

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

FORM 10-K

(MARK ONE)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003,  
OR

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

COMMISSION FILE NUMBER 1-4300

APACHE CORPORATION

A DELAWARE CORPORATION

IRS EMPLOYER NO. 41-0747868

ONE POST OAK CENTRAL  
2000 POST OAK BOULEVARD, SUITE 100  
HOUSTON, TEXAS 77056-4400  
TELEPHONE NUMBER (713) 296-6000

Securities Registered Pursuant to Section 12(b) of the Act:

NAME OF EACH  
EXCHANGE TITLE  
OF EACH CLASS  
ON WHICH  
REGISTERED ----  
-----

---- Common  
Stock, \$0.625  
par value New  
York Stock  
Exchange  
Chicago Stock  
Exchange  
Preferred Stock  
Purchase Rights  
New York Stock  
Exchange  
Chicago Stock  
Exchange Apache  
Finance Canada  
Corporation New  
York Stock  
Exchange 7.75%  
Notes Due 2029  
Irrevocably and  
Unconditionally  
Guaranteed by  
Apache  
Corporation

Securities Registered Pursuant to Section 12(g) of the Act:  
Common Stock, \$0.625 par value

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 if disclosure of delinquent filers pursuant to Item  
405 of Regulation S-K is not contained herein, and will not be contained, to the  
best of registrant's knowledge, in definitive proxy or information statements  
incorporated by reference in Part III of this Form 10-K or any amendment to this  
Form 10-K.

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

Aggregate market value of the voting and non-voting common equity held by non-affiliates of registrant as of June 30, 2003.....	\$10,526,544,439
Number of shares of registrant's common stock outstanding as of February 29, 2004.....	325,035,928

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of registrant's proxy statement relating to registrant's 2004 annual meeting of stockholders have been incorporated by reference into Part III hereof.

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All defined terms under Rule 4-10(a) of Regulation S-X shall have their statutorily prescribed meanings when used in this report. Quantities of natural gas are expressed in this report in terms of thousand cubic feet (Mcf), million cubic feet (MMcf), billion cubic feet (Bcf) or trillion cubic feet (Tcf). Oil is quantified in terms of barrels (bbls); thousands of barrels (Mbbbls) and millions of barrels (MMbbbls). Natural gas is compared to oil in terms of barrels of oil equivalent (boe) or million barrels of oil equivalent (MMboe). Oil and natural gas liquids are compared with natural gas in terms of million cubic feet equivalent (MMcfe) and billion cubic feet equivalent (Bcfe). One barrel of oil is the energy equivalent of six Mcf of natural gas. Daily oil and gas production is expressed in terms of barrels of oil per day (b/d) and thousands or millions of cubic feet of gas per day (Mcf/d and MMcf/d, respectively) or millions of British thermal units per day (MMBtu/d). Gas sales volumes may be expressed in terms of one million British thermal units (MMBtu), which is approximately equal to one Mcf. With respect to information relating to our working interest in wells or acreage, "net" oil and gas wells or acreage is determined by multiplying gross wells or acreage by our working interest therein. Unless otherwise specified, all references to wells and acres are gross.

## PART I

### ITEM 1. BUSINESS

#### GENERAL

Apache Corporation, a Delaware corporation formed in 1954, is an independent energy company that explores for, develops and produces natural gas, crude oil and natural gas liquids. In North America, our exploration and production interests are focused in the Gulf of Mexico, the Gulf Coast, the Permian Basin, the Anadarko Basin and the Western Sedimentary Basin of Canada. Outside of North America we have exploration and production interests offshore Western Australia, offshore and onshore Egypt, offshore The People's Republic of China, offshore the United Kingdom in the North Sea and onshore Argentina. Our common stock, par value \$0.625 per share, has been listed on the New York Stock Exchange (NYSE) since 1969, on the Chicago Stock Exchange since 1960, and on the NASDAQ National Market (NASDAQ) since January 2004. Through our website, <http://www.apachecorp.com>, you can access electronic copies of the charters of the committees of our board of directors, other documents related to Apache's corporate governance, and documents Apache files with the Securities and Exchange Commission (SEC), including our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and any amendments to these reports. Access to these electronic filings is available as soon as practicable after filing with the SEC.

We hold interests in many of our U.S., Canadian and international properties through operating subsidiaries, such as Apache Canada Ltd., DEK Energy Company (DEKALB), Apache Energy Limited (AEL), Apache International, Inc., and Apache Overseas, Inc. Properties referred to in this document may be held by those subsidiaries. We treat all operations as one line of business.

#### 2003 RESULTS

Strong crude oil and natural gas prices and our record production during 2003 provided us with record income attributable to common stock of \$1.1 billion on total revenues of \$4.2 billion, and record cash provided by operating activities of \$2.7 billion, a 96 percent increase from 2002. Our 2003 daily production averaged 214.5 Mbbbls of oil and natural gas liquids, and 1,217 MMcf of natural gas. Our financial and operational performance enabled us to enhance our financial flexibility by further strengthening our balance sheet and maintain senior unsecured long-term debt ratings of A3 from Moody's, and A- from Standard and Poor's and Fitch rating agencies.

We increased our total reserves by 26 percent, compared with the end of 2002, resulting in 1.66 billion boe of estimated proved reserves at year-end, 49 percent of which were natural gas. In 2003, we completed two significant acquisitions in the Gulf of Mexico and entered a new core area with our purchase of the Forties Field in the UK North Sea.

In January 2003, we agreed to purchase properties from subsidiaries of BP p.l.c. (BP) in the Gulf of Mexico and in the North Sea offshore the United Kingdom for \$1.3 billion (subject to normal closing adjustments and the exercise of preferential rights by third parties), our largest acquisition so far. The Company closed the Gulf of Mexico portion on March 13, 2003 at an adjusted price of \$509 million. This acquisition had estimated proved reserves of 67.1 MMboe. The price was adjusted from the originally announced \$670 million to account for the exercise of preferential rights by third parties involved in some of the properties (a reduction of \$73 million), production and expenses since January 1, 2003, the effective date of the transaction, and other minor adjustments. The North Sea portion closed on April 2, 2003 for an adjusted purchase price of \$630 million. The North Sea acquisition had an estimated 143.7 MMboe of reserves. The acquisition was funded by a combination of proceeds from an equity offering we completed in January 2003, cash from our operations and debt. On July 3, 2003, we completed the acquisition of producing properties on the Outer Continental Shelf of the Gulf of Mexico from Shell Exploration and Production Company for a purchase price of \$200 million, subject to post closing adjustments, including adjustments for the exercise of preferential rights. The acquisition included 26 fields covering 50 blocks (approximately

209,000 acres) and interests in two onshore gas plants, and we now operate 15 of the fields with 91 percent of the production. We recorded proved reserves of approximately 124.9 Bcf of natural gas and 6.1 million barrels of oil (26.9 MMboe). Prior to the transaction, Morgan Stanley paid Shell \$300 million to acquire an overriding royalty interest in a portion of the lower-risk reserves to be produced over the next four years.

Throughout this report, per share results and share amounts have been adjusted for the 10 percent common stock dividend paid on January 21, 2002, to our shareholders of record on December 31, 2001, the five percent common stock dividend paid on April 2, 2003, to our shareholders of record on March 12, 2003 and the two-for-one stock split distributed on January 14, 2004 to our shareholders of record on December 31, 2003. The stock dividends and stock split reflect our board of directors' belief that we can reward our shareholders while remaining focused on our primary objective of building Apache to last by achieving profitable growth.

#### OUR GROWTH STRATEGY

As Apache enters our 50th year, our mission remains the same as at inception: to grow a significant and profitable company for the benefit of our shareholders.

Over the years our strategy for achieving profitable growth has evolved. Over the most recent decade Apache has been an active acquirer of properties, following up with proactive exploitation operations, including workovers, re-completions, and drilling, to increase production, and efforts to reduce costs per unit produced and enhance profitability. Also over the past decade, we added an international component to our strategy, which exposed our shareholders to larger reserve targets and a greater ability to grow production and reserves through drilling. Our expenditures in 2003 were well balanced between acquisitions and drilling, with Apache having a robust year for both. During the year, we invested over \$1.6 billion in purchasing 267 MMboe. As for our active drilling program, Apache invested \$1.5 billion drilling 1,449 gross wells to add 234.3 MMboe. We plan on another substantial year of drilling activity in 2004, with a preliminary capital budget of approximately \$1.8 billion. We do not budget for acquisitions because their timing is unpredictable; however, a significant part of Apache's growth strategy continues to be directed toward the purchase of properties to which we can add value and earn adequate rates of return. Because we maintained our financial flexibility (our yearend ratio of debt-to-capitalization was just over 26 percent), we are in a good position to take advantage of acquisition opportunities that may arise.

We take a portfolio approach to the areas in which we drill in an effort to generate consistent, profitable growth. In the U.S., our Gulf of Mexico operations generate substantial production and cash flow and excellent rates of return, however, with steep decline rates, offshore reserves are generally short lived and difficult to replace through drilling alone. Our Central region brings the balance of long-lived reserves and consistent drilling results. In general, the United States is mature, offering smaller reserve targets but presently, excellent prices and high margins. We seek to drill actively in the United States, but not to the extent of pursuing growth at any cost. Our future growth is more likely to be achieved in the U.S. through drilling and acquisition, rather than through drilling activity alone.

Apache's Canadian and International operations provide the potential to grow through drilling. Canada, Australia, Egypt and, in the last year, the North Sea, all offer larger reserve targets than those to which we are exposed in the United States. Also, Apache's international operations in Canada, Egypt and Australia typically include large acreage positions with considerable running room when compared to the U.S., where there are more companies competing for acreage and drilling opportunities.

In today's industry environment, with high prices and substantial cash flow and earnings, competing for quality opportunities to grow through drilling or acquisition is a challenge. However, Apache has grown production 24 of the last 25 years and reserves for 18 consecutive years in differing industry environments. We are fortunate to have evolved to the point where we believe we have the ability to continue growing over time through drilling, acquisition or both.

REVIEW OF COMPANY'S WORLDWIDE OPERATING AREAS

Our portfolio approach provides diversity in terms of hydrocarbon mix (oil or gas), geologic risk and geographic location. In each of our core producing areas, we have built teams that have the technical knowledge, sense of urgency and the desire to wring more out of Apache's assets. Our local expertise also provides an advantage in day-to-day operations and when acquisition opportunities arise in our core areas.

We currently have interests in seven countries: the United States, Canada, Egypt, Australia, the United Kingdom, China and Argentina. In 2003, we ceased operations in Poland. Our core areas are defined as the United States, Canada, Egypt, Australia, the United Kingdom and Other International. In the U.S., our exploration and production activities are divided into two regions: Gulf Coast and Central. At year-end, approximately 70 percent of our estimated proved reserves were located in North America. Outside North America, our exploration and production activities are focused primarily in Egypt, the North Sea and Australia. Additionally, production began on our interests in China in July 2003, and we have a small production interest in Argentina.

The table below sets out a brief comparative summary of certain 2003 data for each area. More detailed information regarding the natural gas, oil, and natural gas liquids (NGLs) production and average prices received in 2003, 2002 and 2001 for our core geographic areas is available in Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this Form 10-K. In addition, for information concerning the amount of revenue, expenses, operating income (loss) and total assets attributable to each of the same geographic areas, see Note 15, Supplemental Oil and Gas Disclosures (Unaudited), and Note 14, Business Segment Information, both in Item 15 of this Form 10-K.

12/31/03 PERCENTAGE 2003					
2003 ESTIMATED OF TOTAL					
2003 GROSS NEW 2003					
PRODUCTION PROVED					
ESTIMATED GROSS NEW					
PRODUCING PRODUCTION					
REVENUE RESERVES PROVED					
WELLS WELLS (IN MMBOE)					
(IN MILLIONS) (IN MMBOE)					
RESERVES DRILLED					
COMPLETED -----					
-----					
-----					
---- Region/Country:					
Gulf					
Coast.....					
48.9 \$1,470.0 350 21.1%					
85 67					
Central.....					
19.7 553.5 378 22.8 208					
200 -----					
----- Total					
U.S. .... 68.6					
2,023.5 728 43.9 293 267					
-----					
-----					
Canada.....					
29.1 823.3 436 26.3 984					
913 -----					
----- Total					
North America.... 97.7					
2,846.8 1,164 70.2 1,277					
1,180 -----					
-----					
Egypt.....					
24.3 652.9 165 10.0 107					
94					
Australia.....					
17.9 392.0 167 10.0 37					
19 United					
Kingdom..... 10.8					
273.0 148 9.0 -- --					
China.....					
1.0 26.8 11 .7 25 25					
Argentina.....					
.6 7.4 2 .1 3 1 -----					
-----					
----- Total					
International.... 54.6					
1,352.1 493 29.8 172 139					
-----					
-----					
Total.....					
152.3 \$4,198.9 1,657					
100.0% 1,449 1,319 =====					
=====					
=====					

The following discussions include references to our plans for 2004. These

only represent initial estimates and will be reviewed and revised throughout the year in light of changing industry conditions.

#### United States

An increase in our capital spending over 2002's level led to a busy drilling year in which we completed 267 out of 293 total wells and replaced 79 percent of our domestic production through extensions, discoveries and other additions. A continuing goal is to drill quality prospects in and around our large domestic reserve and production bases.

Gulf Coast -- The Gulf Coast region comprises our interests in and along the Gulf of Mexico, primarily in the areas in and offshore Louisiana and Texas. In 2003, the Gulf Coast region was once again our leading

region for production volumes and revenues. This region performed 354 workover and recompletion operations during 2003 and completed 67 out of 85 total wells drilled, replacing 51 percent of the regions production from extensions, discoveries and other additions. As of year-end 2003, Gulf Coast accounted for 21 percent of our estimated proved reserves. In 2004, we currently plan on spending approximately \$400 million to drill an estimated 100 wells and to continue exploitation. We will continue our production enhancement program and exploitation of properties acquired from BP and Shell in 2003.

Central -- The Central region includes assets in the Permian Basin of west Texas and New Mexico, the San Juan Basin of New Mexico, east Texas and the Anadarko Basin of western Oklahoma. At year-end 2003, the Central region accounted for approximately 23 percent of our estimated proved reserves, the second largest in the Company. During 2003, we participated in 208 wells, 200 of which were completed as productive wells, replacing 150 percent of the region's production from extensions, discoveries and other additions. Apache performed 357 workovers and recompletions in the region during the year. In 2004, we currently plan to spend approximately \$150 million drilling an estimated 200 wells and continuing our production enhancement programs.

Marketing -- The Company began marketing its domestic natural gas production in July 2003. Our objective is to enhance the value of our natural gas sales by diversifying our customer base and optimizing transportation arrangements. The flexibility to transport our gas from the wellhead has provided us access to new markets as our customers now include Local Distribution Companies (LDCs), utilities, endusers, integrated majors and marketers. We manage our credit risk by only selling to creditworthy customers and monitoring our credit exposure daily. Prior to July 2003, Apache sold most of its U.S. natural gas production to Cinergy Marketing and Trading, LLC (Cinergy), under a long-term gas purchase agreement. The prices received for our gas production under this agreement were based on published indexes. (See Note 11 under Item 15 of this Form 10-K).

Several years ago, we locked in a portion of our domestic future natural gas production at a fixed price using long-term fixed price physical contracts. These contracts, which represented approximately 9 percent of our 2003 domestic natural gas production, will expire in 2007 and 2008. The contracts provide protection to the Company in the event of decreasing natural gas prices.

Most of our gas is being sold monthly at market prices. However, to meet the needs of our customers, we may sell some of our gas under long-term contracts at prices that fluctuate with market conditions.

We market our own U.S. crude oil to integrated majors, marketers and refiners. Contracts are generally 30 days and renew automatically until canceled. These oil contracts provide for sales at prices that change with market conditions.

#### Canada

Our exploration and development activity in the Canadian region is concentrated in the Provinces of Alberta, British Columbia, Saskatchewan and the Northwest Territories. The region comprises 26 percent of our estimated proved reserves, the largest in the Company. We hold over 4.7 million net acres in Canada, the largest of the North American regions.

2003 -- Canada was our most active region for drilling in 2003, with Apache participating in 984 gross wells, approximately half of which were shallow development wells, 913 of which were completed as producers. We also conducted 889 workover and recompletion projects. We replaced 275 percent of our Canadian production through extensions, discoveries and other additions.

2004 -- We currently plan to spend approximately \$450 million drilling an estimated 1,100 wells, continuing the exploration program, exploiting acquired properties and developing our gas processing infrastructure.

Marketing -- Our Canadian natural gas sales include sales to Local Distribution Companies (LDCs), utilities, endusers, integrated majors, supply aggregators and marketers in the United States and Canada. With the expansion of pipeline transport capacity out of Canada in recent years, Canadian prices have become more

closely correlated with United States prices. To diversify our market exposure and optimize pricing differences in the U.S. and Canada, we transport natural gas via our firm transportation contracts to California, the Chicago area, and eastern Canada. We currently have longer term commitments to sell gas into the United States in the Pacific Northwest, the upper Midwest and the northeastern U.S. market regions (See Note 11 under Item 15 of this Form 10-K). The volumes are relatively small and none of the terms extend beyond 2008. We also have long-term commitments to supply production to a market in eastern Canada. Again, the volumes are relatively small and the term is through 2011. The prices we receive under these contracts fluctuate monthly with market indices. The remainder of our natural gas production is sold monthly at market prices.

