equity in affiliates.....	3,755,494	257,429	508,291	1,218,497	(811,495)	(4,928,216)	-
Deferred charges and other.....	41,588	-	-	4,700	62,693	-	108,981
	<u>\$11,869,690</u>	<u>\$257,429</u>	<u>\$ 507,179</u>	<u>\$1,316,856</u>	<u>\$ 5,599,777</u>	<u>\$(4,928,216)</u>	<u>\$ 14,622,715</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>							
<b>CURRENT LIABILITIES:</b>							
Accounts payable.....	267,020	-	-	-	173,268	-	440,288
Other accrued expenses.....	347,140	-	(557)	12,764	345,193	-	704,540
	614,160	-	(557)	12,764	518,461	-	1,144,828
<b>LONG-TERM DEBT.....</b>	<b>1,813,754</b>	<b>-</b>	<b>269,139</b>	<b>646,783</b>	<b>5,356</b>	<b>-</b>	<b>2,735,032</b>
<b>DEFERRED CREDITS AND OTHER NONCURRENT LIABILITIES:</b>							
Income taxes.....	984,237	-	(18,832)	(555)	941,207	-	1,906,057
Advances from gas purchasers.....	96,091	-	-	-	-	-	96,091
Asset retirement obligation.....	508,558	-	-	-	361,220	-	869,778
Derivative instruments.....	26,750	-	-	-	-	-	26,750
Other.....	154,523	-	-	-	18,039	-	172,562
	1,770,159	-	(18,832)	(555)	1,320,466	-	3,071,238
<b>SHAREHOLDERS' EQUITY.....</b>	<b>7,671,617</b>	<b>257,429</b>	<b>257,429</b>	<b>657,864</b>	<b>3,755,494</b>	<b>(4,928,216)</b>	<b>7,671,617</b>
	<u>\$11,869,690</u>	<u>\$257,429</u>	<u>\$ 507,179</u>	<u>\$1,316,856</u>	<u>\$ 5,599,777</u>	<u>\$(4,928,216)</u>	<u>\$ 14,622,715</u>

APACHE CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATING BALANCE SHEET  
AS OF DECEMBER 31, 2003

	APACHE CORPORATION	APACHE NORTH AMERICA	APACHE FINANCE AUSTRALIA	APACHE FINANCE CANADA	ALL OTHER SUBSIDIARIES OF APACHE CORPORATION	RECLASSIFICATIONS & ELIMINATIONS	CONSOLIDATED
	(IN THOUSANDS)						
<b>ASSETS</b>							
<b>CURRENT ASSETS:</b>							
Cash and cash equivalents.....	\$ -	\$ -	\$ 2	\$ 1	\$ 33,500	\$ -	\$ 33,503
Receivables, net of allowance.....	204,078	-	-	-	434,977	-	639,055
Inventories.....	17,646	-	-	-	108,221	-	125,867
Drilling advances and other.....	60,159	-	-	-	40,488	-	100,647
	281,883	-	2	1	617,186	-	899,072
<b>PROPERTY AND EQUIPMENT, NET.....</b>	<b>5,235,717</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,024,368</b>	<b>-</b>	<b>11,260,085</b>
<b>OTHER ASSETS:</b>							
Intercompany receivable, net.....	1,291,503	-	(1,961)	93,768	(1,383,310)	-	-
Goodwill, net.....	-	-	-	-	189,252	-	189,252
Equity in affiliates.....	3,077,152	183,617	437,860	1,084,711	(803,409)	(3,979,931)	-
Deferred charges and other.....	36,672	-	-	4,767	26,278	-	67,717
	<u>\$ 9,922,927</u>	<u>\$183,617</u>	<u>\$ 435,901</u>	<u>\$1,183,247</u>	<u>\$ 4,670,365</u>	<u>\$(3,979,931)</u>	<u>\$ 12,416,126</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>							
<b>CURRENT LIABILITIES:</b>							
Accounts payable.....	\$ 189,031	\$ -	\$ -	\$ -	\$ 111,567	\$ -	\$ 300,598
Other accrued expenses.....	238,555	-	1,621	1,803	277,801	-	519,780
	427,586	-	1,621	1,803	389,368	-	820,378
<b>LONG-TERM DEBT.....</b>	<b>1,405,882</b>	<b>-</b>	<b>268,987</b>	<b>646,741</b>	<b>5,356</b>	<b>-</b>	<b>2,326,966</b>
<b>DEFERRED CREDITS AND OTHER</b>							
<b>NONCURRENT LIABILITIES:</b>							
Income taxes.....	879,044	-	(18,324)	(842)	837,360	-	1,697,238
Advances from gas purchasers.....	109,207	-	-	-	-	-	109,207
Asset retirement obligation.....	401,349	-	-	-	338,426	-	739,775
Oil and gas derivative instruments.....	5,931	-	-	-	-	-	5,931
Other.....	161,130	-	-	-	22,703	-	183,833
	1,556,661	-	(18,324)	(842)	1,198,489	-	2,735,984
<b>SHAREHOLDERS' EQUITY.....</b>	<b>6,532,798</b>	<b>183,617</b>	<b>183,617</b>	<b>535,545</b>	<b>3,077,152</b>	<b>(3,979,931)</b>	<b>6,532,798</b>
	<u>\$ 9,922,927</u>	<u>\$183,617</u>	<u>\$ 435,901</u>	<u>\$1,183,247</u>	<u>\$ 4,670,365</u>	<u>\$(3,979,931)</u>	<u>\$ 12,416,126</u>