Our Canadian crude oil is primarily sold to refiners, integrated majors and marketers. Our condensate is primarily sold to heavy oil producers for blending purposes. All NGLs are sold to midstream companies. We sell our crude and NGLs on Canadian Postings which are market reflective prices that depend on worldwide crude prices and are adjusted for transportation and crude quality. In order to reach more purchasers and diversify our market we transport crude on 12 pipelines to the major trading hubs within Alberta, Saskatchewan and Manitoba.

## Egypt

In Egypt, our operations are generally conducted pursuant to production sharing contracts under which contractor partners pay all operating and capital costs for exploration and development. A percentage of the production, usually up to 40 percent, is available to the contractor group to recover operating and capital costs. The balance of the production is allocated between this contractor group and the Egyptian General Petroleum Corporation (EGPC) on a contractually defined basis. Apache is the largest leaseholder and the most active driller in the Western Desert. Egypt is the country with our largest single acreage position. As of December 31, 2003, we held over 6.6 million net acres encompassing 12 concessions. Apache is the largest producer of liquid hydrocarbons and the second largest producer of natural gas in the Western Desert.

2003 -- Egypt accounted for 16 percent of Apache's production revenues on 16 percent of total production for the year and accounted for 10 percent of total proved reserves at December 31, 2003. Apache had an active drilling program in Egypt, completing 94 of 107 gross wells, for a success rate of 88 percent.

2004 -- We currently plan to spend approximately \$300 million to drill more than 100 wells and continue exploitation. Our plans seek to maintain momentum and preserve our flexibility to respond to market conditions with a balanced mix of exploratory and development drilling.

Marketing -- In 1996, we and our partners in the Khalda Block entered into a 25-year take-or-pay contract with EGPC, which obligates EGPC to pay for 75 percent of 200 MMcf/d of future production of gas from the Khalda Block. In late 1997, the same partners entered into a supplement to the contract with EGPC to sell an additional 50 MMcf/d. In connection with our acquisition of interests from Repsol YPF (Repsol) in 2001, we acquired rights under an existing gas sales contract for 25 MMcf/d from the South Umbarka area. Gas sales from the contracts are based on a price that is the energy equivalent of 85 percent of the price of Suez Blend crude oil, FOB Mediterranean port. Sales of gas under the contract began in 1999 upon completion of a gas pipeline from the Khalda Block. In 2000, other producers agreed to accept a negotiated price for an alternative gas pricing formula for certain quantities of gas purchased from them. This Industry Pricing is a sliding scale based on Dated-Brent crude oil with a minimum of \$1.50 per MMBtu and a maximum of \$2.65 per MMBtu. These latest agreements do not impact our existing gas sales contracts in the Khalda Block or at our Qarun development lease. However, we have entered into new gas sales contracts containing Industry Pricing at our Matruh, Ras Kanayes, Ras El Hekma, and Akik development leases. We also entered into a Memorandum of Understanding (MOU) for a Gas Sales Agreement, Field Development Plan and Deepwater Development Lease for a minimum of 2.7 Tcf of natural gas over 25 years from our deepwater interests in the West Mediterranean Concession. Reserve recognition and proper scaling of the significant future development infrastructure are pending negotiation and completion of the final sales agreement with EGPC and resolution in delays of certain payments by EGPC.

In Egypt, oil from the Qarun concession and other nearby Western Desert blocks is delivered by pipeline to tanks at the Dashour tank farm northeast of the Qarun Block. At the discretion of Arab Petroleum Pipeline Company, the operator of the SUMED pipelines, oil from the Qarun Block is pumped into 42-inch diameter pipelines, which transport significant quantities of Egyptian and other crude oil from the Gulf of Suez to Sidi Kerir on the Mediterranean Coast. Alternatively, oil can be transported via pipeline owned by Petroleum Pipeline Company (PPC) to the Mostorad Refinery south of Cairo. In Egypt, all our oil production is presently sold to EGPC on a spot basis at a "Western Desert" price (indexed to Brent Crude Oil).

#### Australia

Our exploration activity in Australia is focused in the offshore Carnarvon and Perth Basins where Apache holds 4.4 million net acres in 26 Exploration Permits, 10 Production Licenses, and four Retention Leases. Production operations are concentrated in the Carnarvon Basin within 10 Production Licenses, nine of which are operated by Apache.

2003 -- We produced 17.9 million barrels of oil equivalent in Australia (12 percent of our total) generating \$392 million of production revenues. During the year we participated in drilling 37 wells; 24 exploration and 13 development wells. Ten of the exploration wells and nine of the development wells were successful for an overall 51 percent success rate. Additionally, there were 11 workover and recompletion projects performed during the year. Apache added 33.0 million barrels of oil equivalent to our Australian reserve base through exploration and development activities and another 6.7 million barrels of oil equivalent by way of acquisitions, as we increased our interest in the John Brookes gas field from 20 percent to 55 percent and assumed operatorship. The 39.7 million barrels of oil equivalent reserve add equates to a 222 percent replacement of production, 184 percent of which came through drilling operations.

Our Australian region had a successful exploration year with five discoveries, the most significant being Ravensworth, Crosby, and Thomas Bright. We also had a very substantial appraisal program with 10 successes. On the development side, the Double Island oil field commenced production in February 2003, 12 months from discovery, at an average net rate of 6,165 barrels of oil per day and has thus far produced 1.7 million barrels of oil equivalent net to Apache's 68.5 percent interest. The East Spar-6 development well was placed on production in mid November at an average rate of 33 million cubic feet of gas per day and 1,733 barrels of condensate per day net to Apache's 55 percent interest. Fabrication of the platform for the Linda gas development has been completed with installation scheduled for February 2004 and first gas expected in April 2004. Apache owns a 68.5 percent interest in the Linda gas field.

2004 -- First production from the Linda gas development is scheduled for April 2004 at an average projected rate of 19 million cubic feet of gas and 900 barrels of condensate per day net to Apache's 68.5 percent interest. The John Brookes gas development is underway with first production anticipated in the second quarter of 2005. For 2004, we have budgeted expenditures of over \$200 million for an estimated 25 exploration wells, nine appraisal wells, eight development wells, and various production development and enhancement capital projects.

Marketing -- In Australia, we executed two new gas sales contracts and extended four existing gas sales contracts during 2003, bringing our total to 22 active contracts. In aggregate, we committed a further 115 billion cubic feet of gas (gross) for delivery. Under the largest new contract, we will supply more than 88 billion cubic feet of gas over an 11-year period which commenced in July 2003. Additionally, we were awarded two conditional gas contracts with a combined commitment of 114 billion cubic feet of gas (gross). The larger contract would have us deliver 102 billion cubic feet of gas over a 14-year period beginning in September 2004. Our total Australian net delivery rates are expected to average approximately 115 million cubic feet of gas per day in 2004. Generally, natural gas is sold in Western Australia under long-term contracts, many of which contain escalation clauses that provide for an annual increase in the contract price based on the Australian consumer price index. The contract price escalates at an average of 80 percent of the index. These contracts reduce gas price volatility in Australia.

We continue to export all of our crude oil production to domestic and international buyers at prices which fluctuate with world market conditions.

## United Kingdom

With the closing of our purchase of the Forties Field in April 2003, we established a new core area in the North Sea. The Forties Field was first discovered in 1970, and has been one of the most productive fields in the UK North Sea. At the time of closing, Apache booked 143.7 MMboe of reserves, and produced an average of approximately 41 Mbbbls/d of oil and 1,400 Mcf/d of natural gas through year-end. Apache acquired operatorship of the field with a 96 percent interest, which includes five platforms. Our North Sea interests had production of 10.8 MMboe in 2003, provided us with \$273 million of production revenue, and accounted for nine percent of our year end proved reserves. We plan a significant capital program for the North Sea during 2004, with a projected drilling budget of approximately \$300 million for 20 wells and various production, development and enhancement capital projects.

Marketing -- Concurrent with the acquisition of the UK North Sea properties, the Company entered into a separate crude oil physical sales contract with BP. The contract provides for BP to market all of the Company's equity crude oil through December 31, 2004. A portion of the crude oil (25,000 b/d through January 31, 2004 and 40,000 bopd for the remainder of the term) is sold at fixed prices. The balance of the crude oil is sold at prevailing market prices. We are reviewing potential marketing arrangements upon expiration of our term sales contract with BP. The possible marketing strategies include expanding the current customer base and selling a portfolio mix of spot and term arrangements into the export market.

## Other International

We have exploration and production interests offshore China and in Argentina. During 2003, we ceased operations in Poland.

In August, first production came on stream from our interests in the Zhao Dong block in Bohai Bay, China, at the rate of 6,000 barrels of oil per day from three wells. Production is projected to reach its peak level of approximately 22,000 barrels per day in the first half of 2004. In 2003, our Chinese interests produced \$26.8 million of production revenue on over 1 MMboe of production. We are the operator, with a 24.5 percent interest, of the Zhao Dong Block. Since production began, we have exported our portion of the production to international companies at prices that change with market conditions. We currently plan to spend an estimated \$20 million of drilling capital this year.

We obtained our first acreage position in Poland in 1997 when we assumed operatorship and a 50 percent interest in over 5.5 million gross acres from FX Energy, Inc. During 2003, we ceased operations in Poland, and we wrote off \$16 million (\$10 million net of tax), of which \$13 million was recorded as an impairment of the remaining unproved property costs.

In 2001, we acquired exploration and production assets of Fletcher Challenge and Anadarko Petroleum in Argentina. After these transactions, we hold interests in a number of blocks in Argentina's Neuquen basin. We are the operator, with a 100 percent interest, in two blocks and hold smaller interests in another four blocks. For the year, these interests represent under one percent of our proved reserves and generated small amounts of production and revenue. Our total net acreage in Argentina is 375,769 acres, with 328,049 developed and 47,720 undeveloped at year-end 2003. In 2004, we plan to spend approximately \$4 million drilling six wells in Argentina.

## DRILLING STATISTICS

Worldwide, in 2003, we participated in drilling 1,449 gross wells, with 1,319 (91 percent) completed as producers. Canada was our most active region, drilling 984 gross new, mostly development wells, with a success rate of 92.8 percent. We also performed over 2,000 major workovers and recompletions during the year. Our drilling activities in the United States generally concentrate on exploitation of existing, producing fields rather than exploration. As a general matter, our international drilling activities focus more on exploration drilling and our Canadian region on a mix of exploration and exploitation. In addition to our completed wells, at year-end several wells had not yet reached completion: 17 in the U.S. (9 net); 17 in Canada (15.5 net); 11 in Egypt (10.5 net); one in Australia (0.6 net); and one in Argentina (0.3 net).



The number of productive oil and gas wells, operated and non-operated, in which we had an interest as of December 31, 2003, is set forth below:

GAS OIL TOTAL	GROSS NET		GROSS NET		GROSS NET	
						Gulf
Coast.....	654	1,164	797	2,159	1,451	995
Central.....	2,545	1,280	3,261	2,055	5,806	3,335
Canada.....	5,122	4,433	2,288	960	7,410	5,393
Egypt.....	25	24	239	226	264	250
Australia.....	8	5	41	22	49	27
Kingdom.....						United
China.....			11	3	11	3
Argentina.....	17	5	36	23	53	28
Total.....	6,401	7,088	4,133	15,800	10,534	8,712

GROSS AND NET UNDEVELOPED AND DEVELOPED ACREAGE

The following table sets out our gross and net acreage position in each country where we have operations.

UNDEVELOPED ACREAGE	DEVELOPED ACREAGE	GROSS	
NET GROSS NET ACRES	ACRES	ACRES	ACRES
----- United States.....			
1,156,022	695,682	2,603,016	1,610,265
----- Canada.....			
3,741,303	2,724,595	2,831,527	1,981,522
----- Egypt.....			
9,084,916	5,636,139	1,128,037	1,012,089
----- United Kingdom.....			
87,498	72,220	29,924	29,068
----- Australia.....			
8,231,350	4,152,950	467,770	274,470
----- China.....			
5,314	2,657	5,911	1,448
----- Poland.....			
473,469	355,252	--	--
----- Argentina.....			
174,402	47,720	534,686	328,049
----- Total Company.....			
22,954,274	13,687,215	7,600,871	5,236,911
=====	=====	=====	=====

PRODUCTION AND PRICING DATA

The following table describes, for each of the last three fiscal years, oil, NGLs and gas production for the Company, average production costs and average sales prices.

PRODUCTION AVERAGE  
SALES PRICE -----  
-----  
AVERAGE -----

OIL NGLS GAS  
PRODUCTION OIL NGLS  
GAS YEAR ENDED  
DECEMBER 31, (MBBLS)  
(MBBLS) (MMCF) COST  
PER BOE (PER BBL) (PER  
BBL) (PER MCF) - -----  
-----  
-----

2003 United States.....			
25,332	2,766	242,782	
5.14	27.48	21.70	5.22
----- Canada.....			
9,205	571	116,263	5.41
29.06	19.25	4.69	
----- Egypt.....			
17,356	--	41,447	3.40
27.64	--	4.18	
----- Australia.....			
11,165	--	40,537	4.05
29.87	--	1.44	United Kingdom.....
10,680	--	626	11.94
25.40	--	2.77	
----- China.....			
1,019	--	5.18	26.33
----- Argentina.....			
211	--	2,607	5.76
29.23	--	.47	-----
-----			

Total.....			
74,968	3,337	444,262	
5.27	27.76	21.28	4.61
=====	=====	=====	=====
=====	=====	=====	=====

2002 United States.....			
19,348	2,442	183,708	
5.21	25.31	15.29	3.15
----- Canada.....			
9,205	641	120,210	3.83
23.46	12.41	2.74	
----- Egypt.....			
15,977	--	44,769	2.95

```

24.65 -- 3.71
Australia.....
11,082 -- 42,998 3.06
25.17 -- 1.28 Other
International.... 225
-- 2,656 2.58 23.90 --
0.42 -----
-----
----
Total.....
55,837 3,083 394,341
4.12 24.78 14.69 2.87
=====
=====
=====
2001 United
States.....
21,353 2,803 224,600
4.46 24.39 16.60 4.15
Canada.....
9,451 464 108,925 3.41
19.22 17.45 3.81
Egypt.....
14,322 -- 35,010 2.45
23.59 -- 3.51
Australia.....
8,595 -- 42,684 2.77
23.89 -- 1.22 Other
International.... 43 -
- 236 4.71 17.90 --
1.20 -----
-----
----
Total.....
53,764 3,267 411,455
3.69 23.18 16.72 3.70
=====
=====
=====
=====
=====

```

ESTIMATED PROVED RESERVES AND FUTURE NET CASH FLOWS

As of December 31, 2003, Apache had total estimated proved reserves of 843.9 million barrels of crude oil, condensate and NGLs and 4.9 Tcf of natural gas. Combined, these total estimated proved reserves are

equivalent to 1.66 billion barrels of oil or 9.9 Tcf of gas. The company's reserves have grown for the 18th consecutive year. Estimated proved developed reserves comprise 71.5 percent of our total estimated proved reserves on a boe basis.

The Company's estimates of proved reserves and proved developed reserves at December 31, 2003, 2002 and 2001, changes in proved reserves during the last three years, and estimates of future net cash flows and discounted future net cash flows from proved reserves are contained in Note 15, Supplemental Oil and Gas Disclosures (Unaudited), in the Apache Corporation 2003 Consolidated Financial Statements of Item 15 of this Form 10-K.

Proved oil and gas reserves are the estimated quantities of natural gas, crude oil, condensate and NGLs that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Reserves are considered proved if economical producibility is supported by either actual production or conclusive formation tests. Reserves that can be produced economically through application of improved recovery techniques are included in the "proved" classification when successful testing by a pilot project or the operation of an installed program in the reservoir provides support for the engineering analysis on which the project or program is based. Proved developed oil and gas reserves can be expected to be recovered through existing wells with existing equipment and operating methods.

Apache emphasizes that the volumes of reserves are estimates which, by their nature, are subject to revision. The estimates are made using available geological and reservoir data, as well as production performance data. These estimates are reviewed annually and revised, either upward or downward, as warranted by additional performance data.

We engage an independent petroleum engineering firm to review our estimates of proved hydrocarbon liquid and gas reserves. During 2003, 2002 and 2001, their review covered 78, 68, and 61 percent of the reserve value, respectively. This value, which represents estimated future net cash flows, is based on prices at year-end and is calculated in accordance with Statement of Financial Accounting Standards (SFAS) No. 69, "Disclosures about Oil and Gas producing Activities." Disclosure of this value and related reserves has been prepared in accordance with SEC Regulation S-X Rule 4-10 and is presented in Note 15 to the accompanying financial statements.

#### RISK FACTORS RELATED TO OUR BUSINESS AND OPERATIONS

##### ACQUISITIONS OR DISCOVERIES OF ADDITIONAL RESERVES ARE NEEDED TO AVOID A MATERIAL DECLINE IN RESERVES AND PRODUCTION

The rate of production from oil and gas properties generally declines as reserves are depleted. Except to the extent that we acquire additional properties containing proved reserves, conduct successful exploration and development activities or, through engineering studies, identify additional behind-pipe zones or secondary recovery reserves, our proved reserves will decline materially as reserves are produced. Future oil and gas production is, therefore, highly dependent upon our level of success in acquiring or finding additional reserves.