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

OVERVIEW

Higher crude oil prices and crude oil production drove Apache Corporation's (Apache or the Company) third-quarter 2004 revenues and earnings to a record \$1.4 billion and \$432 million, respectively, despite the impact on Gulf of Mexico production operations from Hurricane Ivan, a mid-September 2004 event. Third-quarter 2004 earnings were 57 percent higher than the equivalent 2003 quarter. The Company also reported record revenues and earnings of \$3.8 billion and \$1.15 billion, respectively, for the first nine months of 2004. The improved results for the nine-month period were driven by strong crude oil prices, higher crude oil and natural gas production, and a lower effective income tax rate. Net cash provided by operating activities totaled \$2.3 billion for the nine-month period compared to \$2.1 billion in the prior-year period.

On a barrel of oil equivalent basis (boe), 2004 third-quarter production was up two percent to a record 458,412 boe/d, despite the 4,042 b/d of oil production and 21.4 MMcf/d of natural gas production lost to Hurricane Ivan. Production on a boe basis from outside the U.S. increased to 61 percent of worldwide production, primarily reflecting growth in Egypt and the North Sea. Our third-quarter 2004 production mix of 45/55 percent natural gas to liquids compared to 47/53 percent in 2003. The change in production mix reflects the impact of oil production in the North Sea and China. Natural gas production of 1,234 MMcf/d was 30 MMcf/d below the third-quarter of 2003, with over two-thirds of the drop related to Hurricane Ivan. Third-quarter crude oil production increased five percent to a record 241,072 b/d. While we are working to restore our Gulf of Mexico production impacted by the hurricane, transportation pipelines have been damaged by subsea mudslides and may delay a return to full production until 2005. Apache maintains business interruption insurance that reimburses the Company for lost oil and gas production revenues, including revenues lost as a result of damage to third-party facilities. The damages are based on prevailing oil and natural gas prices and lost production, subject to a deductible which was met at the end of September. The Company also maintains insurance for physical damage that covers costs in excess of our deductible.

The higher crude oil prices and strong natural gas prices continues to drive up our cash flows, enabling us to increase our capital expenditures for drilling and acquisition opportunities. During the 2004 third quarter, we invested approximately \$600 million worldwide on exploration and development capital projects and announced two significant acquisitions. Notable discoveries and appraisal wells announced since the end of the second quarter 2004, are discussed below:

- During the third quarter, we announced two successful appraisal wells and completion of one development well on Egypt's Khalda Concession. On July 1, we announced that the Qasr-5 appraisal well successfully extended the Qasr field to the southwest. On September 7, we announced that the Qasr-6 appraisal well successfully extended the Qasr field to the west. These were our third and fourth successful Qasr appraisal wells and both wells provided further confirmation of the overall seismically-defined structure of the field. Production will follow after additional pipeline and processing infrastructure is completed. Also, on September 7, we announced completion of the Qasr-9 development well, which commenced commercial production in early September.
- On August 19, we announced two gas wells that would flow through Apache's Tarek gas plant in Egypt. The Imhotep-1X on the Khalda Offset Concession was brought on production immediately. The Mihos-1X appraisal well on the Matruh Concession commenced production in early September and brought the Tarek gas plant up to its full capacity of 100 MMcf per day.
- On July 13, we announced that the Ravensworth-2 appraisal well in the Exmouth Basin offshore Western Australia encountered an oil column 49 feet higher than expected, thereby extending the area of the field farther north than mapped based on the Ravensworth-1 discovery well.

Also during the third quarter, we closed on separate agreements with ExxonMobil that would capitalize on the respective strengths and assets of both companies related to exploration and development on properties in West Texas, Western Canada, Louisiana, and the Gulf of Mexico. Additionally, Apache signed a definitive agreement to acquire all of Anadarko Petroleum Corporation's (Anadarko) Gulf of Mexico Outer-Continental Shelf properties. Because some properties were subject to preferential rights, we closed the Anadarko acquisition in two stages,

September 24, 2004 and October 22, 2004. The ExxonMobil and Anadarko transactions are discussed in Note 1 of this Form 10-Q.

In July 2004, the Company signed an amendment agreement with the Egyptian General Petroleum Corporation (EGPC) which, among other things, extended the term of the Khalda, Khalda West and Salam development leases through 2024. These development leases would have expired in 2011, 2012 and 2010, respectively. We also received a five-year extension on our Khalda Offset exploration acreage, with an option for an additional three-year extension. As part of this agreement and in conjunction with the Qasr 25-year Gas Sales Agreement discussed in our Form 10-Q for the quarter ended June 30, 2004, we agreed to re-price natural gas volumes in excess of 100 MMcf/d produced from the Khalda Concession development leases and future Khalda Offset development leases. Under the new pricing formula, Apache will receive a price indexed to crude oil, with a minimum price of \$1.50 per MMBtu and a maximum price of \$2.65 per MMBtu. Pricing for the first 100 MMcf/d remains subject to the original contract price, which is indexed to oil pricing, but without a minimum or maximum. The pricing for this first 100 MMcf/d continues until January 1, 2013 at which time all Khalda area gas will be priced at the new pricing formula. For the third quarter, Apache's price averaged \$4.45 per Mcf, which was a blend of the old and new contracts.

As discussed in Note 6 of this Form 10-Q, on October 26, 2004, Apache's share price exceeded the second threshold (\$51.95) for the 10-day requirement under the Company's 2000 Share Appreciation Plan. As such, Apache will issue approximately 2.2 million additional shares of its common stock, after minimum tax withholding requirements, in three equal installments. The first installment will be issued in November 2004 and will reduce Apache's 2004 net income by approximately \$54 million after tax, or \$.16 cents per diluted common share. The second and third installments will be issued in 2005 and 2006 to employees remaining with the Company during those periods.

Timing of expense recognition under the 2000 Share Appreciation Plan is based on employee service period, beginning with adoption of the plan in 2000 and ending with the final vesting in 2006. Since roughly four years out of the full six year service period was complete upon achievement of the \$43.29 and \$51.95 thresholds, expense is more heavily weighted to the 2004 period. The 2004 expense associated with achievement of both the first and second thresholds will total \$70 million after tax, or \$.21 per diluted common share. Future expense associated with both these thresholds is estimated to total \$16 million after tax, or \$.05 per diluted common share, over the next two years.

The outlook for the fourth quarter appears favorable considering that current NYMEX futures markets indicate that crude oil and natural gas prices will be above third-quarter levels. We believe our earnings and cash flow will remain strong, given the impact of currently favorable price indications on our base properties and the recent addition of the ExxonMobil and Anadarko properties.

## 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.

	FOR THE QUARTER ENDED SEPTEMBER 30,				FOR THE NINE MONTHS ENDED SEPTEMBER 30,			
	OIL REVENUES		GAS REVENUES		OIL REVENUES		GAS REVENUES	
	2004	2003	2004	2003	2004	2003	2004	2003
United States.....	30%	33%	58%	64%	32%	34%	58%	62%
Canada.....	11%	11%	28%	25%	12%	13%	28%	27%
North America.....	41%	44%	86%	89%	44%	47%	86%	89%
Egypt.....	24%	21%	11%	8%	24%	23%	10%	8%
Australia.....	16%	15%	3%	3%	14%	17%	4%	3%
North Sea.....	16%	18%	-	-	15%	12%	-	-
China.....	3%	1%	-	-	3%	-	-	-
Other.....	-	1%	-	-	-	1%	-	-
Total.....	100%	100%	100%	100%	100%	100%	100%	100%
	===	===	===	===	===	===	===	===

### Crude Oil Contribution

Apache's third-quarter 2004 consolidated crude oil revenues increased significantly compared to the third quarter of 2003 on significantly higher crude oil price realizations in all core areas except the North Sea. U.S. crude oil revenues continue to be the highest among all core areas, but dropped slightly to 30 percent of consolidated revenues on a 14 percent reduction in third quarter production, largely attributable to Hurricane Ivan. All other core areas, except for the North Sea, had similar price gains on top of production growth or smaller production declines.

Canada's contribution remained steady at 11 percent of consolidated revenues. Egypt saw both higher prices and production growth pushing its contribution to 24 percent of consolidated crude oil revenues, three percent above the 2003 quarter. The North Sea's contribution was off two percent to 16 percent. Although the North Sea saw a 38 percent increase in production, a five percent decline in realized prices constrained revenue growth. Approximately two-thirds of the North Sea's third-quarter production was subject to a physical sales contract with BP, p.l.c. (see Note 2 of this Form 10-Q), at prices approximately 12 percent below the prior-year quarter's contractual price. Australia's contribution rose one percent to 16 percent as quarterly revenues benefited from a 61 percent increase in price, outpacing all other areas. China, which initiated production on a limited basis during the third quarter of 2003, contributed three percent of third-quarter 2004 crude oil revenues, up two percent.

For the nine-month period, the North Sea saw the largest absolute increase in consolidated crude oil revenues, as the 2003 period only included six months of revenue. China contributed three percent for the reasons previously discussed. Australia, the U.S. and Canada's contributions fell three percent, two percent and one percent, respectively, primarily because of the addition of the North Sea and China. Egypt's overall contribution rose one percent to 24 percent as revenues surged 44 percent on higher production and prices.

#### Natural Gas Contribution

The North American regions continue to contribute the majority of our natural gas revenues; however, they were down three percent to 86 percent. Egypt's contribution to third-quarter revenues increased to 11 percent of consolidated natural gas revenues on the strength of a 40 percent rise in production. Canada's contribution increased to 28 percent on a 14 percent rise in realized prices relative to other areas and a small increase in production. Egypt's and Canada's gains were at the expense of the U.S. This shift occurred because U.S. third-quarter 2004 natural gas revenues declined five percent on an 11 percent hurricane-induced decline in production, compared to the 2003 quarter, while Egypt's revenues surged 44 percent and Canada's improved 16 percent. Egypt's production gains were attributable to new discoveries which enabled higher utilization rates at the Salam and Tarek gas plants.