##### COSTS INCURRED TO CONFORM TO GOVERNMENT REGULATION OF THE OIL AND GAS INDUSTRY

Our exploration, production and marketing operations are regulated extensively at the federal, state and local levels, as well as by other countries in which we do business. We have made and will continue to make all necessary expenditures in our efforts to comply with the requirements of environmental and other regulations. Further, the oil and gas regulatory environment could change in ways that might substantially increase these costs. Hydrocarbon-producing states regulate conservation practices and the protection of correlative rights. These regulations affect our operations and limit the quantity of hydrocarbons we may produce and sell. In addition, at the U.S. federal level, the Federal Energy Regulatory Commission regulates interstate transportation of natural gas under the Natural Gas Act. Other regulated matters include marketing, pricing, transportation and valuation of royalty payments.

## COSTS INCURRED RELATED TO ENVIRONMENTAL MATTERS

We, as an owner or lessee and operator of oil and gas properties, are subject to various federal, provincial, state, local and foreign country laws and regulations relating to discharge of materials into, and protection of, the environment. These laws and regulations may, among other things, impose liability on the lessee under an oil and gas lease for the cost of pollution clean-up resulting from operations, subject the lessee to liability for pollution damages, and require suspension or cessation of operations in affected areas.

We maintain insurance coverage, which we believe is customary in the industry, although we are not fully insured against all environmental risks. We are not aware of any environmental claims existing as of December 31, 2003, which would have a material impact upon our financial position or results of operations.

We have made and will continue to make expenditures in our efforts to comply with these requirements, which we believe are necessary business costs in the oil and gas industry. We have established policies for continuing compliance with environmental laws and regulations, including regulations applicable to our operations in all countries in which we do business. We also have established operational procedures and training programs designed to minimize the environmental impact on our field facilities. The costs incurred by these policies and procedures are inextricably connected to normal operating expenses such that we are unable to separate the expenses related to environmental matters; however, we do not believe any such additional expenses are material to our financial position or results of operations.

Apache manages its exposure to environmental liabilities on properties to be acquired by identifying existing problems and assessing the potential liability. The Company also conducts periodic reviews, on a company-wide basis, to identify changes in its environmental risk profile. These reviews evaluate whether there is a probable liability, its amount, and the likelihood that the liability will be incurred. The amount of any potential liability is determined by considering, among other matters, incremental direct costs of any likely remediation and the proportionate cost of our employees who are expected to devote a significant amount of time directly to any possible remediation effort. Our general policy is to limit any reserve additions to incidents or sites that are considered probable to result in an expected remediation cost exceeding \$100,000. In October 2003, Apache was issued a Findings of Violation and Order for Compliance (an "Administrative Order") by the United States Environmental Protection Agency (EPA), which cited certain paperwork administrative errors and effluent violations reported by Apache during the period May 1, 1998 to June 30, 2003, as part of our offshore discharge permit monitoring. In discussions with the EPA, Apache has agreed to pay a monetary penalty of \$20,650 and undertake a Supplemental Environmental Project with an estimated cost of \$94,500.

As of December 31, 2003, we had an accrued liability of \$10 million for environmental remediation. We have not incurred any material environmental remediation costs in any of the periods presented and are not aware of any future environmental remediation matters that would be material to our financial position or results of operations.

Although environmental requirements have a substantial impact upon the energy industry, generally these requirements do not appear to affect us any differently, or to any greater or lesser extent, than other upstream companies in the industry. We do not believe that compliance with federal, state, local or foreign country provisions regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, will have a material adverse effect upon the capital expenditures, earnings or competitive position of Apache or its subsidiaries; however, there is no assurance that changes in or additions to laws or regulations regarding the protection of the environment will not have such an impact.

## COMPETITION WITH OTHER COMPANIES COULD HARM US

The oil and gas industry is highly competitive. Our business could be harmed by competition with other companies. Because oil and gas are fungible commodities, one form of competition is price competition. We strive to maintain low finding and production costs in order to maximize profits. In addition, as an independent oil and gas company, we frequently compete for reserve acquisitions, exploration leases, licenses, concessions and marketing agreements against companies with financial and other resources substantially larger than those

we possess. Many of our competitors have established strategic long-term positions and maintain strong governmental relationships in countries in which we may seek new entry.

#### INSURANCE DOES NOT COVER ALL RISKS

Exploration for and production of oil and natural gas can be hazardous, involving unforeseen occurrences such as blowouts, cratering, fires and loss of well control, which can result in damage to or destruction of wells or production facilities, injury to persons, loss of life, or damage to property or the environment. We maintain insurance against certain losses or liabilities arising from our operations in accordance with customary industry practices and in amounts that management believes to be prudent; however, insurance is not available to us against all operational risks.

#### RISKS ARISING FROM THE FAILURE TO FULLY IDENTIFY POTENTIAL PROBLEMS RELATED TO ACQUIRED RESERVES OR TO PROPERLY ESTIMATE THOSE RESERVES

One of our primary growth strategies is the acquisition of oil and gas properties. Although we perform a review of the acquired properties that we believe is consistent with industry practices, such reviews are inherently incomplete. It generally is not feasible to review in depth every individual property involved in each acquisition. Ordinarily, we will focus our review efforts on the higher-value properties and will sample the remainder. However, even a detailed review of records and properties may not necessarily reveal existing or potential problems, nor will it permit a buyer to become sufficiently familiar with the properties to assess fully their deficiencies and potential. Inspections may not always be performed on every well, and environmental problems, such as ground water contamination, are not necessarily observable even when an inspection is undertaken. Even when problems are identified, we often assume certain environmental and other risks and liabilities in connection with acquired properties. There are numerous uncertainties inherent in estimating quantities of proved oil and gas reserves and actual future production rates and associated costs with respect to acquired properties, and actual results may vary substantially from those assumed in the estimates (see above). In addition, there can be no assurance that acquisitions will not have an adverse effect upon our operating results, particularly during the periods in which the operations of acquired businesses are being integrated into our ongoing operations.

#### INVESTORS IN OUR SECURITIES MAY ENCOUNTER DIFFICULTIES IN OBTAINING, OR MAY BE UNABLE TO OBTAIN, RECOVERIES FROM ARTHUR ANDERSEN WITH RESPECT TO ITS AUDITS OF OUR FINANCIAL STATEMENTS

On March 14, 2002, our previous independent public accountant, Arthur Andersen LLP, was indicted on federal obstruction of justice charges arising from the federal government's investigation of Enron Corp. On June 15, 2002, a jury returned with a guilty verdict against Arthur Andersen following a trial. As a public company, we are required to file with the SEC periodic financial statements audited or reviewed by an independent public accountant. On March 29, 2002, we decided not to engage Arthur Andersen as our independent auditors, and engaged Ernst & Young LLP to serve as our new independent auditors for 2002. Ernst & Young also served as our independent public accountants in 2003. However, included in this annual report on Form 10-K, are financial data and other information for 2001 that were audited by Arthur Andersen. Investors in our securities may encounter difficulties in obtaining, or be unable to obtain, from Arthur Andersen with respect to its audits of our financial statements, relief that may be available to investors under the federal securities laws against auditing firms.

#### ISSUES RELATED TO ARTHUR ANDERSEN LLP MAY IMPEDE OUR ABILITY TO ACCESS THE CAPITAL MARKETS

In the unlikely event that the SEC ceases accepting financial statements audited by Arthur Andersen LLP, we would be unable to access the public capital markets unless Ernst & Young LLP, our current independent accounting firm, or another independent accounting firm, is able to audit the financial statements originally audited by Arthur Andersen. In addition, investors in any subsequent offerings for which we use Arthur Andersen's audit reports will not be entitled to recovery against Arthur Andersen under Section 11 of the Securities Act of 1933, as amended, for any material misstatements or omissions in those financial statements. Furthermore, Arthur Andersen will be unable to participate in the "due diligence" process that

would customarily be performed by potential investors in our securities, which process included having Arthur Andersen perform procedures to assure the continued accuracy of its report on our audited financial statements and to confirm its review of unaudited interim periods presented for comparative purposes. As a result, we may not be able to bring to the market successfully an offering of our securities in a timely and efficient manner. Consequently, our financing costs may increase or we may miss attractive market opportunities.

#### EMPLOYEES

On December 31, 2003, we had 2,353 employees. None of our employees is subject to collective bargaining agreements.

#### OFFICES

Our principal executive offices are located at One Post Oak Central, 2000 Post Oak Boulevard, Suite 100, Houston, Texas 77056-4400. At year-end 2003, we maintained regional exploration and/or production offices in Tulsa, Oklahoma; Houston, Texas; Calgary, Alberta; Cairo, Egypt; Perth, Western Australia; Aberdeen, Scotland; Beijing, China; and Buenos Aires, Argentina. Apache leases all of its primary office space. The current lease on our principal executive offices runs through December 31, 2013. For information regarding the Company's obligations under its office leases, see the information appearing in the table in Item 7 -- Management's Discussion and Analysis of Financial Condition and Results of Operations, "Liquidity" and Item 15, Note 11 -- "Operating Leases and Other Commitments".

#### TITLE TO INTERESTS

We believe that our title to the various interests set forth above is satisfactory and consistent with the standards generally accepted in the oil and gas industry, subject only to immaterial exceptions which do not detract substantially from the value of the interests or materially interfere with their use in our operations. The interests owned by us may be subject to one or more royalty, overriding royalty and other outstanding interests customary in the industry. The interests may additionally be subject to obligations or duties under applicable laws, ordinances, rules, regulations and orders of arbitral or governmental authorities. In addition, the interests may be subject to burdens such as production payments, net profits interests, liens incident to operating agreements and current taxes, development obligations under oil and gas leases and other encumbrances, easements and restrictions, none of which detract substantially from the value of the interests or materially interfere with their use in our operations.

#### ITEM 2. PROPERTIES

For information on our domestic and international properties, see the discussions in Item 1 of this Form 10-K under Review of Company's Worldwide Operating Areas as identified by country. For tables setting out a description of our drilling activities, well counts and acreage positions, see the information in Item 1 under Drilling Statistics, Productive Oil and Gas Wells and Gross and Net Undeveloped Acreage.

#### ITEM 3. LEGAL PROCEEDINGS

See the information set forth under the caption "Commitments and Contingencies" in Note 11 to our financial statements under Item 15 of this Form 10-K.

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

A special meeting of the Company's stockholders was held in Houston, Texas, at 10:00 a.m. local time, on Thursday, December 18, 2003. Proxies for the meeting were solicited pursuant to Regulation 14 under the Securities Act of 1934, as amended. There was no solicitation in opposition to the proposal to amend the Company's Restated Certificate of Incorporation to increase the number of authorized shares of Apache's common stock from 215,000,000 shares to 430,000,000 shares, and the amendment was approved.

Out of a total of 162,037,849 shares of the Company's common stock outstanding and entitled to vote as of October 29, 2003, the record date for the special meeting, October 29, 2003, 142,137,696 shares, or 87.7 percent, were present at the meeting in person or by proxy. The vote tabulation for amendment of Apache's Restated Certificate of Incorporation was as follows:

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FOR
AGAINST
WITHHELD -
-----
- - - - -
- - - - -
140,150,724
1,173,351
813,621

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The shares referenced above have not been adjusted for the two-for-one stock split, record date December 31, 2003, distributed January 14, 2004.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

During 2003 Apache common stock, par value \$0.625 per share, was traded on the New York Stock Exchange, the Chicago Stock Exchange under the symbol APA. The table below provides certain information regarding our common stock for 2003 and 2002. Prices were obtained from the New York Stock Exchange Composite Transactions Reporting System; however, the per share prices and dividends shown in the following table have been adjusted to reflect the two-for-one stock split and the five percent stock dividend, all of which are described below. Per share prices and dividends shown below have been rounded to the indicated decimal place.

2003	2002	PRICE RANGE	DIVIDENDS PER SHARE
First Quarter		\$32.15 - \$26.26	\$.0475
Second Quarter		34.60 - 28.13	.0500
Third Quarter		35.04 - 30.41	.0600
Fourth Quarter		41.68 - 34.05	.0600
		27.71 - 21.12	.0475
		28.61 - 25.03	.0475
		28.57 - 21.46	.0475
		28.88 - 23.53	.0475

The closing price per share of our common stock, as reported on the New York Stock Exchange Composite Transactions Reporting System for February 27, 2004, was \$41.17. At February 29, 2004, there were 325,035,928 shares of our common stock outstanding held by approximately 8,000 shareholders of record and approximately 157,000 beneficial owners.

We have paid cash dividends on our common stock for 39 consecutive years through December 31, 2003. When, and if, declared by our board of directors, future dividend payments will depend upon our level of earnings, financial requirements and other relevant factors.

In 1995, our board of directors adopted a stockholder rights plan to replace the former plan adopted in 1986. Under our stockholder rights plan, each of our common stockholders received a dividend of one "preferred stock purchase

right" for each 2.310 outstanding shares of common stock (adjusted for the 10 percent and five percent stock dividends and two-for-one stock split) that the stockholder owned. We refer to these preferred stock purchase rights as the "rights." Unless the rights have been previously redeemed, all shares of Apache common stock are issued with rights. The rights trade automatically with our shares of common stock. Certain triggering events will give the holders of the rights the ability to purchase shares of our common stock, or the equivalent stock of a person that acquires us, at a discount. The triggering events relate to persons or groups acquiring an amount of our common stock in excess of a set percentage, or attempting to or actually acquiring us. The details of how the rights operate are set out in our certificate of incorporation and the Rights Agreement, dated January 31, 1996, between Apache and Wells Fargo Bank Minnesota, N.A. (formerly Norwest Bank Minnesota, N.A.). Both of those documents have been filed as exhibits to this Form 10-K and you should review them to fully understand the effects of the rights. The purpose of the rights is to encourage potential acquirors to negotiate with our board of directors before attempting a takeover bid and to provide our board of directors with leverage in negotiating on behalf of our stockholders the terms of

any proposed takeover. The rights may have certain anti-takeover effects. They should not, however, interfere with any merger or other business combination approved by our board of directors.

On September 13, 2001, our board of directors declared a 10 percent dividend on our shares of common stock payable in common stock on January 21, 2002 to shareholders of record on December 31, 2001. Pursuant to the terms of the declared 10 percent stock dividend, we issued 26,916,872 shares (adjusted for the 2002 five percent stock dividend and the 2003 stock split) of our common stock on January 21, 2002 to the holders of the 130,888,270 shares (adjusted for the five percent stock dividend and the stock split) of common stock outstanding on December 31, 2001. No fractional shares were issued in connection with the stock dividend and cash payments totaling \$891,132 were made in lieu of fractional shares.

On December 18, 2002, our board of directors declared a five percent dividend on our shares of common stock payable in common stock on April 2, 2003 to shareholders of record on March 12, 2003. Pursuant to the terms of the declared five percent stock dividend, we issued approximately 15,736,496 shares of (adjusted for the 2003 stock split) our common stock on April 2, 2003 to the holders of the 307,819,628 of common stock outstanding (adjusted for the 2003 stock split) on March 12, 2003. No fractional shares were issued in connection with the stock dividend and we made cash payments totaling approximately \$1,437,000 in lieu of fractional shares.

On January 22, 2003, in conjunction with the pending BP acquisition, the Company completed the public offering of 19.8 million shares (adjusted for the stock split) of Apache common stock, including 2.6 million shares (adjusted for the stock split) for the underwriters' over-allotment option, at \$29.05 per share. Net proceeds after placement fees totaled approximately \$554 million. The proceeds were used to repay indebtedness under our commercial paper program and money market lines of credit and to invest in short-term treasury-only money market funds and treasury notes to hold funds for the \$1.3 billion BP acquisition.

On September 11, 2003, our board of directors declared a two-for-one common stock split which was distributed on January 14, 2004 to holders of record on December 31, 2003. In connection with the stock split, the company issued 166,254,667 shares.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected financial data of the Company and its consolidated subsidiaries over the five-year period ended December 31, 2003, which information has been derived from the Company's audited financial statements. Our financial statements for the years 1999 through 2001 were audited by Arthur Andersen LLP, independent public accountants. For a discussion of the risks relating to Arthur Andersen's audit of our financial statements, please see discussion of issues related to Arthur Andersen in Item 1 of this Form 10-K "Risk Factors Related to our Business and Operations." This information should be read in connection with, and is qualified in its entirety by, the more detailed information in the Company's financial statements in Item 15 of this Form 10-K.

AS OF OR FOR THE YEAR ENDED DECEMBER 31, ----- ----- ----- 2003 2002 2001 2000 1999 ----- -- -----
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
INCOME STATEMENT DATA Total
revenues and other..... \$
4,190,299 \$2,559,873
\$2,809,391 \$2,301,978
\$1,161,697 Income
attributable to common
stock.....
1,116,205 543,514 703,798
693,068 186,406 Net income
per common share:
Basic.....
3.46 1.83 2.44 2.54 .75
Diluted.....
3.43 1.80 2.37 2.46 .74 Cash
dividends declared per common
share..... .22
.19 .17 .09 .12 BALANCE SHEET
DATA Total
assets.....
12,416,126 9,459,851
8,933,656 7,481,950 5,502,543
Long-term
debt.....
2,326,966 2,158,815 2,244,357
2,193,258 1,879,650 Preferred
interests of
subsidiaries.....
-- 436,626 440,683 -- --
Shareholders'
equity..... 6,532,798
4,924,280 4,418,483 3,754,640
2,669,427 Common shares
outstanding..... 324,497
302,506 287,917 285,596
263,332

For a discussion of significant acquisitions, see Note 3 to the Company's consolidated financial statements in Item 15 of this Form 10-K.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Apache Corporation is an independent energy company whose principle business includes exploration, development and production of crude oil, natural gas and natural gas liquids. During 2003 the Company added an additional international core area with the acquisition of the U.K. North Sea Forties Field from BP p.l.c. (BP). The Company's other core geographic areas include operations in the United States, Canada, Australia and Egypt. Smaller, non-core operations are conducted in China and Argentina.

Apache adheres to a portfolio approach to provide diversity in terms of hydrocarbon mix (crude oil and natural gas), geologic risk and geographic location. Our growth strategy focuses on economic growth through drilling, through acquisitions, or through a combination of both, depending on what the environment gives us. As we pursue growth, we continually monitor the capital resources available to us to meet our future financial obligations and liquidity needs. These obligations and needs must be met with cash on hand, cash generated from our operations, unused committed borrowing capacity under our global credit facility and the capital markets. The interest cost of debt and access to the equity markets are greatly influenced by a company's ability to maintain a strong balance sheet and generate ongoing operating cash flow. For these reasons, we strive to maintain a manageable debt load that is properly balanced with equity, and our single-A credit ratings. We are also cognizant of the costs to add reserves through drilling and acquisitions as well as the costs necessary to produce such reserves. Consequently, we must stay abreast of industry drilling costs and the price



at which properties are available for purchase, when choosing where to allocate our available funds. We monitor operating costs, on both an absolute dollar and per unit of production basis, relative to our historical norms and relative to our industry sector, factoring in the impact from property acquisitions and changes in industry conditions. Given the inherent volatility and unpredictability of commodity prices, and changing industry conditions, we frequently revise our forecasts and adjust our budgets accordingly. Commodity prices throughout 2003 were relatively high and remained consistently strong throughout the year. This price consistency allowed us to maintain a fairly constant level of capital expenditures for exploration and development drilling throughout the year. Our 2003 drilling and acquisition capital expenditures (discussed below) were balanced, as we grew both production and reserves to record levels, while maintaining a balance in terms of hydrocarbon mix. We had exceptional profitability growth in 2003, achieving several operational and financial milestones noted below:

- Our 2003 oil and gas production revenues reached a record \$4.2 billion, 64 percent higher than in 2002.
- We generated record earnings of \$1.1 billion, more than twice our prior-year level. More importantly, on a diluted share basis earnings rose 91 percent to a record \$3.43 per share.
- Cash from operating activities increased 96 percent from the prior year to a record \$2.7 billion.
- Production averaged a record 417,400 barrels of oil equivalent per day (boe/d), the 24th increase in the last 25 years.
- In mid-July 2003, production was initiated on the Zhao Dong block in Bohai Bay, offshore China.
- We began actively marketing our U.S. natural gas effective with July 2003 production. With our 2nd quarter North American daily natural gas production exceeding one billion cubic feet (Bcf), we felt it was prudent to bring this responsibility back in-house.
- On December 16, 2003 we announced the signing of a Memorandum of Understanding (MOU) with the Egyptian General Petroleum Corporation (EGPC) for a Gas Sales Agreement, Field Development Plan and Deepwater Development Lease for a minimum of 2.7 trillion cubic feet (Tcf) of natural gas over 25 years from the deepwater portion of our Egyptian West Mediterranean Concession. Production is scheduled to commence in 2007, contingent upon completion of significant development infrastructure and resolution of delays in certain payments for production by EGPC.
- We ended the year with record proved reserves of 1.66 billion barrels of oil equivalent (boe), marking the 18th consecutive year of reserve growth. Nearly half of our proved reserve additions were added through exploration and development activities.

We began our 49th year in a strong financial position and on January 13, 2003, we announced the BP acquisition, our single-largest acquisition to date, establishing a new international core area and augmenting our Gulf of Mexico portfolio. The BP acquisition fit our balanced-portfolio business model and provides the potential for internal growth similar to what we have experienced in other areas. It also extends our relationship with one of the world's largest integrated major companies. In July 2003, we consummated a deal with Shell Exploration and Production Company (Shell) adding additional oil and gas fields on the outer Continental Shelf of the Gulf of Mexico. Our total acquisition costs for 2003 were approximately \$1.6 billion, compared to \$355 million in the prior year. These acquisitions are discussed in more detail below.

Our worldwide capital expenditures for exploration and development were approximately \$1.5 billion, 73 percent higher than 2002 and approximately 18 percent higher than our initial plan. Our strong cash flow enabled us to allocate additional funds to exploration and development during 2003. We spent approximately 69 percent of our exploration and development capital in North America, which is consistent with reserve and production contributions. We had numerous drilling successes throughout the year, particularly in Egypt and Australia:

- Our most significant exploration success in Egypt, announced in July 2003, was the Qasr-1X well located on the Khalda Concession. In November, we announced completion of the Qasr-2X confirming the Qasr-1X discovery. We believe the Qasr discovery has the potential to be the most

significant discovery in Apache's 49-years. Production was initiated on a restricted basis in the fourth quarter of 2003, with full production expected in 2005, pending completion of additional development wells, appraisal wells and construction of pipeline facilities.

- In July 2003, we announced that our Ravensworth-1 well discovered oil in the Exmouth Sub-Basin offshore Western Australia, creating a new oil-play area for Apache in an oil-prone area and adding a new dimension to our exploration program offshore Western Australia. Early in October 2003, we announced our second discovery in the Exmouth Sub-Basin, the Crosby-1, providing additional confidence that we have established a new oil-play area. Appraisal wells along with additional exploration drilling will occur in 2004.

Following a very active year of drilling and acquisitions, our year-end 2003 reserves remained balanced at 51 percent oil and 49 percent natural gas, compared with 49 percent oil and 51 percent natural gas at year-end 2002. The increase in oil reserves is primarily attributable to the properties acquired in the North Sea. During 2003, the U.S. contributed 45 percent of equivalent production, up from 42 percent in 2002, reflecting the impact of the Gulf of Mexico assets acquired from BP and Shell.

Apache ended the year in a strong financial position, maintaining single-A credit ratings on unsecured long-term debt issued by Moody's, Standard and Poor's and Fitch rating agencies. Also, we reduced debt to 26 percent of capitalization despite over \$3 billion in capital expenditures. To manage our financial flexibility, we consummated several debt and equity transactions during 2003:

- On January 22, 2003, in conjunction with the pending BP transaction, we completed a public offering of 19.8 million shares of common stock, adjusted for the two-for-one stock split, raising \$554 million.
- During the second quarter, the Company issued \$350 million of 12-year, senior unsecured notes at a 4.375-percent coupon rate. Proceeds were used to reduce bank debt and outstanding commercial paper, and for general corporate purposes.
- To take advantage of historically low interest rates on commercial paper and better position ourselves to pay down short-term debt, if we so elect, on September 26, 2003, Apache repurchased and retired preferred interests issued by three of its subsidiaries for approximately \$443 million, plus an additional \$1 million for accrued dividends and distributions.
- The Company also filed a shelf registration with the Securities and Exchange Commission that allows Apache to sell up to \$1.5 billion in stock and debt securities.

On September 12, 2003 the Company announced that its Board of Directors, in recognition of the Company's outstanding growth and progress, voted to increase the quarterly cash dividend on its common stock 20 percent to 6 cents per share from 5 cents per share, effective with the November 2003 payment, and to split the stock two-for-one.

While 2003 was an outstanding year, the current outlook for 2004 is also encouraging. Recent drilling successes and acquisitions should generate substantial production. Also, the current NYMEX futures markets indicate oil and natural gas prices above historical averages in 2004. Lastly, we are well positioned to access capital should appropriate acquisition opportunities present themselves. A more detailed discussion of operations follows our Critical Accounting Policies.

#### CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial condition and results of operations are based upon the consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. Certain accounting policies involve judgments and uncertainties to such an extent that there is reasonable likelihood that materially different amounts could have been reported under different conditions, or if different assumptions had been used. We evaluate our estimates and assumptions on a regular basis. We base our estimates on historical experience and various other

assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates and assumptions used in preparation of our financial statements. Below, we have provided expanded discussion of our more significant accounting policies, estimates and judgments. We discussed the development, selection and disclosure of each of these with our audit committee. We believe these accounting policies reflect our more significant estimates and assumptions used in preparation of our financial statements. See Results of Operations and Note 1 of Item 15 of this Form 10-K for a discussion of additional accounting policies and estimates made by management.

#### Full-Cost Method of Accounting for Oil and Gas Operations

The accounting for our business is subject to special accounting rules that are unique to the oil and gas industry. There are two allowable methods of accounting for oil and gas business activities: the successful-efforts method and the full-cost method. There are several significant differences between these methods. Under the successful-efforts method, costs such as geological and geophysical (G&G), exploratory dry holes and delay rentals, are expensed as incurred where under the full-cost method these types of charges would be capitalized to their respective full-cost pool. In the measurement of impairment of oil and gas properties, the successful-efforts method of accounting follows the guidance provided in Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," where the first measurement for impairment is to compare the net book value of the related asset to its undiscounted future cash flows using commodity prices consistent with management expectations. Under the full-cost method the net book value (full-cost pool) is compared to the future net cash flows discounted at 10 percent using commodity prices in effect on the last day of the reporting period.

We have elected to use the full-cost method to account for our investment in oil and gas properties. Under this method, the Company capitalizes all acquisition, exploration and development costs for the purpose of finding oil and gas reserves, including salaries, benefits and other internal costs directly attributable to these activities. Although some of these costs will ultimately result in no additional reserves, we expect the benefits of successful wells to more than offset the costs of any unsuccessful ones. In addition, gains or losses on the sale or other disposition of oil and gas properties are not recognized unless the gain or loss would significantly alter the relationship between capitalized costs and proved reserves of oil and natural gas attributable to a country. As a result, we believe that the full-cost method of accounting better reflects the true economics of exploring for and developing oil and gas reserves. Our financial position and results of operations would have been significantly different had we used the successful-efforts method of accounting for our oil and gas investments. Typically, the application of the full-cost method of accounting for oil and gas property generally results in higher capitalized costs and higher depletion, depreciation and amortization (DD&A) rates compared to similar companies applying the successful efforts methods of accounting.

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

Emerging Issues Task Force (EITF) has added the treatment of oil and gas mineral rights to an upcoming agenda, which may result in a change in how Apache classifies these assets.

Should such a change be required, the amounts related to business combinations and major asset purchases after June 30, 2001 that would be classified as "intangible undeveloped mineral interest" was \$78 million and \$259 million as of December 31, 2002 and December 31, 2003, respectively. The amounts related to business combinations and major asset purchases after June 30, 2001 that would be classified as "intangible developed mineral interest" was \$332 million and \$1.4 billion as of December 31, 2002 and December 31, 2003, respectively. Intangible developed mineral interest amounts are presented net of accumulated DD&A. Accumulated DD&A was estimated using historical depletion rates applied proportionately to the costs of the acquisitions to be classified as "intangible developed mineral interest". The amounts noted above only include mineral rights acquired in business combinations or major asset purchases, and exclude those acquired individually or in groups as we have not historically tracked these in this manner. The Company has also not historically tracked the amount of mineral rights in the proved property balances related to producing leases or relinquished leases. We are currently identifying a methodology to do so for transactions subsequent to June 30, 2001.

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

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

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

#### Reserve Estimates

Our estimate of proved reserves is based on the quantities of oil and gas which geological and engineering data demonstrate, with reasonable certainty, to be recoverable in future years from known reservoirs under existing economic and operating conditions. The accuracy of any reserve estimate is a function of the quality of available data, engineering and geological interpretation, and judgment. For example, we must estimate the amount and timing of future operating costs, severance taxes, development costs, and workover costs, all of which may in fact vary considerably from actual results. In addition, as prices and cost levels change from year to year, the estimate of proved reserves also changes. Any significant variance in these assumptions could materially affect the estimated quantity and value of our reserves.

Despite the inherent imprecision in these engineering estimates, our reserves are used throughout our financial statements. For example, since we use the units-of-production method to amortize our oil and gas properties, the quantity of reserves could significantly impact our DD&A expense. Our oil and gas properties are also subject to a "ceiling" limitation based in part on the quantity of our proved reserves. Finally, these reserves are the basis for our supplemental oil and gas disclosures.

We engage an independent petroleum engineering firm to review our estimates of proved hydrocarbon liquid and gas reserves. During 2003, 2002 and 2001, their review covered 78, 68 and 61 percent of the reserve value, respectively.

## Bad Debt Expense

We routinely assess the recoverability of all material trade and other receivables to determine their collectibility. Many of our receivables are from joint interest owners on properties of which we are the operator. Thus, we may have the ability to withhold future revenue disbursements to recover any non-payment of joint interest billings. Generally, our crude oil and natural gas receivables are typically collected within two months. However, during 2001 and 2002, we experienced a gradual decline in the timeliness of receipts from EGPC for our oil and gas sales. Deteriorating economic conditions during 2001 and 2002 in Egypt lessened the availability of U.S. dollars, resulting in an additional one to two month delay in receipts from EGPC. While hard currency shortages in Egypt could lead to further delays, we did not experience any further delays in 2003. Please refer to the Future Trends section in this Item 7 for additional discussion concerning our Egyptian receivables. We accrue a reserve on a receivable when, based on the judgment of management, it is probable that a receivable will not be collected and the amount of any reserve may be reasonably estimated.

## Asset Retirement Obligation

The Company has significant obligations to remove tangible equipment and restore land or seabed at the end of oil and gas production operations. Apache's removal and restoration obligations are primarily associated with plugging and abandoning wells and removing and disposing of offshore oil and gas platforms. Estimating the future restoration and removal costs is difficult and requires management to make estimates and judgments because most of the removal obligations are many years in the future and contracts and regulations often have vague descriptions of what constitutes removal. Asset removal technologies and costs are constantly changing, as are regulatory, political, environmental, safety and public relations considerations. Prior to 2003, under the full-cost method of accounting, as described in the preceding critical accounting policy sections, the estimated undiscounted costs of the abandonment obligations, net of the value of salvage, were included as a component of our depletion base and expensed over the production life of the oil and gas properties.

In 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." Apache adopted this statement effective January 1, 2003, as discussed in Note 2 of Item 15 of this Form 10-K. SFAS No. 143 significantly changed the method of accruing for costs an entity is legally obligated to incur related to the retirement of fixed assets ("asset retirement obligations" or "ARO"). Primarily, the new statement requires the Company to record a separate liability for the discounted present value of the Company's asset retirement obligations, with an offsetting increase to the related oil and gas properties on the balance sheet.

Inherent in the present value calculation are numerous assumptions and judgments including the ultimate settlement amounts, inflation factors, credit adjusted discount rates, timing of settlement, and changes in the legal, regulatory, environmental and political environments. To the extent future revisions to these assumptions impact the present value of the existing ARO liability, a corresponding adjustment is made to the oil and gas property balance. In addition, increases in the discounted ARO liability resulting from the passage of time will be reflected as accretion expense in the consolidated statement of operations.

SFAS No. 143 requires a cumulative adjustment to reflect the impact of implementing the statement had the rule been in effect since inception. The Company, therefore, calculated the cumulative accretion expense on the ARO liability and the cumulative depletion expense on the corresponding property balance. The sum of these cumulative expenses was compared to the depletion expense originally recorded. Because the historically recorded depletion expense was higher than the cumulative expense calculated under SFAS No. 143, the difference resulted in a gain which the Company recorded as cumulative effect of change in accounting principle on January 1, 2003.

Upon implementation, the Company also had to determine if the statement required us to recalculate our historical full-cost ceiling tests (see Note 1 of Item 15 of this Form 10-K). The Company chose not to re-calculate its historical full-cost ceiling tests even though its historical oil and gas property balances would have been higher had we applied the statement from inception. We believe this approach is appropriate because SFAS No. 143 is silent on this issue and was not effective during the prior impairment test periods. Had a recalculation of the historical full-cost ceiling test resulted in impairment, the charge would have reduced the gain recorded upon adoption.

Going forward, our depletion expense will be reduced since we will deplete a discounted ARO rather than the undiscounted value previously depleted. The lower depletion expense under SFAS No. 143 is offset, however, by accretion expense, which reflects increases in the discounted asset retirement obligation over time.

Also, the Company had to determine how to incorporate the asset retirement obligations into the quarterly calculation of its full-cost ceiling tests (see Note 1 of Item 15 of this Form 10-K). SFAS No. 143 is silent with respect to this issue and, although there are various views, the Company elected to continue including the undiscounted ARO as part of future development costs, essentially reducing the present value of its future net revenues and full-cost ceiling limit. To compare the property balance, which included the ARO component, to the full-cost ceiling limit, which has been reduced by a similar abandonment cost, we netted the ARO liability against the property balance. The Company believes its view is appropriate since there must be a comparable basis between the net book value of the properties and the full-cost ceiling limitation. Another widely contemplated view is to exclude the ARO from future development costs when calculating the full-cost ceiling limitation and not reduce the carrying amount of capitalized costs by the related liability. This approach would result in a higher full-cost ceiling limitation and a comparatively higher net oil and gas property balance.