Segment contributions to revenue for the nine-month period were similar, although the period-over-period change was not as dramatic.

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 MONTHS ENDED SEPTEMBER 30,		
	2004	2003	INCREASE (DECREASE)	2004	2003	INCREASE (DECREASE)
<b>Revenues (in thousands):</b>						
Natural gas.....	\$ 541,489	\$ 517,891	5%	\$ 1,618,852	\$ 1,561,729	4%
Oil.....	843,572	575,201	47%	2,121,861	1,518,012	40%
Natural gas liquids.....	29,067	16,923	72%	73,581	49,766	48%
<b>Total.....</b>	<b>\$ 1,414,128</b>	<b>\$ 1,110,015</b>	<b>27%</b>	<b>\$ 3,814,294</b>	<b>\$ 3,129,507</b>	<b>22%</b>
<b>Natural Gas Volume - Mcf per day:</b>						
United States.....	640,467	717,988	(11%)	649,997	658,231	(1%)
Canada.....	325,535	319,522	2%	322,390	315,307	2%
Egypt.....	141,072	100,965	40%	135,709	112,534	21%
Australia.....	121,088	114,248	6%	118,587	107,415	10%
North Sea.....	2,043	3,321	(38%)	1,769	1,820	(3%)
China.....	-	-	-	-	-	-
Argentina.....	3,467	7,858	(56%)	3,985	7,466	(47%)
<b>Total.....</b>	<b>1,233,672</b>	<b>1,263,902</b>	<b>(2%)</b>	<b>1,232,437</b>	<b>1,202,773</b>	<b>2%</b>
<b>Average Natural Gas price - Per Mcf:</b>						
United States.....	\$ 5.30	\$ 5.00	6%	\$ 5.32	\$ 5.40	(1%)
Canada.....	5.10	4.47	14%	5.10	4.87	5%
Egypt.....	4.45	4.31	3%	4.41	4.20	5%
Australia.....	1.58	1.47	7%	1.64	1.39	18%
North Sea.....	4.36	1.88	132%	4.57	1.95	134%
China.....	-	-	-	-	-	-
Argentina.....	.78	.50	56%	.62	.48	29%
<b>Total.....</b>	<b>4.77</b>	<b>4.45</b>	<b>7%</b>	<b>4.79</b>	<b>4.76</b>	<b>1%</b>
<b>Oil Volume - Barrels per day:</b>						
United States.....	65,017	75,593	(14%)	67,110	68,535	(2%)
Canada.....	24,743	25,790	(4%)	25,409	25,143	1%
Egypt.....	52,602	48,788	8%	51,706	47,406	9%
Australia.....	32,199	32,711	(2%)	26,041	31,949	(18%)
North Sea.....	58,031	42,111	38%	49,866	25,320	97%
China.....	7,948	3,131	154%	7,121	1,055	575%
Argentina.....	532	574	(7%)	542	586	(8%)
<b>Total.....</b>	<b>241,072</b>	<b>228,698</b>	<b>5%</b>	<b>227,795</b>	<b>199,994</b>	<b>14%</b>
<b>Average Oil price - Per barrel:</b>						
United States.....	\$ 41.45	\$ 27.03	53%	\$ 36.90	\$ 27.52	34%
Canada.....	41.34	27.90	48%	36.72	29.23	26%
Egypt.....	41.51	27.16	53%	35.81	27.30	31%
Australia.....	46.72	29.04	61%	40.96	29.45	39%
North Sea.....	25.18	26.58	(5%)	23.36	26.10	(10%)
China.....	35.99	25.10	43%	32.77	25.10	31%
Argentina.....	31.28	28.42	10%	33.28	29.14	14%
<b>Total.....</b>	<b>38.04</b>	<b>27.34</b>	<b>39%</b>	<b>34.00</b>	<b>27.80</b>	<b>22%</b>
<b>Natural Gas Liquids (NGL)</b>						
<b>Volume - Barrels per day:</b>						
United States.....	8,934	8,241	8%	8,218	7,265	13%
Canada.....	2,794	1,445	93%	2,665	1,582	68%
<b>Total.....</b>	<b>11,728</b>	<b>9,686</b>	<b>21%</b>	<b>10,883</b>	<b>8,847</b>	<b>23%</b>
<b>Average NGL Price - Per barrel:</b>						
United States.....	\$ 27.56	\$ 19.23	43%	\$ 25.25	\$ 20.99	20%
Canada.....	24.94	17.62	42%	22.90	18.85	21%
<b>Total.....</b>	<b>26.94</b>	<b>18.99</b>	<b>42%</b>	<b>24.67</b>	<b>20.60</b>	<b>20%</b>

## Natural Gas Revenues

The Company's third-quarter 2004 natural gas revenues were \$24 million higher than the third quarter of 2003. All of the improvement was related to higher natural gas prices, which improved \$.32 per Mcf over the prior-year quarter. Consolidated natural gas production was down 30 MMcf/d, or two percent, from the 2003 period. Production in the U.S. declined 78 MMcf/d, primarily because of natural decline in mature fields particularly in the Gulf of Mexico, Hurricane Ivan and downtime. Egypt's production was up 40 MMcf/d as the Salam and Tarek gas plants began operating close to full capacity, following completion of new wells on several concessions. Canada's production increased six MMcf/d with production from new wells offsetting natural decline in mature fields. Australia saw a seven MMcf/d increase on higher customer demand and new contractual sales.