#### Income Taxes

Oil and gas exploration and production is a global business. As a result, we are subject to taxation on our income in numerous jurisdictions. We record deferred tax assets and liabilities to account for the expected future tax consequences of events that have been recognized in our financial statements and our tax returns. We routinely assess the realizability of our deferred tax assets. If we conclude that it is more likely than not that some portion or all of the deferred tax assets will not be realized under accounting standards, the tax asset would be reduced by a valuation allowance. We consider future taxable income in making such assessments. Numerous judgments and assumptions are inherent in the determination of future taxable income, including factors such as future operating conditions (particularly as related to prevailing oil and gas prices).

We intend to permanently reinvest earnings from our international operations; therefore, we do not recognize deferred taxes on the unremitted earnings of our international subsidiaries. If it becomes apparent that some or all of the unremitted earnings will be remitted, we would then reflect taxes on those earnings.

#### Derivatives

Apache uses commodity derivative contracts on a limited basis to manage its exposure to oil and gas price volatility and accounts for the contracts in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). The estimated fair values of Apache's derivative contracts within the scope of this statement are carried on the Company's consolidated balance sheet. For contracts designated and qualifying as cash flow hedges, realized gains and losses are generally recognized in oil and gas production revenues when the forecasted transaction occurs. SFAS 133 requires that gains and losses from the change in fair value of derivative instruments that do not qualify for hedge accounting be "marked-to-market" and reported in current period income, rather than in the period in which the hedged transaction is settled. The Company does not currently enter into derivative or other financial instruments for trading purposes.

The estimate of fair value of Apache's derivative contracts requires substantial judgment; however, the Company's derivative contracts are generally exchange traded or valued by reference to commodities that are traded in highly liquid markets. As such, the ultimate fair value is determined by references to readily available public data. Option valuations are verified against independent third-party quotations. (see Commodity Risk under Item 7a of this Form 10-K for commodity price sensitivity information).

#### RESULTS OF OPERATIONS

This section includes a discussion of our 2003 and 2002 results of operations. Apache has six reportable segments, which are the United States, Canada, Australia, Egypt, the North Sea and Other International.

These segments are primarily in the business of crude oil and natural gas exploration and production. Please refer to Note 14 of Item 15 of this Form 10-K for segment information.

#### Acquisitions and Divestitures

In 2003, we spent \$1.6 billion on oil and gas acquisitions, adding 267 MMboe to our reserve base. The preponderance of our 2003 acquisition activity was focused in the North Sea and Gulf of Mexico. The North Sea assets further diversified our reserves and production, while the Gulf of Mexico properties provide opportunities in an area that historically enjoys the highest netback natural gas pricing in North America.

Seventy-two percent of our acquisition capital was spent to acquire North Sea and Gulf of Mexico properties from BP. Another 13 percent was spent to acquire additional Gulf of Mexico properties from Shell. The balance of our activity involved smaller acquisitions in Australia and North America. The North Sea acquisition establishes a new international operating region for Apache, providing the potential for future internal growth. The Gulf of Mexico properties acquired from BP and Shell lay down well with our existing Gulf of Mexico properties and provide promising prospects for future exploration, exploitation and development activities. As we have in the past, we expect to identify and take advantage of efficiencies in field operations and economics of scale, while concurrently accelerating production and adding reserves.

In association with the BP acquisition, Apache agreed to sell all of the production from the North Sea properties to BP for a two year period at a combination of fixed and market sensitive prices pursuant to a contract entered into in connection with the North Sea purchase agreement. To protect the acquisition economics on the Gulf of Mexico properties acquired from BP we hedged prices on a substantial portion of the oil production for a 12-month period ending January 31, 2004, and a substantial portion of the gas production for the first two years (see Note 4 under Item 15 of this Form 10-K).

Prior to the Shell transaction, Morgan Stanley Capital Group, Inc. (Morgan Stanley) paid Shell \$300 million to acquire an overriding royalty interest in a portion of the reserves to be produced over the next four years. Shell's sale of an overriding royalty interest to Morgan Stanley is commonly known in the industry as a volumetric production payment (VPP). Under the terms of the VPP, Morgan Stanley is to receive a fixed volume of oil and gas production over the four-year term. The VPP reserves and production will not be recorded by Apache. In addition, a \$60 million liability for the future cost to produce and deliver volumes subject to the VPP has been 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.

In 2002, we elected to exercise patience on the acquisition front, in anticipation of lower acquisition prices. We focused our attention on managing our financial structure by building equity and paying down debt so we would be in a position to act quickly when attractive assets became available at reasonable prices. Our oil and gas acquisitions in 2002 totaled approximately \$350 million, adding 49 MMboe to our reserve base, far short of the \$880 million we expended during 2001, which added 213 MMboe of proved reserves. In addition, the acquisitions added \$3 million and \$146 million of production, processing and transportation facilities in 2002 and 2001, respectively, and \$197 million of goodwill in 2001.

Seventy-five percent of our 2002 acquisition activity occurred in the U.S. and was related to the acquisition of properties primarily located in two Southern Louisiana parishes. The balance of our 2002 acquisitions primarily related to two acquisitions in Canada.

In connection with our 2002 South Louisiana acquisition, we entered into costless-collar hedges to protect Apache from the potential for falling gas prices and to protect the economics of the transaction. These hedges are consistent with some of our 2001 and 2000 acquisitions, whereby we entered into and assumed fixed-price commodity swaps and costless-collars that protected Apache from falling commodity prices. This enabled us to better predict the financial performance of our acquisitions. See Note 4 of Item 15 for the terms of the Company's hedging activity.

Our acquisitions over the last three years helped us maintain diversity in terms of hydrocarbon product (oil or gas), geologic risk and geographic location. As shown in Note 15 of this Form 10-K, our 2003 year-end international reserves as a percentage of total reserves climbed to 30 percent from 22 percent at year-end 2002, while our international average daily production remained constant at 36 percent of our total production in both 2003 and 2002. Our hydrocarbon product mix on a boe basis in 2003 remained relatively constant at 49 percent natural gas and 51 percent oil, compared to 51 percent natural gas and 49 percent oil in 2002. While the U.S., a highly stable environment, remains our largest producing core area, Apache will continue to evaluate acquisition opportunities in existing core areas and in new areas should they arise.

Note that, in light of the uncertainty of how the collapse of Enron Corp. would impact the derivatives markets, we closed all of our derivatives positions in October and November 2001, most of which were associated with prior acquisitions, recognizing a net gain in 2001 of \$10 million with additional gains and losses to be recognized over the original life of the hedge. A net gain of \$24 million was recognized in 2002 and a \$4 million net loss was recognized in 2003. These, as well as the unwinding of our gas price swaps associated with advances from gas purchasers, increased the Company's average natural gas price by \$.02 per Mcf during 2003, \$.04 per Mcf during 2002 and \$.09 per Mcf during 2001. They increased our average crude oil price by \$.03 per bbl during 2003, \$.15 per bbl during 2002, and reduced our average crude oil price by \$.42 per bbl during 2001. There is no material affect in future periods related to closed derivative positions.

We routinely evaluate our property portfolio and divest those that are marginal or no longer fit into our strategic growth program. We divested \$59 million, \$7 million and \$348 million of properties during 2003, 2002 and 2001, respectively.

#### Revenues

Our revenues are sensitive to changes in prices received for our products. A substantial portion of our production is sold at prevailing market prices, which fluctuate in response to many factors that are outside of our control. Imbalances in the supply and demand for oil and natural gas can have dramatic effects on the prices we receive for our production. Political instability and availability of alternative fuels could impact worldwide supply, while other economic factors could impact demand.

#### Oil and Natural Gas Prices

While the market price received for crude oil and natural gas varies among geographic areas, crude oil trades in a world-wide market, whereas natural gas, which has a limited global transportation system, is subject to local supply and demand conditions. Consequently, price movements for all types and grades of crude oil generally move in the same direction, while natural gas price movements generally follow local market conditions.

Apache sells its natural gas into three markets;

- 1) North America, which has a common market and where production is currently in short supply relative to demand.
- 2) Australia, which has a local market with limited demand and infrastructure.
- 3) Egypt, which has a local market and where the price received for the majority of our production is currently indexed to a weighted-average Dated-Brent crude oil price.

For specific marketing arrangements by segment, please refer to Item 1, Business of this Form 10-K.

#### Contributions to Oil and Natural Gas Revenues

As with production and reserves, a consequence of geographic diversification is a shifting geographic mix of our oil revenues and natural gas revenues. For the reasons discussed in the Oil and Natural Gas Price section above, contributions to oil revenues and gas revenues should be viewed separately.

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

OIL REVENUES		GAS REVENUES		FOR THE YEAR ENDED FOR		THE YEAR ENDED DECEMBER 31, DECEMBER 31, -----	
						2003 2002	
2001	2003	2002	2001	-----	-----	-----	-----
United							
States.....						33%	
	35%	40%	62%	51%	61%		
Canada.....							
	13%	16%	17%	27%	29%		
North							
America.....						46%	
	51%	57%	89%	80%	88%		
Egypt.....							
	23%	29%	27%	8%	15%	8%	
Australia.....							
	16%	20%	16%	3%	5%	4%	North
Sea.....						13%	
							Other
International.....						2%	-
Total.....						100%	
	100%	100%	100%	100%	100%	===	===

#### Crude Oil Contribution

In 2003 oil revenues from areas outside the U.S. rose to approximately 67 percent of consolidated oil revenues, up from 65 percent in 2002. The increase is directly related to the acquisition of the North Sea properties and, to a much lesser extent, initial production from China. The percentage contribution from all other areas fell, reflecting the impact from the North Sea revenues and China revenues.

In 2002, oil revenues outside the U.S. reached approximately 65 percent of consolidated oil revenues, up from 60 percent in 2001. This increase primarily occurred in Egypt and Australia where crude oil revenues rose to 29 percent and 20 percent of total oil revenues, respectively. Canada contributed 16 percent of oil revenue, down from 17 percent in 2001.

#### Natural Gas Contribution

The preponderance of consolidated natural gas revenues comes from our North American operations. In 2003, 89 percent of Apache's natural gas revenues came from North America, 62 percent from the U.S. and 27 percent from Canada. The U.S. contribution rose 11 percent from 2002, primarily because of the properties acquired from BP and Shell in 2003, and properties acquired in South Louisiana in December 2002. Our U.S. Gulf Coast region, which contributed 71 percent of Apache's U.S. 2003 production, is characterized by reservoirs which demonstrate high initial production rates followed by steep declines when compared to most other U.S. producing areas. Higher U.S. natural gas prices also contributed, but to a much lesser extent. Canada's contribution was down two percent from 2002 primarily because of the production growth in the U.S. Egypt's contribution to total gas revenues declined to eight percent from 15 percent in 2002. Egypt's total natural gas revenues were relatively flat year-over-year, as additional revenues generated from higher natural gas prices were offset by lower production-generated revenues. Australia's contribution to 2003 natural gas revenues declined to three percent from five percent in 2002.

In 2002, 80 percent of Apache's natural gas revenues came from the North American market, 51 percent from the U.S. and 29 percent from Canada. The remaining 20 percent was split between Egypt, 15 percent, and Australia, 5 percent.

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 YEAR ENDED DECEMBER 31, -----			
	2003	2002	2001
----- Revenues (in thousands): Natural			
gas.....	\$2,046,625	\$1,130,692	\$1,521,959
Oil.....	2,081,283	1,383,749	1,246,384
Natural gas			71,012
liquids.....	45,307	54,616	-----
Total.....	\$4,198,920	\$2,559,748	\$2,822,959
===== Natural Gas Volume -- Mcf per day: United			
States.....	665,156	503,310	615,341
Canada.....	318,528	329,344	298,424
Egypt.....	113,554	122,655	95,918
Australia.....	111,061	117,802	116,943
North			
Sea.....	1,714	--	--
Argentina.....	7,144	7,276	648
Total.....	1,217,157	1,080,387	1,127,274
===== Average Natural Gas Price -- Per Mcf:			
United			
States.....	\$ 5.22	\$ 3.15	\$ 4.15
Canada.....	4.69	2.74	3.81
Egypt.....	4.18	3.71	3.51
Australia.....	1.44	1.28	1.22
North			
Sea.....	2.77	--	--
Argentina.....	.47	.42	1.20
Total.....	4.61	2.87	3.70
===== Oil Volume -- Barrels per day: United			
States.....	69,404	53,009	58,501
Canada.....	25,220	25,220	25,895
Egypt.....	47,551	43,772	39,238
Australia.....	30,589	30,361	23,548
North			
Sea.....	29,260	--	--
China.....	2,791	--	--
Argentina.....	579	617	117
Total.....	205,394	152,979	147,299
===== Average Oil Price -- Per barrel: United			
States.....	\$ 27.48	\$ 25.31	\$ 24.39
Canada.....	29.06	23.46	19.22
Egypt.....	27.64	24.65	23.59
Australia.....	29.87	25.17	23.89
North			
Sea.....	25.40	--	--
China.....	26.33	--	--
Argentina.....	29.23	23.90	17.90
Total.....	27.76	24.78	23.18
===== NGL Volume -- Barrels per day:			
United			
States.....	7,578	6,691	7,679
Canada.....	1,565	1,756	1,272
Total.....	9,143	8,447	8,951
===== Average NGL Price -- Per barrel: United			
States.....	\$ 21.70	\$ 15.29	\$ 16.60
Canada.....	19.25	12.41	17.45

Total.....  
21.28 14.69 16.72

## Natural Gas Revenues

Our 2003 consolidated natural gas revenues climbed \$916 million with a \$1.74 per Mcf increase in our average natural gas price realizations generating an additional \$686 million of revenues. Higher production added the remaining \$230 million. Virtually all of the additional revenues attributable to price came from the U.S. and Canada. The additional revenues attributable to production were concentrated in the U.S., where natural gas production increased 32 percent, reflecting the impact from the 2003 BP and Shell acquisitions and the December 2002 acquisition of the South Louisiana properties. Partially offsetting the additional U.S. production revenues were lower production in Egypt, Australia and Canada, down seven percent, six percent and three percent, respectively. Egypt's lower production related to gas production curtailment imposed by EGPC and scheduled plant shutdowns, while Australia saw lower customer demand.

Consolidated natural gas revenues declined \$391 million in 2002, consistent with an \$.83 per Mcf decline in the weighted-average realized price for natural gas and a four percent decline in production. The price decline reduced revenues by \$342 million, while lower gas production reduced revenues by another \$49 million. A gas production decline of 18 percent was experienced in the U.S., with declines of 21 percent and 13 percent in the Gulf Coast and Central regions, respectively. The Gulf Coast region, which contributed 61.5 percent of Apache's U.S. 2002 production, is characterized by reservoirs which demonstrate high initial rates followed by steep declines when compared to other US producing regions. Natural decline coupled with capital curtailments, property sales in late 2001 and back-to-back hurricanes in September and October 2002 contributed to the production decline in the U.S. Collectively, Canada, Egypt, Australia and Argentina saw a 13 percent increase in natural gas production. Canada's increase was the result of previous acquisitions and subsequent drilling activity, coupled with successful results at Ladyfern, which offset natural decline at Zama. Egypt's increase also came from previous acquisitions and subsequent drilling activity. See Note 3 of Item 15 of this 10-K for further discussion of acquisition and divestiture activity.

We have used long-term, fixed-price physical contracts to lock in a small portion of our domestic future natural gas production. The contracts provide a measure of protection to the Company in the event of decreasing natural gas prices and represented approximately nine and 11 percent of our 2003 and 2002 domestic natural gas production, respectively. In 2003, these contracts reduced our average realized price \$.08 per Mcf. In 2002, these contracts added \$.01 per Mcf. Additionally, substantially all of our natural gas production sold in Australia is subject to long-term fixed-price contracts that are periodically adjusted for changes in Australia's consumer price index. Our realized prices are also impacted by a change in the value of the Australian dollar relative to the U.S. dollar. In 2003, we saw an increase in our realized prices primarily because of the stronger Australian dollar.

## Crude Oil Revenues

Our 2003 consolidated oil revenues increased \$698 million with a 34 percent increase in oil production generating an additional \$531 million of revenues. Crude oil prices improved in all areas, pushing our worldwide weighted-average crude oil price up \$2.98 per barrel, adding the remaining \$167 million. Revenues from properties acquired in the North Sea accounted for over half of the increase in oil revenues attributable to production. 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 4 of Item 15 of this Form 10-K for a discussion of the terms of this contract. Production in the U.S. increased 31 percent, primarily from the Gulf of Mexico BP properties and to a lesser extent from properties acquired from Shell and in South Louisiana in December 2002. Initial production from China and a nine percent increase in production from Egypt also contributed to the revenue gains.

Oil revenues improved \$137 million in 2002 with both a higher realized price and higher production. The weighted-average realized price for oil improved \$1.60 per barrel, adding \$86 million to oil revenues, while oil production gains added another \$51 million. The price improvement was across the board, while production gains of 29 percent and 12 percent occurred in Australia and Egypt, respectively. The Legendre, Simpson and Gibson/South Plato developments drove Australia's gain, while Egypt's increase was related to the Repsol acquisition in 2001 and subsequent drilling. U.S. production declined nine percent related to natural decline,

back-to-back hurricanes in late September and early October and property sales. See Note 3 of Item 15 of this Form 10-K for further discussion of acquisition and divestiture activity.