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 2004 and third-quarter 2003 domestic natural gas production was subject to long-term, fixed-price physical contracts. We also amortized small amounts of unrealized gains and losses from derivative positions closed in October and November 2001 with negligible impact on prices. The following table shows the impact on average prices for these items:

	FOR THE QUARTER ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2004	2003	2004	2003
	(Per Mcf)			
Fixed-price physical.....	\$ (.09)	\$ (.06)	\$ (.09)	\$ (.10)
Derivatives.....	(.18)	.02	(.15)	(.05)
Amortization.....	-	(.01)	-	(.01)

## Crude Oil Revenues

The Company added \$268 million to 2004 third-quarter crude oil revenues on a \$10.70 per barrel improvement in realized crude oil price and a 12,374 b/d rise in production. The higher realized price contributed almost 84 percent of the additional revenues. The increase in production came from the North Sea, China and Egypt. The North Sea's production is up 15,920 b/d, reflecting additional production from new wells and operational enhancements since the third quarter of 2003. A portion of the revenue from the North Sea is tied to a separate crude oil physical sales contract entered into in conjunction with the acquisition. See Note 2 of this Form 10-Q for a discussion of the terms of this contract. Production in China, which commenced in July 2003, added 4,817 b/d. Egypt's production is up 3,814 b/d on exploration and development activity. Partially offsetting these production gains were a 10,576 b/d decline in the U.S. and a 1,047 b/d decline in Canada. The U.S. decline is related to Hurricane Ivan, downtime and natural decline in mature fields. Canada's lower production is related to property sales and downtime.

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 ENDED SEPTEMBER 30,	
	2004	2003	2004	2003
	(Per bbl)			
Derivatives.....	\$ (.07)	\$ (.79)	\$ (.21)	\$ (.92)
Amortization.....	-	.02	-	.03

## Operating Expenses

The table below presents a comparison of our expenses on an absolute dollar basis and an equivalent unit of production (boe) basis. Our discussion may reference either expenses on a boe basis or expenses on an absolute dollar basis, or both, depending on their relevance. To maintain comparability between the periods, the expenses related to the 2000 Share Appreciation Plan and the China litigation provision are disclosed separately.

	FOR THE QUARTER ENDED SEPTEMBER 30,				FOR THE NINE MONTHS ENDED SEPTEMBER 30,			
	2004	2003	2004	2003	2004	2003	2004	2003
	(In millions)		(Per Boe)		(In millions)		(Per Boe)	
Depreciation, depletion and amortization (DD&A):								
Oil and gas property and equipment.....	\$ 295	\$ 275	\$ 7.00	\$ 6.65	\$ 841	\$ 728	\$ 6.91	\$ 6.51
Other assets.....	18	18	.43	.44	54	52	.44	.46
Asset retirement obligation accretion.....	11	11	.26	.27	33	27	.27	.24
Lease operating costs (LOE).....	205	195	4.86	4.71	608	515	4.99	4.61
Share appreciation plan - LOE.....	1	-	.02	-	12	-	.10	-
Gathering and transportation costs.....	21	17	.51	.41	61	44	.50	.39
Severance and other taxes.....	47	41	1.12	1.01	78	99	.64	.88
General and administrative expense (G&A)...	35	35	.83	.84	115	93	.95	.83
Share appreciation plan - G&A.....	1	-	.02	-	12	-	.10	-
China litigation provision.....	-	-	-	-	71	-	.59	-
Financing costs, net.....	29	34	.68	.82	84	88	.69	.79
<b>Total.....</b>	<b>\$ 663</b>	<b>\$ 626</b>	<b>\$15.73</b>	<b>\$15.15</b>	<b>\$1,969</b>	<b>\$1,646</b>	<b>\$16.18</b>	<b>\$14.71</b>

### Depreciation, Depletion and Amortization

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

Third-quarter 2004 full-cost DD&A expense of \$295 million is \$20 million higher than 2003, with approximately one-third (\$7 million) of the increase attributable to volume growth. The 2004 expense is mainly comprised of the U.S., \$131 million; Canada, \$49 million; Egypt, \$36 million; the North Sea, \$36 million; Australia, \$32 million; and China, \$10 million. Third-quarter 2003 full-cost DD&A expense of \$275 million is mainly comprised of the U.S., \$135 million; Egypt, \$41 million; Canada, \$39 million; Australia, \$30 million; the North Sea, \$27 million; and China, \$3 million.

On a boe basis, our third-quarter 2004 full-cost DD&A rate of \$7.00 is \$.35 higher than the third-quarter 2003 rate. The rate increase is incremental over sequential quarters and only increased \$.12 from the second quarter of 2004. The U.S. added \$.23 to the third quarter rate compared to the same period last year on higher finding and future development costs. Canada added \$.22 to the rate on higher finding costs. China, which had higher finding and development costs, added \$.10 to the rate since initial production in the third quarter of 2003. Australia added \$.05 to the rate. Egypt reduced the worldwide rate \$.26, adding lower cost reserves, while the impact of the North Sea was negligible.