#### Operating Expenses

The tables below present 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. During 2003, we saw tremendous growth in production and reserves accompanied by a corresponding rise in operating costs.

YEAR ENDED DECEMBER 31, YEAR ENDED DECEMBER 31, ----- ----- 2003 2002	2003	2002
2001 2003 2002 2001 ----- -- ----- (IN MILLIONS) (PER BOE) Depreciation, depletion and amortization: Oil and gas property and equipment.....	\$	\$
\$1,003 \$ 784 \$ 760 \$ 6.59 \$ 6.29 \$		
6.05 Other		
assets.....		
70 60 61 .46 .48 .48 Asset		
retirement obligation accretion....		
38 -- -- .25 -- -- International		
impairments..... 13 20		
65 .08 .16 .52 Lease operating		
costs..... 700 458		
400 4.59 3.67 3.18 Gathering and		
transportation costs..... 60 38		
35 .40 .31 .28 Severance and other		
taxes..... 122 67 75 .80		
.54 .59 General and administrative		
expenses..... 138 105 89 .91 .84		
.71 Financing costs,		
net..... 115 113		
118 .75 .91 .95 ----- -----		
-----		
Total.....		
\$2,259 \$1,645 \$1,603 \$14.83 \$13.20		
\$12.76 ===== ===== ===== =====		
===== =====		

#### 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, and estimates of proved reserve quantities and future developmental costs.

2003 full-cost DD&A expense of \$1 billion is comprised of the U.S., \$489 million; Canada, \$158 million; Egypt, \$161 million; Australia, \$110 million; the North Sea, \$72 million; and China, \$12 million. Full-cost DD&A expense increased \$220 million compared to 2002. The majority of the increase in absolute costs was in the U.S., up \$119 million; and the North Sea, \$72 million; related to increases in production driven by our recent acquisitions. First production in China added \$12 million. The remaining increase is concentrated in Egypt and Australia.

On a boe basis, our average full-cost DD&A rate in 2003 increased \$.30 to \$6.59 from \$6.29 in 2002. The bulk of the increase occurred in Australia, Egypt and the U.S. contributing \$.12, \$.09 and \$.06, respectively. The increases in Australia and Egypt reflect the impact of higher finding and development costs, while the increase in the U.S. reflects the impact of higher finding and development costs and higher acquisition costs. China and the North Sea each added \$.03, while Canada's rate lowered the consolidated rate \$.03.

In 2002, our full-cost DD&A expense increased \$24 million. Areas outside the U.S. saw an increase in their expense, while DD&A expense decreased in the U.S. The areas experiencing the largest increase in absolute costs were Egypt, up \$29 million and Australia, up \$24 million (consistent with their overall increase in production), while the U.S. experienced a \$39 million decline in full-cost DD&A expense on lower production levels. Canada also had higher DD&A expense of \$7 million relating to higher production levels.

On a boe basis our 2002 full-cost DD&A rate rose \$.24 to \$6.29. The U.S. contributed \$.13 to the increase in rate, driven by higher finding costs and higher future development costs. The remaining increase in the consolidated rate is split between Egypt and Australia. The impact from Egypt is related to higher finding and development costs. The impact from Australia is primarily related to higher future development costs.

Depreciation of other assets increased \$10 million, in 2003 in line with our overall growth.

## Impairments

We assess all of our unproved properties for possible impairment on a quarterly basis based on geological trend analysis, dry holes or relinquishment of acreage. When an impairment occurs, costs associated with these properties are generally transferred to our proved property base where they become subject to amortization. In some of our international exploration plays, however, we have not yet established proved reserves. As such, any impairments in these areas are immediately charged to earnings. During 2001, we impaired a portion of our unproved property costs in Poland and China by \$65 million (\$41 million after-tax). In 2002, we impaired an additional \$20 million in Poland (\$12 million after-tax). In 2003, we impaired the remaining \$13 million (\$8 million after-tax) of unproved property costs in Poland.

Goodwill is subject to a periodic fair-value-based impairment assessment beginning in 2002. Goodwill totals \$189 million at December 31, 2003 and no impairment was recorded in 2003 or 2002. For further discussion, see Note 1 of Item 15 of this Form 10-K.

## Lease Operating Costs

Lease operating costs (LOE) is generally comprised of several components; direct operating costs, repair and maintenance costs, workover costs and ad valorem costs. LOE is driven in part by the type of commodity produced, the level of workover activity and the geographical location of the properties. Oil is inherently more expensive to produce than natural gas. Workovers continue to be an important part of our strategy. They enable us to exploit our existing reserves by accelerating production and taking advantage of high priced environments. Repair and maintenance costs are higher on offshore properties and in areas with plants and facilities.

During 2003, the Company saw a substantial increase in its LOE costs on both an absolute dollar basis and boe basis. The majority of the increase on an absolute dollar basis was expected, given the BP and Shell acquisitions and the acquisition of the South Louisiana properties. On a boe basis, 2003 LOE increased \$.92 to \$4.59, with all of the increase occurring outside the U.S. The North Sea properties, which are located offshore and produce oil, added approximately \$109 million of costs, increasing our consolidated rate \$.46 per boe. Canada's LOE costs increased \$44 million, adding \$.30 to our consolidated boe rate. The impact from a weaker U.S. dollar, a full year of LOE on properties acquired in the second half of 2002, costs associated with new fields, and higher power and fuel rates drove the increase in Canadian costs. Egypt's operating costs increased \$13 million, adding \$.09 to the overall rate. The majority of the increase in Egypt was attributable to higher workover activity. Australia's LOE increased \$7 million because of an increase in repair and maintenance and higher oil production. Australia added \$.10 to the overall boe rate. The LOE rate in the U.S. declined as the impact from the additional costs associated with the acquisitions discussed above were more than offset by the incremental production. The U.S. reduced the overall rate by \$.05 per boe.

During 2002, LOE was \$3.67 per boe, a \$.49 increase from 2001. Higher absolute costs accounted for 94 percent, \$.46 per boe, of this rate increase, with lower production accounting for the remaining \$.03 per boe. We experienced higher absolute costs in the Gulf Coast region, Egypt and Canada. In the Gulf Coast region increased repairs and maintenance, related to both routine operations and hurricane repairs, generally higher costs on properties operated by others on offshore Gulf of Mexico properties and increased workover activity in the region, contributed to higher LOE. In Egypt, higher workover activity on the Khalda, South Umbarka and East Bahariya concessions drove up LOE. In Canada, the increased costs reflect the impact of the Fletcher, Conoco and Burlington acquisitions, which carry higher production costs than our other operations, and increased workover activity, with the heaviest activity at House Mountain, Hatton, Zama and Simonette fields.

## Gathering and Transportation Costs

During 2002, the Company adopted Emerging Issues Task Force Issue 00-10, "Accounting for Shipping and Handling Fees and Costs." Prior to adoption, amounts paid to third parties for transportation had been reported as a reduction of revenue instead of an increase in operating expenses. Recent property acquisitions and their associated transportation arrangements have increased the significance of transportation costs paid to

third parties. For comparative purposes, previously reported transportation costs paid to third parties were reclassified as corresponding increases to oil and gas production revenues and operating expenses with no impact on income attributable to common stock.

Apache generally sells oil and natural gas under two types of transactions, both of which include a transportation charge. One is a netback arrangement, under which Apache sells oil or natural gas at the wellhead and collects a price, net of transportation incurred by the purchaser. Under the other arrangement, Apache sells oil or natural gas at a specific delivery point, pays transportation to a carrier and receives from the purchaser a price with no transportation deduction. In both the U.S. and Canada, Apache sells oil and natural gas under both types of arrangements. In the North Sea, Apache pays transportation to a carrier and receives a purchase price with no transportation deduction. In Egypt and Australia, oil and natural gas are sold under the netback arrangement. Gathering and transportation costs disclosed here only include transportation paid by Apache to a carrier.

These costs are primarily related to the transportation of natural gas in our North American operations. In 2003, these costs totaled \$28 million in Canada and \$21 million in the U.S., up from \$21 million and \$17 million in 2002, respectively. The increase in Canada primarily involved higher third-party transportation charges for gas transported from several fields and increased production volumes from 2002 acquisitions. Canada also incurred transportation charges for crude oil as we began taking our oil "in-kind" and marketing it ourselves instead of selling it at the lease. The increase in the U.S. is related to the higher production from the Gulf of Mexico acquisitions. In the North Sea, these costs are related to the transportation of crude oil and totaled \$11 million in 2003. Overall, transportation costs in 2002 were relatively flat to 2001.

#### Severance and Other Taxes

Severance and other taxes are comprised primarily of severance taxes on properties onshore and in state or provincial waters in the U.S. and Australia. In both 2003 and 2002, these severance taxes, which are generally based on a percentage of oil and gas production revenues, represented over 60 percent of the total severance and other taxes expense incurred. The other tax component is primarily made up of the Australian Petroleum Resources Rent Tax (PRRT), to which Apache first became subject in 2002, the Petroleum Revenue Tax (PRT) on the North Sea properties and the Canadian Large Corporation Tax, Saskatchewan Capital Tax, Saskatchewan Resource Surtax and Freehold Mineral Tax. Oil and gas production revenues generated from Egypt, Canada and the North Sea are not subject to severance taxes.

In 2003, severance and other taxes totaled \$122 million (\$53 million in the U.S., \$28 million in Australia, \$20 million in the North Sea, \$20 million in Canada and \$1 million in Argentina). Severance and other taxes increased 81 percent or \$54 million. Twenty million dollars of the increase is associated with North Sea's PRT expense. Canadian taxes increased \$10 million as a result of exchange rate increases and higher prices in 2003, and a \$2 million refund in 2002. U.S. and Australia severance taxes increased \$17 million and \$7 million, respectively, in line with higher production revenues.

In 2002, severance and other taxes totaled \$67 million, comprised of U.S., \$35 million, Australia, \$23 million and Canada, \$9 million. Overall, severance and other taxes decreased \$7 million. A \$14 million decline in U.S. severance taxes, and a \$3 million decline in Canada Saskatchewan Resource Surtax were partially offset by initial PRRT of \$4 million and a \$7 million increase in Australian severance taxes. The decrease in U.S. severance taxes reflects the impact of lower gas price realizations. The increase in Australia's severance taxes was attributable to higher oil price realizations and a change in production mix as a higher portion of production was from properties in provincial waters, such as Legendre and Harriet, relative to production from federal waters. Canada's decline was primarily related to a refund of the Saskatchewan Resource Surtax.

#### General and Administrative Expenses

General and administrative expenses (G&A) of \$.91 per boe for 2003 increased \$.07 per boe over 2002. Absolute costs increased \$34 million, or 32 percent. Over \$11 million, or 34 percent, is associated with expensing compensation, including Stock Appreciation Rights (SARs), stock options, restricted stock and

incremental incentive compensation, in light of our record year. The increased stock compensation expense stems from Apache's decision to expense stock related compensation plans (see Note 9 in Item 15 of this Form 10-K). Approximately \$9 million, or 28 percent, of the increase is related to our new North Sea operations. The balance of the increase was related to the Company's decision to increase its charitable contributions, expansion of the Company's new gas marketing group and transition costs incurred on acquisitions.

Overall, general and administrative expenses trended higher in 2002, rising \$.13 to \$.84 per boe. On an absolute cost basis, thirty-eight percent of the increase is tied to rising medical costs, a sharp increase in premiums on business insurance policies renewed subsequent to the September 11, 2001 terrorist attacks and the addition of a sizeable political risk insurance package added in mid-2001. The remaining increase is related to non-recurring employee separation costs, a consequence of our region realignment in the U.S., higher outside legal support costs related to arbitration proceedings with our gas marketer, Cinergy and litigation with Predator (see Note 11 of this Form 10-K), costs associated with the implementation of and compliance with various sections of Sarbanes-Oxley, and a full year of expense related to additional staff and office costs incurred with the acquisition of Canadian subsidiaries of Fletcher during 2001. Realignment of our three U.S. regions into two involved both reassignment and reduction of personnel. All corresponding costs were expensed as incurred.

#### Financing Costs, Net

The major components of net financing costs are interest expense and capitalized interest. Net financing costs increased \$2 million compared to 2002 with a \$13 million increase in expense largely offset by an increase in capitalized interest. Five million dollars of the increase is interest expense related to the write-off of unamortized fees triggered by the retirement of preferred interests of subsidiaries discussed below. The remaining \$8 million of higher interest expense was attributable to a higher average debt balance in 2003 compared to 2002. Capitalized interest increased \$12 million driven by a higher unproved property balance associated with acquisitions and an active drilling program. If net financing costs included distributions from Preferred Interests of Subsidiaries, net financing costs would have decreased by approximately \$5 million. Net financing costs decreased by five percent in 2002. Lower average debt outstanding during 2002 resulted in a decrease in interest expense of \$23 million compared to 2001. A reduction in capitalized interest of \$16 million, associated with lower unproved property balances, partially offset this decrease. Our weighted-average cost of borrowing on December 31, 2003 was 6.4 percent compared to 6.3 percent on December 31, 2002. The rate is higher at year-end 2003 as a lower percentage of our debt is at floating rates, which carry a lower rate than fixed-rate debt.

#### Provision for Income Taxes

2003 income tax expense of \$827 million was \$482 million or 140 percent higher than the 2002. The higher taxes were primarily associated with higher income in 2003 and, to a lesser extent, a higher effective tax rate. Our effective tax rate increased primarily because of \$172 million of additional deferred tax expenses resulting from currency fluctuations. For a discussion of Apache's sensitivity to foreign currency fluctuations, please refer to "Foreign Currency Risk" under Item 7A of this Form 10-K. The impact caused by currency fluctuations was partially offset by a \$71 million reduction in deferred tax expense related to a reduction in Canadian federal statutory income tax rates. Our effective tax rate for 2003 was 43.02 percent compared to 38.34 percent for the prior year. Our 2002 effective tax rate was slightly lower than 2001.

OIL AND GAS CAPITAL EXPENDITURES

YEAR ENDED DECEMBER 31, -----	-----	-----	-----	(IN
2003	2002	2001	-----	THOUSANDS)
Exploration and Development: United States..... \$				
	439,541	\$302,611	\$ 699,180	
Canada.....	579,495	258,191	410,345	
Egypt.....	242,652	171,160	127,603	
Australia.....	128,261	89,813	85,169	North
Sea.....	60,204	-- --	Other	
International.....	35,098	38,409	20,838	-----
	\$1,485,251	\$860,184	\$1,343,135	=====
				===== Capitalized
Interest.....	\$ 40,691	\$ 56,749		\$ 52,891
				===== Gas
Gathering Transmission and Processing Facilities.....	\$ 38,533	\$ 32,155	\$ 28,759	=====
				===== Acquisitions: Oil and gas
properties.....	\$351,707	\$ 880,286	Gas gathering, transmission and processing facilities.... 5,484 2,875 146,295	\$1,568,106
Goodwill.....	-- -- 197,200			\$1,573,590
	\$354,582	\$1,223,781		=====

In 2003, Apache added 503.2 MMboe of proved reserves through acquisitions, drilling and revisions, replacing 330 percent of production.

In 2002, Apache added 172.1 MMboe of proved reserves through acquisitions, drilling and revisions, replacing 138 percent of production.

The preliminary capital expenditure budget for 2004 is approximately \$1.8 billion (excluding acquisitions), including \$1 billion for North America. Preliminary North American capital expenditures include \$400 million in the Gulf Coast region, \$100 million in the Central region and \$500 million in Canada. The Company has estimated its international capital expenditures in 2004 at \$800 million. Capital expenditures will be reviewed periodically, and possibly adjusted throughout the year in light of changing industry conditions.

CASH DIVIDEND PAYMENTS

Apache paid a total of \$6 million in dividends during 2003 on its Series B Preferred Stock issued in August 1998. Dividends on the Series C Preferred Stock were paid through May 15, 2002, when the shares automatically converted to common stock (see Note 9, under Item 15 of this Form 10-K). Common dividends paid during 2003 rose 19 percent to \$67 million, reflecting the increase in common shares outstanding and the higher common stock dividend rate. The Company has paid cash dividends on its common stock for 39 consecutive years through 2003. Future dividend payments will depend on the Company's level of earnings, financial requirements and other relevant factors. The Company has increased its quarterly cash dividend 20 percent, to six cents per share from five cents per share, effective with the November 2003 dividend payment.

CAPITAL RESOURCES

Apache's primary needs for cash are for exploration, development and acquisition of oil and gas properties, 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 and budgets capital expenditures based on projected cash flows. Apache routinely adjusts capital expenditures in response to changes in oil and natural gas prices, drilling and acquisition costs, and cash flow. The Company has

historically utilized net cash provided by operating activities, debt, preferred interests of subsidiaries and equity as capital resources to obtain necessary funding for all other cash needs.

#### Net Cash Provided by Operating Activities

Apache's net cash provided by operating activities during 2003 totaled \$2.7 billion, an increase of 96 percent from 2002 driven by higher oil and gas production revenues partially offset by higher operating expenses. Oil production revenues increased with a 34 percent increase in production and a 12 percent increase in prices. Gas production revenues increased with a 13 percent production increase and a 61 percent price increase. Net cash provided by operating activities during 2002 decreased 28 percent to \$1.4 billion from \$1.9 billion in 2001. The decrease was driven by lower oil and gas production revenues and slightly higher operating expenses. Oil and gas production revenues fell with a 22 percent decline in gas prices, which was partially offset by a seven percent improvement in oil prices. The impact of lower gas production was partially offset by rising oil production.

#### Debt

At December 31, 2003, Apache had outstanding debt of \$135 million under its commercial paper program and uncommitted lines of credit and a total of \$2.2 billion of other debt. This other debt included notes and debentures maturing in the years 2005 through 2096. Based on our current plan for capital spending and projections of debt and interest rates, interest payments on the Company's debt for 2004 are projected to be \$160 million (using weighted-average balances for floating rate obligations).

On June 3, 2002, Apache entered into a new \$1.5 billion global credit facility to replace its existing global and 364-day credit facilities. The new global credit facility consists of four separate bank facilities: a \$750 million 364-day facility in the United States; a \$450 million five-year facility in the United States; a \$150 million five-year facility in Australia; and a \$150 million five-year facility in Canada. Loans under the global credit facility do not require the Company to maintain a minimum credit rating.

The five-year facilities are scheduled to mature on June 3, 2007 and the 364-day facility is currently scheduled to mature on May 28, 2004. The 364-day facility allows the Company the option to convert outstanding revolving loans at maturity into one-year term loans. The Company may request extensions of the maturity dates subject to approval of the lenders.

Please see Note 6 "Debt" of Item 15 for a summary of the financial covenants of the global credit facility. The negative covenants include restrictions on the Company's ability to create liens and security interests on our assets (with exceptions for liens typically arising in the oil and gas industry, purchase money liens and liens arising as a matter of law, such as tax and mechanics liens), restrictions on Apache's ability to merge with another entity, unless the Company is the surviving entity, and a restriction on our ability to guarantee the debt of entities not within our consolidated group.

The Company has a \$1.2 billion commercial paper program which enables Apache to borrow funds for up to 270 days at competitive interest rates. The commercial paper balances at December 31, 2003 and 2002 were classified as long-term debt in the accompanying consolidated balance sheet as the Company has the ability and intent to refinance such amounts on a long-term basis through either the rollover of commercial paper or available borrowing capacity under the U.S. five-year facility and the 364-day facility. If the Company is unable to issue commercial paper following a significant credit downgrade or dislocation in the market, the Company's U.S. five-year credit facility and 364-day credit facility are available as a 100 percent backstop. The weighted-average interest rate for commercial paper was 1.19 percent in 2003 and 1.85 percent in 2002.

#### Preferred Interests of Subsidiaries

During 2001, several of our subsidiaries issued a total of \$443 million (\$441 million, net of issuance costs) of preferred stock and limited partner interests to unrelated institutional investors, adding to the Company's financial liquidity. We paid a weighted-average return to the investors of 123 basis points above the prevailing LIBOR interest rate. These subsidiaries were consolidated in the accompanying financial

statements with the \$437 million at December 31, 2002 reflected as preferred interests of subsidiaries on the balance sheet.

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

#### Stock Transactions

On September 13, 2001, our Board of Directors declared a 10 percent stock dividend payable on January 21, 2002 to shareholders of record on December 31, 2001. As a result, we reclassified approximately \$545 million from retained earnings to common stock and paid-in capital, which represents the fair market value at the date of declaration of the shares distributed. No fractional shares were issued and cash payments totaling \$891,000 were made in lieu of fractional shares.

On May 15, 2002, we completed the mandatory conversion of our Series C Preferred Stock into approximately 13.1 million common shares.

On December 18, 2002, our Board of Directors declared a five percent stock dividend payable on April 2, 2003 to shareholders of record on March 12, 2003. As a result, in December 2002, we reclassified approximately \$396 million from retained earnings to common stock and paid-in capital, which represents the fair market value at the date of declaration of the shares distributed. In 2003, at the date of the distribution, an additional \$26 million was reclassified from retained earnings to common stock and paid-in capital. No fractional shares were issued and cash payments were made in lieu of fractional shares.

On January 22, 2003, we completed a public offering of approximately 19.8 million shares of common stock, including 2.6 million shares for the underwriters' over-allotment option, for net proceeds of \$554 million.

On December 18, 2003, we announced that holders of our common stock approved an increase in the number of authorized common shares to 430 million from 215 million in order to complete a previously announced two-for-one stock split. The record date for the stock split was December 31, 2003 and the additional shares were distributed on January 14, 2004.

#### LIQUIDITY

During 2003, we strengthened our financial flexibility and continued to build upon the solid financial performances of previous years. Cash will be required to fund expenditures necessary to offset the inherent declines in production and proven reserves typical in an extractive industry like ours. Future success in growing reserves and production will be highly dependent on capital resources available and our success in acquiring or finding additional reserves. We believe that cash on hand, net cash generated from operating activities, and unused committed borrowing capacity under our global credit facility will be adequate to satisfy future financial obligations and liquidity needs.

Net cash generated from operating activities is a function of commodity prices, which are inherently volatile and unpredictable, production and capital spending. Our business, as with other extractive industries, is a depleting one in which each barrel produced must be replaced or the Company, and a critical source of our future liquidity, will shrink, as stated in Item 1, "Risk Factors Related to Our Business and Operations". Based on the year-end reserve life index, the Company's overall decline is approximately nine percent per year. This projection assumes the capital investment, prices, costs and taxes reflected in our standardized measure in Item 15 -- Note 15, of this Form 10-K. Less predictable than production declines from our proved reserves is the impact of constantly changing oil and natural gas prices on cash flows and, therefore, capital budgets.

For these reasons, we only forecast, for internal use by management, an annual cash flow. These annual forecasts are revised monthly and capital budgets are reviewed by management and adjusted as warranted by market conditions. Longer term cash flow and capital spending projections are neither developed nor used by management to operate our business.

As of December 31, 2003, available borrowing capacity under our global credit facility was \$1.4 billion. We had \$34 million in cash and cash equivalents on hand at December 31, 2003, a decrease from \$52 million at the prior year-end. In addition, the ratio of current assets to current liabilities decreased from 1.44 at the end of last year to 1.10 at December 31, 2003.

We have assumed various financial obligations and commitments in the normal course of operations. These contractual obligations represent known future cash payments that we are required to make and relate primarily to long-term debt, operating leases, pipeline transportation commitments and international commitments. The Company expects to fund these contractual obligations with cash generated from operating activities. The following table summarizes the Company's contractual obligations as of December 31, 2003. Please see the indicated Note to the Company's consolidated financial statements, under Item 15 of this Form 10-K for further information regarding these obligations.

NOTE CONTRACTUAL OBLIGATIONS REFERENCE	TOTAL	2004	2005	2006	2007	2008
THEREAFTER - -----						
----- (IN THOUSANDS) Long-term						
debt..... Note 6	\$2,326,966	\$ --	\$ 830	\$ 274	\$307,590	\$ 353
\$2,017,919 Operating leases and other commitments..... Note 11	303,750	108,285	40,875	33,468	29,303	25,779
66,040 International lease commitments..... Note 11	51,753	18,667	7,659	10,942	14,485	--
-- Exploration agreement..... Note 11	19,651	19,651	--	--	--	--
Operating costs associated with a pre-existing volumetric production payment of acquired properties..... Note 3	64,602	21,159	--	--	--	--
18,740	15,551	9,152	--	--	--	--
----- Total Contractual Obligations(a)(b).....						
	\$2,766,722	\$167,762	\$68,104	\$60,235	\$360,530	\$26,132
					\$2,083,959	
=====						

- (a) This table does not include the liability for dismantlement, abandonment and restoration costs of oil and gas properties. Effective with adoption of SFAS No. 143, "Accounting for Asset Retirement Obligations" on January 1, 2003, the Company recorded a separate liability for the fair value of this asset retirement obligation. See Note 2, under Item 15 of this Form 10-K for further discussion.
- (b) This table does not include the Company's pension or postretirement benefit obligations. See Note 11 under Item 15 of this Form 10-K for further discussion.

Apache is also subject to various contingent obligations that become payable only if certain events or rulings were to occur. The inherent uncertainty surrounding the timing of and monetary impact associated with these events or rulings prevents any meaningful accurate measurement, which is necessary to assess any impact on future liquidity. Such obligations include environmental contingencies and potential settlements resulting from litigation. Apache's management feels that it has adequately reserved for its contingent obligations. The Company has reserved approximately \$10 million for environmental remediation. The Company's exposure to other legal contingent liabilities is estimated at less than \$8 million and is fully reserved. The Company does not believe it has any material exposure for any contingencies (see Note 11 under Item 15 of this Form 10-K).

Upon closing of our acquisition of the North Sea properties, Apache will assume BP's abandonment obligation for those properties and such costs were considered in determining the purchase price. The purchase of the properties, however, does not relieve BP of its liabilities if Apache does not satisfy the abandonment obligation. Although not currently required, to ensure Apache's payment of these costs, Apache agreed to deliver a letter of credit to BP if the rating of our senior unsecured debt is lowered by both Moody's and

Standard and Poor's from the Company's current ratings of A3 and A-, respectively. Any such letter of credit would be in an amount equal to the net present value of future abandonment costs of the North Sea properties as of the date of any such ratings change. If Apache is obligated to provide a letter of credit, it will expire if either rating agency restores its rating to the present level. The initial letter of credit amount would be 175 million British pounds (\$306 million U.S. at December 31, 2003). This amount represents the letter of credit requirement through March 2004, and will be negotiated annually based on Apache's future abandonment obligation estimates. In addition, under Apache's long-term oil physical sales contract with BP, related to the BP acquisition, Apache may be required to post margin if the mark-to-market exposure, as defined, exceeds the credit threshold limits. The outstanding position of the term oil physical sales contract with BP is described in greater detail in Note 4 under Item 15 of this Form 10-K.

The Company's future liquidity could be impacted by a significant downgrade of its credit ratings by Standard and Poor's and Moody's; however, we do not believe that such a sharp downgrade is reasonably likely. The Company's global credit facility does not require the Company to maintain a minimum credit rating. The negative covenants associated with our debt are outlined in greater detail within the debt section of our discussion on Capital Resources above. In addition, generally under our commodity hedge agreements, Apache may be required to post margin or terminate outstanding positions if the Company's credit ratings decline significantly.

#### OFF-BALANCE SHEET ARRANGEMENTS

Apache does not currently utilize any off-balance sheet arrangements with unconsolidated entities to enhance liquidity and capital resource positions, or for any other purpose. Any future transactions involving off-balance sheet arrangements would be scrutinized and disclosed by the Company's management.

#### FUTURE TRENDS

Apache's strategy is to increase its oil and gas reserves, production, cash flow and earnings through a balanced growth program that involves:

- exploiting our existing asset base;
- acquiring properties to which we can add incremental value; and
- investing in high-potential exploration prospects.

Apache's present plans are to increase 2004 worldwide capital expenditures for exploratory and development drilling to approximately \$1.8 billion from \$1.5 billion in 2003. We will continue to monitor commodity prices and adjust our capital expenditures accordingly. We will also continue to evaluate and pursue acquisition opportunities.

##### Exploiting Existing Asset Base

Apache seeks to maximize the value of our existing asset base by increasing production and reserves while containing operating costs per unit. In order to achieve these objectives, we rigorously 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. Our 2003 acquisitions from BP and Shell added to our inventory at a time of high commodity prices.

##### Acquiring Properties to Which We Can Add Incremental Value

Apache seeks to purchase reserves at appropriate prices by generally avoiding auction processes where we are competing against other buyers. Our aim is to follow each acquisition with a cycle of reserve enhancement, property consolidation and cash flow acceleration, facilitating asset growth and debt reduction. We evaluate potential purchases on an ongoing basis, but we are very selective. Practically all of our 2003 acquisition activity was completed by early July. We remained in the market during the second half of 2003, but we did

not identify any assets that fit our balanced-portfolio business model. We believe attractive assets will be available, as larger energy companies look to shed non-core assets.

#### Investing in High-Potential Exploration Prospects

Apache seeks to concentrate its exploratory investments in a select number of international areas and to become the dominant operator in those regions. We believe that these investments, although generally 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 North American operations, which are more development oriented.

A critical component in implementing our three-pronged growth strategy is maintenance of significant financial flexibility. All three rating agencies have "A-credit ratings" on Apache's senior unsecured long-term debt, a testament to our conservative financial structure and commitment to preserving a strong balance sheet while building a solid foundation and competitive advantage with which to pursue our growth initiatives.

#### Egyptian Receivables

Deteriorating economic conditions during 2001 and 2002 in Egypt lessened the availability of U.S. dollars, resulting in an additional one to two month delay in receipts from EGPC. While hard currency shortages in Egypt could lead to further delays, we did not experience any further delays in 2003.

It is currently our intention to resolve the delays in EGPC's payments prior to incurring the substantial capital expenditures required to develop our deepwater interests in the West Mediterranean Concession or signing the gas sales agreement provided for by the MOU for a minimum of 2.7 Tcf of natural gas over 25 years from such concession.

#### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

##### COMMODITY RISK

The major market risk exposure is in 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. Prices received for oil and gas production have been and remain volatile and unpredictable. Monthly oil price realizations ranged from a low of \$25.53 per barrel to a high of \$31.66 per barrel during 2003. Average gas price realizations ranged from a monthly low of \$4.11 per Mcf to a monthly high of \$6.66 per Mcf during the same period. Based on the Company's 2003 worldwide oil production levels, a \$1.00 per barrel change in the weighted-average realized price of oil would increase or decrease revenues by \$75 million. Based on the Company's 2003 worldwide gas production levels, a \$.10 per Mcf change in the weighted-average realized price of gas would increase or decrease revenues by \$44 million.

If oil and gas prices decline significantly, even if only for a short period of time, it is possible that non-cash write-downs of our oil and gas properties could occur under the full-cost accounting method allowed by the Securities Exchange Commission (SEC). Under these rules, we review the carrying value of our proved oil and gas properties each quarter on a country-by-country basis to ensure that capitalized costs of proved oil and gas properties, net of accumulated depreciation, depletion and amortization, and deferred income taxes, do not exceed the "ceiling." This ceiling is the present value of estimated future net cash flows from proved oil and gas reserves, discounted at 10 percent, plus the lower of cost or fair value of unproved properties included in the costs being amortized, net of related tax effects. If capitalized costs exceed this limit, the excess is charged to additional DD&A expense. The calculation of estimated future net cash flows is based on the prices for crude oil and natural gas in effect on the last day of each fiscal quarter except for volumes sold under long-term contracts. Write-downs required by these rules do not impact cash flow from operating activities; however, as discussed above, sustained low prices would have a material adverse effect on future cash flows.

We periodically enter into hedging activities on a portion of our projected oil and natural gas production through a variety of financial and physical arrangements intended to support oil and natural gas prices at targeted levels and to manage our overall exposure to oil and gas price fluctuations. Apache may use futures

contracts, swaps, options and fixed-price physical contracts to hedge its commodity prices. Realized gains or losses from the Company's price risk management activities are recognized in oil and gas production revenues when the associated production occurs. Apache does not generally hold or issue derivative instruments for trading purposes. As indicated in Notes 3 and 4, under Item 15 of this Form 10-K, the Company entered into several derivative positions in conjunction with the South Louisiana acquisition in December 2002 and with the acquisition from BP in 2003. These positions were entered into to preserve our strong financial position in a period of cyclically high gas and oil prices and were designated as cash flow hedges of anticipated production.

On December 31, 2003, the Company had open natural gas derivative positions with a fair value of \$(60) million. A 10 percent increase in natural gas prices would change the fair value by \$(32) million. A 10 percent decrease in prices would change the fair value by \$31 million. The Company also had open oil price swap positions with a fair value of \$(9) million. A 10 percent change in oil prices would change the fair value by plus or minus \$5 million. These fair value changes assume volatility based on prevailing market parameters at December 31, 2003. See Note 4 under Item 15 of this Form 10-K for notional volumes associated with the Company's derivative contracts.

#### INTEREST RATE RISK

Approximately 94 percent of the Company's yearend 2003 debt is term debt with fixed interest rates, minimizing the Company's exposure to fluctuations in short-term interest rates. At December 31, 2003, the Company had \$135 million of floating-rate debt which is subject to fluctuations in short-term interest rates. A 10 percent change in the floating interest rate (approximately 11 basis points) on these year-end balances, would change annual interest expense \$148,000. The Company did not have any open derivative contracts relating to interest rates at December 31, 2003 or 2002.