### Lease Operating Costs

Third-quarter 2004 lease operating costs were \$10 million higher than the third quarter of 2003 and increased \$.15 per boe produced to \$4.86 per boe.

While third-quarter costs in the U.S. were down \$1 million, the region added \$.20 per boe to the consolidated rate. The increase in rate is associated with the Gulf of Mexico and is related to natural decline and the impact of Hurricane Ivan. Canada's costs were up \$6 million on contract labor, lease rentals and other miscellaneous costs associated with an increase in activity and a higher well count. Canada added \$.13 per boe to the consolidated rate. Egypt reduced the consolidated rate \$.06 per boe on a 16 percent rise in production compared to a nine percent increase in associated cost. Approximately two-thirds of Egypt's production growth is related to natural gas, which is less expensive to produce. The North Sea reduced the worldwide consolidated rate \$.11 per boe on a 37 percent increase in production compared to an eight percent increase in costs. Lifting cost in the North Sea is mostly comprised of fixed costs, which lowers the rate when spread over higher production levels.



Third-quarter 2004 severance and other taxes totaled \$47 million, \$6 million more than the 2003 period. Year-to-date 2004 severance and other taxes totaled \$78 million, \$21 million, less than 2003. A detail of these taxes follows:

	FOR THE QUARTER ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2004	2003	2004	2003
	(In millions)			
Severance taxes.....	\$ 47	\$ 18	\$ 93	\$ 58
U.K. PRT.....	(5)	17	(35)	23
Canadian taxes.....	5	6	15	14
Other.....	-	-	5	4
Total Severance and Other Taxes.....	\$ 47	\$ 41	\$ 78	\$ 99

Virtually all of the increase in severance taxes is related to the Australian excise taxes previously mentioned in addition to the higher prices in 2004 compared to 2003. The U.K.'s PRT tax benefits reflect the impact from higher capital spending, compared to the prior year periods.

#### General and Administrative Expense

Third-quarter G&A costs of \$35 million were flat to the comparable 2003 quarter, while costs for the nine-month period were \$22 million above the 2003 period. Approximately \$13 million of the additional expense incurred in the 2004 nine-month period is related to the impact on compensation programs of the rising price of Apache's common stock, and 2004 incentive compensation expense, as noted in our Forms 10-Q for the quarters ended March 31 and June 30, 2004. The impact from the higher stock price stems from Apache's decision, effective January 1, 2003, to expense stock-based compensation plans. The balance of the increase is related to the Company's decision to increase charitable contributions, expansion to support its gas marketing activities and its North Sea operations.

#### Share Appreciation Plan - General and Administrative

These costs represent the portion of the 2000 Share Appreciation Plan expenses (see Note 6 of this Form 10-Q) attributed to personnel involved in general corporate activities.

#### China Litigation Provision

Apache recorded a reserve in the second quarter of 2004 to fully reflect a pre-tax \$71 million international arbitration award to Texaco China B.V. (see Note 11 of this Form 10-Q).

#### Provision for Income Taxes

Third-quarter 2004 income tax expense was \$110 million more than the 2003 quarter, reflecting the impact from higher oil and gas production revenues. While our effective tax rate was flat quarter-to-quarter, both the 2004 and 2003 tax rates were impacted by additional deferred tax expense recognized on Canadian operations related to the weakening of the U.S. dollar relative to the Canadian dollar. For the nine-month period, 2004 income tax expense was \$36 million more than the 2003 period for the reasons previously discussed.

## OIL AND GAS CAPITAL EXPENDITURES

	FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2004	2003
	(In thousands)	
Exploration and development:		
United States.....	\$ 602,526	\$ 318,490
Canada.....	495,192	419,636
Egypt.....	219,333	188,098
Australia.....	97,445	87,544
North Sea.....	220,644	23,189
China.....	12,774	24,108
Other International.....	1,098	3,890
	-----	-----
	\$ 1,649,012	\$ 1,064,955
	=====	=====
Capitalized Interest.....	\$ 38,951	\$ 38,072
	=====	=====
Gas gathering, transmission and processing facilities.....	\$ 59,563	\$ 14,439
	=====	=====
Acquisitions:		
Oil and gas properties.....	\$ 490,832	\$ 1,501,312
Gas gathering, transmission and processing facilities...	-	5,484
	-----	-----
	\$ 490,832	\$ 1,506,796
	=====	=====

## 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 budgets capital expenditures based upon projected cash flows and routinely adjusts its capital expenditures in response to changes in oil and natural gas prices and corresponding changes in cash flow. The Company cannot accurately predict future oil and gas prices.

## Net Cash Provided by Operating Activities

Apache's net cash provided by operating activities during the nine months of 2004 totaled \$2.3 billion, an increase of 12 percent from \$2.1 billion in the first nine months of 2003. This increase generally reflects the impact of higher prices on oil and gas production revenues and higher production levels relative to the prior-year period.

## LIQUIDITY

The Company had \$106 million in cash and cash equivalents on hand on September 30, 2004, up from \$34 million on December 31, 2003. Apache's ratio of current assets to current liabilities on September 30, 2004 was 1.39 compared to 1.10 on December 31, 2003.

Apache believes that cash on hand, net cash generated from operations, short-term investments, and unused committed borrowing capacity under its credit facilities will be adequate to satisfy future financial obligations and liquidity needs. In addition, Apache's strong credit ratings should facilitate continued access to capital markets. As of September 30, 2004, Apache's available borrowing capacity under its global credit facilities was \$957 million.

## 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 operating in the most cost efficient manner. 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 properties acquired from BP, Shell, ExxonMobil and Anadarko, we have an abundant inventory of exploitation opportunities.

### Acquiring Properties to Which We Can Add Value

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

### Investing in High-Potential Exploration Prospects

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

## ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Apache generally sells its Egyptian crude oil and natural gas production to EGPC for U.S. dollars. Weak economic conditions in Egypt continue to impact the timeliness of receipts from EGPC; however, the average number of days past due is comparable to year-end 2003 and Apache continues to receive payments.

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, 2003, is incorporated herein by reference. Information about market risks for the quarter ended September 30, 2004 does not differ materially from the disclosure in our 2003 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 80 percent of the Company's debt. At September 30, 2004, total debt included \$543 million of floating-rate debt. As a result, Apache's annual interest costs in 2004 will fluctuate based on short-term interest rates on approximately 20 percent of its total debt outstanding at September 30, 2004. The impact on cash flow of a 10 percent change in the floating interest rate would be approximately \$260,000 per quarter.

On September 30, 2004, the Company had open natural gas derivative positions with a fair value of \$(72.8) million. A 10 percent increase in natural gas prices would change the fair value by \$(40.8) million. A 10 percent decrease in prices would change the fair value by \$39.8 million. The Company also had open oil derivative positions with a fair value of \$(35.1) million on September 30, 2004. A 10 percent increase in crude oil prices would change the fair value by \$(32.9) million. A 10 percent decrease in prices would change the fair value by \$30.4 million. See Note 2 of this Form 10-Q for notional volumes associated with the Company's derivative contracts.

#### ITEM 4 - CONTROLS AND PROCEDURES

G. Steven Farris, the Company's President, Chief Executive Officer and Chief Operating Officer, and Roger B. Plank, the Company's Executive Vice President and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2004, the end of the period covered by this report. Based on that evaluation and as of the date of that evaluation, these officers concluded that the Company's disclosure controls were effective, providing effective means to insure that information we are required to disclose under applicable laws and regulations is recorded, processed, summarized and reported in a timely manner. Effective July 1, 2004, the Company converted the accounting function for North Sea operations acquired in 2003 from an outsourced arrangement to in-house. No significant changes were made to internal controls over financial reporting during the quarter ending September 30, 2004 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

We periodically review the design and effectiveness of our disclosure controls, including compliance with various laws and regulations that apply to our operations both inside and outside the United States. We make modifications to improve the design and effectiveness of our disclosure controls, and may take other corrective action, if our reviews identify deficiencies or weaknesses in our controls.

#### FORWARD-LOOKING STATEMENTS AND RISK

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

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

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, 2003 (filed with the SEC on March 12, 2004) is incorporated herein by reference.

ITEM 2. CHANGES IN SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

12.1 - Statement of computation of 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.

(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, 2004:

Item 5 - Other Events - dated July 1, 2004, filed July 2, 2004

An international arbitrator hearing the claims made by Texaco China, B.V., against Apache's subsidiaries Apache China Corporation LDC and Apache Bohai Corporation LDC, involving a 1998 farmout in Bohai Bay, People's Republic of China, issued an award against Apache China and Apache Bohai and in favor of Texaco China in the amount of \$71 million, which includes interest. Apache believes that the finding of the arbitrator is unsupported by the facts and the law, and Apache expects to pursue an appeal of the award in federal court.

(See Note 11 of this Form 10-Q for updated information on this matter.)

Item 5 - Other Events - dated August 20, 2004, filed August 20, 2004

On August 20, 2004, Apache announced that it signed a definitive agreement to acquire all of Anadarko Petroleum Corporation's properties located on the Outer Continental Shelf of the Gulf of Mexico for \$537 million, effective as of October 1, 2004. The acquisition includes 78 fields on 241 offshore blocks (approximately 693,000 net acres), including 93 undeveloped blocks and 112 platforms. Apache will operate 53 of the fields with 80 percent of the production and 85 percent of the net reserves. Apache will book proved reserves of approximately 61 million barrels of oil equivalent (MMboe) of which 51 percent is natural gas.

Prior to the Apache transaction, Morgan Stanley Capital Group Inc. agreed to pay Anadarko \$775 million to acquire an overriding royalty interest in 24 MMboe of lower-risk reserves estimated to be produced over the next four years. Apache will record a \$99 million liability to reflect the future cost of producing and delivering the reserves to Morgan Stanley but will not book these reserves. Apache will book the remaining reserves at a lower cost per barrel equivalent and retains all of the potential upside from future exploration and development activities. Apache's share of the acquired production is estimated to average 50 million cubic feet of natural gas and 3,000 barrels of liquid hydrocarbons per day in the fourth quarter 2004.

(See Note 1 of this Form 10-Q for updated information on this matter.)

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: November 8, 2004

/s/ ROGER B. PLANK

-----  
Roger B. Plank  
Executive Vice President and  
Chief Financial Officer

Dated: November 8, 2004

/s/ THOMAS L. MITCHELL

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

EXHIBIT INDEX

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.

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

	NINE MONTHS ENDED SEPTEMBER 30,			
	2004	2003	2003	2002
<b>EARNINGS</b>				
Pretax income from continuing operations before preferred interests of subsidiaries .....	\$1,829,100	\$1,479,190	\$1,930,925	\$ 915,194
Add: Fixed charges excluding capitalized interest and preferred interest requirements of consolidated subsidiaries .....	96,510	99,810	132,820	128,730
Adjusted Earnings .....	\$1,925,610	\$1,579,000	\$2,063,745	\$1,043,924
<b>FIXED CHARGES AND PREFERRED STOCK DIVIDENDS</b>				
Interest expense including capitalized interest (1) .....	\$ 122,495	\$ 131,910	\$ 173,045	\$ 155,667
Amortization of debt expense .....	1,814	1,624	2,163	1,859
Interest component of lease rental expenditures (2) .....	11,152	8,350	14,458	11,895
Preferred interest requirements of consolidated subsidiaries (3) ...	-	11,842	11,805	19,581
Fixed charges .....	135,461	153,726	201,471	189,002
Preferred stock dividend requirements (4) .....	6,741	7,515	9,968	17,540
Combined Fixed Charges and Preferred Stock Dividends .....	\$ 142,202	\$ 161,241	\$ 211,439	\$ 206,542
Ratio of Earnings to Fixed Charges .....	14.22	10.27	10.24	5.52
Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends .....	13.54	9.79	9.76	5.05
	2001	2000	1999	
<b>EARNINGS</b>				
Pretax income from continuing operations before preferred interests of subsidiaries .....	\$1,206,863	\$1,203,681	\$ 344,573	
Add: Fixed charges excluding capitalized interest and preferred interest requirements of consolidated subsidiaries .....	134,484	116,190	90,398	
Adjusted Earnings .....	\$1,341,347	\$1,319,871	\$ 434,971	
<b>FIXED CHARGES AND PREFERRED STOCK DIVIDENDS</b>				
Interest expense including capitalized interest (1) .....	\$ 178,915	\$ 168,121	\$ 132,986	
Amortization of debt expense .....	2,460	2,726	4,854	
Interest component of lease rental expenditures (2) .....	9,858	7,343	5,789	
Preferred interest requirements of consolidated subsidiaries (3) ...	8,608	-	-	
Fixed charges .....	199,841	178,190	143,629	
Preferred stock dividend requirements (4) .....	32,495	33,386	24,788	
Combined Fixed Charges and Preferred Stock Dividends .....	\$ 232,336	\$ 211,576	\$ 168,417	
Ratio of Earnings to Fixed Charges .....	6.71	7.41	3.03	
Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends .....	5.77	6.24	2.58	

(1) The Company does not receive a tax benefit for \$5 million of transaction costs written off to interest expense when the Company retired its preferred interests of subsidiaries in September 2003. Given the non-deductibility of the charge, \$9 million of pre-tax income is required to cover the \$5 million write-off. Accordingly, interest expense has been grossed up by \$4 million.

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

- (3) The Company does not receive a tax benefit for a portion of its preferred interests of consolidated subsidiaries. As a result, these amounts represent the pre-tax earnings that would be required to cover preferred interests requirements of consolidated subsidiaries.
- (4) The Company does not receive a tax benefit for its preferred stock dividends. As a result, this amount represents the pre-tax earnings that would be required to cover its preferred stock dividends.

## CERTIFICATIONS

I, G. Steven Farris, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Apache Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information ; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ G. Steven Farris

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 G. Steven Farris  
 President, Chief Executive Officer and  
 Chief Operating Officer

Date: November 8, 2004

## CERTIFICATIONS

I, Roger B. Plank, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Apache Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Roger B. Plank

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 Roger B. Plank  
 Executive Vice President and Chief Financial Officer

Date: November 8, 2004

APACHE CORPORATION

CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
AND CHIEF FINANCIAL OFFICER

I, G. Steven Farris, certify that the Quarterly Report of Apache Corporation on Form 10-Q for the quarterly period ending September 30, 2004, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. Section 78m or Section 78o (d)) and that information contained in such report fairly represents, in all material respects, the financial condition and results of operations of Apache Corporation.

/s/ G. Steven Farris

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By: G. Steven Farris  
Title: President, Chief Executive Officer  
and Chief Operating Officer

I, Roger B. Plank, certify that the Quarterly Report of Apache Corporation on Form 10-Q for the quarterly period ending September 30, 2004, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. Section 78m or Section 78o (d)) and that information contained in such report fairly represents, in all material respects, the financial condition and results of operations of Apache Corporation.

/s/ Roger B. Plank

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By: Roger B. Plank  
Title: Executive Vice President  
and Chief Financial Officer