#### FOREIGN CURRENCY RISK

The Company's cash flow stream relating to certain international operations is based on the U.S. dollar equivalent of cash flows measured in foreign currencies. In Australia, gas production is sold under fixed-price Australian dollar contracts and over half the costs incurred are paid in Australian dollars. The North Sea production is sold under U.S. dollar contracts, however, the majority of costs incurred are paid in British pounds. Revenue and disbursement transactions denominated in Australian dollars and British pounds are converted to U.S. dollar equivalents based on the exchange rate as of the transaction date. Prior to October 1, 2002, reported cash flow from Canadian operations was measured in Canadian dollars and converted to the U.S. dollar equivalent based on the average of the Canadian and U.S. dollar exchange rates for the period reported. The majority of Apache's debt in Canada is denominated in U.S. dollars and, as such, was adjusted for differences in exchange rates at each period end and recorded as Revenues and Other. In light of the continuing transformation of the U.S. and Canadian energy markets into a single energy market, we adopted the U.S. dollar as our functional currency in Canada, effective October 1, 2002. A 10 percent strengthening of the Australian and Canadian dollars and the British pound as of December 31, 2003 will result in a foreign currency net loss of approximately \$66 million. This is primarily driven from foreign currency effects on the Companies deferred tax liability positions in its international operations. The Company did not have any open derivative contracts relating to foreign currencies at December 31, 2003 or 2002.

#### 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 reserve 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 makes 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 substantially adversely affect the Company's financial position, results of operations and cash flows.

#### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary financial information required to be filed under this item are presented on pages F-1 through F-61 of this Form 10-K, and are incorporated herein by reference.

#### ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

The financial statements for the fiscal years ended December 31, 2003 and 2002, included in this report, have been audited by Ernst & Young LLP, independent public auditors, as stated in their audit report appearing herein. The financial statements for the fiscal year ended December 31, 2001, included in this report, have been audited by Arthur Andersen LLP, independent public accountants, as stated in their audit report appearing herein. Arthur Andersen has not consented to the inclusion of their audit report in this report. For a discussion of the risks relating to Arthur Andersen's audit of our financial statements, please see "Risks relating to Arthur Andersen LLP" in Item 1.

Arthur Andersen's audit reports on our consolidated financial statements for the fiscal year ended December 31, 2001, included elsewhere in this report, did not contain an adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles.

During the year ended December 31, 2001 and through the date we dismissed Arthur Andersen LLP, there were no disagreements with Arthur Andersen on any matter of accounting principle or practice, financial statement disclosure, or auditing scope or procedure which, if not resolved by Arthur Andersen's satisfaction, would have caused them to make reference to the subject matter in connection with their report on our consolidated financial statements for such years; and there were no reportable events as set forth in applicable SEC regulations.

We provided Arthur Andersen LLP with a copy of the above disclosures on April 2, 2002. In a letter dated April 2, 2002, Arthur Andersen confirmed its agreement with these statements.

#### ITEM 9A. 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 December 31, 2003, 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. We also made no significant changes in internal controls over financial reporting during the quarter ending December 31, 2003 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.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information set forth under the captions "Nominees for Election as Directors", "Continuing Directors", "Executive Officers of the Company", and "Securities Ownership and Principal Holders" in the proxy statement relating to the Company's 2004 annual meeting of stockholders (the Proxy Statement) is incorporated herein by reference.

Code of Business Conduct

Pursuant to Rule 303A.10 of the NYSE and Rule 4350(n) of the NASDAQ, we are required to adopt a code of business conduct and ethics for our directors, officers and employees. In February 2004, the Board of Directors adopted the Code of Business Conduct (Code of Conduct), which also meets the requirements of a code of ethics under Item 406 of Regulation S-K. You can access the Company's Code of Conduct on the Investor Relations page of the Company's website at [www.apachecorp.com](http://www.apachecorp.com). Any stockholder who so requests may obtain a printed copy of the Code of Conduct by submitting a request to the Company's corporate secretary. Changes in and waivers to the Code of Conduct for the Company's directors, chief executive officer and certain senior financial officers will be posted on the Company's website within five business days and maintained for at least 12 months.

ITEM 11. EXECUTIVE COMPENSATION

The information set forth under the captions "Summary Compensation Table", "Option/SAR Exercises and Year-End Value Table", "Employment Contracts and Termination of Employment and Change-in-Control Arrangements" and "Director Compensation" in the Proxy Statement is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information set forth under the captions "Securities Ownership and Principal Holders" and "Equity Compensation Plan Information" in the Proxy Statement is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information set forth under the caption "Certain Business Relationships and Transactions" in the Proxy Statement is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information set forth under the caption "Independent Public Auditors" in the Proxy Statement is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Documents included in this report:

1. Financial Statements

Report of management.....	F-1
Report of Independent Auditors.....	F-2
Report of independent public accountants.....	F-3
Statement of consolidated operations for each of the three years in the period ended December 31, 2003.....	F-4
Statement of consolidated cash flows for each of the three years in the period ended December 31, 2003.....	F-5
Consolidated balance sheet as of December 31, 2003 and 2002.....	F-6
Statement of consolidated shareholders' equity for each of the three years in the period ended December 31, 2003.....	F-7
Notes to consolidated financial statements.....	F-8

2. Financial Statement Schedules

Financial statement schedules have been omitted because they are either not required, not applicable or the information required to be presented is included in the Company's financial statements and related notes.

3. Exhibits

EXHIBIT NO.  
DESCRIPTION

-----  
-----

2.1 --

Agreement  
and Plan of  
Merger among  
Registrant,  
YPY

Acquisitions,  
Inc. and The  
Phoenix  
Resource  
Companies,  
Inc., dated  
March 27,  
1996

(incorporated  
by reference  
to Exhibit  
2.1 to  
Registrant's  
Registration  
Statement on  
Form S-4,  
Registration  
No. 333-  
02305, filed  
April 5,  
1996).

2.2 -  
- Purchase  
and Sale  
Agreement by  
and between  
BP

Exploration  
& Production  
Inc., as  
seller, and  
Registrant,  
as buyer,  
dated  
January 11,  
2003

(incorporated  
by reference  
to Exhibit  
2.1 to  
Registrant's  
Current  
Report on  
Form 8-K,  
dated and  
filed

January 13,  
2003, SEC  
File No. 1-  
4300).

2.3 -

- Sale and Purchase Agreement by and between BP Exploration Operating Company Limited, as seller, and Apache North Sea Limited, as buyer, dated January 11, 2003 (incorporated by reference to Exhibit 2.2 to Registrant's Current Report on Form 8-K, dated and filed January 13, 2003, SEC File No. 1-4300). \*3.1 -- Restated Certificate of Incorporation of Registrant, dated February 11, 2004, as filed with the Secretary of State of Delaware on February 12, 2004. \*3.2 - - Bylaws of Registrant, as amended February 5, 2004. 4.1 -- Form of Certificate for Registrant's Common Stock (incorporated by reference to Exhibit 4.1 to Registrant's Annual Report on Form 10-K for year ended December 31, 1995, SEC File No. 1-4300). 4.2 - - Form of Certificate for Registrant's 5.68% Cumulative Preferred Stock, Series B (incorporated by reference to Exhibit 4.2 to Amendment No. 2 on Form 8-K/A to Registrant's Current Report on Form 8-K, dated and filed April 18, 1998,



EXHIBIT NO.  
DESCRIPTION -  
-----  
----- 4.3 --  
Form of  
Certificate  
for  
Registrant's  
Automatically  
Convertible  
Equity  
Securities,  
Conversion  
Preferred  
Stock, Series  
C  
(incorporated  
by reference  
to Exhibit  
99.8 to  
Amendment No.  
1 on Form 8-  
K/A to  
Registrant's  
Current  
Report on  
Form 8-K,  
dated and  
filed April  
29, 1999, SEC  
File No. 1-  
4300). 4.4 --  
Rights  
Agreement,  
dated January  
31, 1996,  
between  
Registrant  
and Norwest  
Bank  
Minnesota,  
N.A., rights  
agent,  
relating to  
the  
declaration  
of a rights  
dividend to  
Registrant's  
common  
shareholders  
of record on  
January 31,  
1996  
(incorporated  
by reference  
to Exhibit  
(a) to  
Registrant's  
Registration  
Statement on  
Form 8-A,  
dated January  
24, 1996, SEC  
File No. 1-  
4300). 10.1 -  
- Credit  
Agreement,  
dated June  
12, 1997,  
among  
Registrant,  
the lenders  
named  
therein,  
Morgan  
Guaranty  
Trust  
Company, as  
Global  
Documentation  
Agent and  
U.S.  
Syndication  
Agent, The  
First  
National Bank  
of Chicago,  
as U.S.  
Documentation  
Agent,

NationsBank  
of Texas,  
N.A., as Co-  
Agent, Union  
Bank of  
Switzerland,  
Houston  
Agency, as  
Co-Agent, and  
The Chase  
Manhattan  
Bank, as  
Global  
Administrative  
Agent  
(incorporated  
by reference  
to Exhibit  
10.1 to  
Registrant's  
Current  
Report on  
Form 8-K,  
dated June  
13, 1997,  
filed June  
25, 1997, SEC  
File No. 1-  
4300). 10.2 -  
- Form of  
Credit  
Agreement,  
dated as of  
June 3, 2002,  
among  
Registrant,  
the Lenders  
named  
therein,  
JPMorgan  
Chase Bank,  
as Global  
Administrative  
Agent, Bank  
of America,  
N.A., as  
Global  
Syndication  
Agent,  
Citibank,  
N.A., as  
Global  
Documentation  
Agent, Bank  
of America,  
N.A. and  
Wachovia  
Bank,  
National  
Association,  
as U.S. Co-  
Syndication  
Agents, and  
Citibank,  
N.A. and  
Union Bank of  
California,  
N.A., as U.S.  
Co-  
Documentation  
Agents  
(excluding  
exhibits and  
schedules)  
(incorporated  
by reference  
to Exhibit  
10.2 to  
Registrant's  
Quarterly  
Report on  
Form 10-Q for  
the quarter  
ended June  
30, 2002, SEC  
File No. 1-  
4300). 10.3 -  
- Form of  
364-Day  
Credit  
Agreement,  
dated as of  
June 3, 2002,  
among

Registrant,  
the Lenders  
named  
therein,  
JPMorgan  
Chase Bank,  
as Global  
Administrative  
Agent, Bank  
of America,  
N.A., as  
Global  
Syndication  
Agent,  
Citibank,  
N.A., as  
Global  
Documentation  
Agent, Bank  
of America,  
N.A. and BNP  
Paribas, as  
364-Day Co-  
Syndication  
Agents, and  
Deutsche Bank  
AG, New York  
Branch, and  
Societe  
Generale, as  
364-Day Co-  
Documentation  
Agents  
(excluding  
exhibits and  
schedules)  
(incorporated  
by reference  
to Exhibit  
10.3 to  
Registrant's  
Quarterly  
Report on  
Form 10-Q for  
the quarter  
ended June  
30, 2002, SEC  
File No. 1-  
4300). 10.4 -  
- Credit  
Agreement,  
dated June  
12, 1997,  
among Apache  
Canada Ltd.,  
a wholly-  
owned  
subsidiary of  
the  
Registrant,  
the Lenders  
named  
therein,  
Morgan  
Guaranty  
Trust  
Company, as  
Global  
Documentation  
Agent, Royal  
Bank of  
Canada, as  
Canadian  
Documentation  
Agent, The  
Chase  
Manhattan  
Bank of  
Canada, as  
Canadian  
Syndication  
Agent, Bank  
of Montreal,  
as Canadian  
Administrative  
Agent, and  
The Chase  
Manhattan  
Bank, as  
Global  
Administrative  
Agent  
(incorporated  
by reference

to Exhibit  
10.2 to  
Registrant's  
Current  
Report on  
Form 8-K,  
dated June  
13, 1997,  
filed June  
25, 1997, SEC  
File No. 1-  
4300). 10.5 -  
- Form of  
Credit  
Agreement,  
dated as of  
June 3, 2002,  
among Apache  
Canada Ltd, a  
wholly-owned  
subsidiary of  
Registrant,  
the Lenders  
named  
therein,  
JPMorgan  
Chase Bank,  
as Global  
Administrative  
Agent, Bank  
of America,  
N.A., as  
Global  
Syndication  
Agent,  
Citibank,  
N.A., as  
Global  
Documentation  
Agent, Royal  
Bank of  
Canada, as  
Canadian  
Administrative  
Agent, The  
Bank of Nova  
Scotia and  
The Toronto-  
Dominion  
Bank, as  
Canadian Co-  
Syndication  
Agents, and  
BNP Paribas  
(Canada) and  
Bayerische  
Landesbank  
Girozentrale,  
as Canadian  
Co-  
Documentation  
Agents  
(excluding  
exhibits and  
schedules)  
(incorporated  
by reference  
to Exhibit  
10.4 to  
Registrant's  
Quarterly  
Report on  
Form 10-Q for  
the quarter  
ended June  
30, 2002, SEC  
File No. 1-  
4300).

EXHIBIT NO.  
DESCRIPTION -  
-----  
----- 10.6 -  
- Credit  
Agreement,  
dated June  
12, 1997,  
among Apache  
Energy  
Limited and  
Apache Oil  
Australia Pty  
Limited,  
wholly-owned  
subsidiaries  
of the  
Registrant,  
the Lenders  
named  
therein,  
Morgan  
Guaranty  
Trust  
Company, as  
Global  
Documentation  
Agent, Bank  
of America  
National  
Trust and  
Savings  
Association,  
Sydney  
Branch, as  
Australian  
Documentation  
Agent, The  
Chase  
Manhattan  
Bank, as  
Australian  
Syndication  
Agent,  
Citisecurities  
Limited, as  
Australian  
Administrative  
Agent, and  
The Chase  
Manhattan  
Bank, as  
Global  
Administrative  
Agent  
(incorporated  
by reference  
to Exhibit  
10.3 to  
Registrant's  
Current  
Report on  
Form 8-K,  
dated June  
13, 1997,  
filed June  
25, 1997, SEC  
File No. 1-  
4300). 10.7 -  
- Form of  
Credit  
Agreement,  
dated as of  
June 3, 2002,  
among Apache  
Energy  
Limited, a  
wholly-owned  
subsidiary of  
Registrant,  
the Lenders  
named  
therein,  
JPMorgan  
Chase Bank,  
as Global  
Administrative  
Agent, Bank  
of America,  
N.A., as  
Global

Syndication  
Agent,  
Citibank,  
N.A., as  
Global  
Documentation  
Agent,  
Citisecurities  
Limited, as  
Australian  
Administrative  
Agent, Bank  
of America,  
N.A., Sydney  
Branch, and  
Deutsche Bank  
AG, Sydney  
Branch, as  
Australian  
Co-  
Syndication  
Agents, and  
Royal Bank of  
Canada and  
Bank One, NA,  
Australia  
Branch, as  
Australian  
Co-  
Documentation  
Agents  
(excluding  
exhibits and  
schedules)  
(incorporated  
by reference  
to Exhibit  
10.5 to  
Registrant's  
Quarterly  
Report on  
Form 10-Q for  
the quarter  
ended June  
30, 2002, SEC  
File No. 1-  
4300). 10.8 -  
- Concession  
Agreement for  
Petroleum  
Exploration  
and  
Exploitation  
in the Khalda  
Area in  
Western  
Desert of  
Egypt by and  
among Arab  
Republic of  
Egypt, the  
Egyptian  
General  
Petroleum  
Corporation  
and Phoenix  
Resources  
Company of  
Egypt, dated  
April 6, 1981  
(incorporated  
by reference  
to Exhibit  
19(g) to  
Phoenix's  
Annual Report  
on Form 10-K  
for year  
ended  
December 31,  
1984, SEC  
File No. 1-  
547). 10.9 --  
Amendment,  
dated July  
10, 1989, to  
Concession  
Agreement for  
Petroleum  
Exploration  
and  
Exploitation  
in the Khalda  
Area in

Western  
Desert of  
Egypt by and  
among Arab  
Republic of  
Egypt, the  
Egyptian  
General  
Petroleum  
Corporation  
and Phoenix  
Resources  
Company of  
Egypt  
incorporated  
by reference  
to Exhibit  
10(d)(4) to  
Phoenix's  
Quarterly  
Report on  
Form 10-Q for  
quarter ended  
June 30,  
1989, SEC  
File No. 1-  
547). 10.10 -  
- Farmout  
Agreement,  
dated  
September 13,  
1985 and  
relating to  
the Khalda  
Area  
Concession,  
by and  
between  
Phoenix  
Resources  
Company of  
Egypt and  
Conoco Khalda  
Inc.

(incorporated  
by reference  
to Exhibit  
10.1 to  
Phoenix's  
Registration  
Statement on  
Form S-1,  
Registration  
No. 33-1069,  
filed October  
23, 1985).

10.11 --  
Amendment,  
dated March  
30, 1989, to  
Farmout  
Agreement  
relating to  
the Khalda  
Area  
Concession,  
by and  
between  
Phoenix  
Resources  
Company of  
Egypt and  
Conoco Khalda  
Inc.

(incorporated  
by reference  
to Exhibit  
10(d)(5) to  
Phoenix's  
Quarterly  
Report on  
Form 10-Q for  
quarter ended  
June 30,  
1989, SEC  
File No. 1-  
547). 10.12 -  
- Amendment,  
dated May 21,  
1995, to  
Concession  
Agreement for  
Petroleum  
Exploration

and  
Exploitation  
in the Khalda  
Area in  
Western  
Desert of  
Egypt between  
Arab Republic  
of Egypt, the  
Egyptian  
General  
Petroleum  
Corporation,  
Repsol  
Exploracion  
Egipto S.A.,  
Phoenix  
Resources  
Company of  
Egypt and  
Samsung  
Corporation  
(incorporated  
by reference  
to Exhibit  
10.12 to  
Registrant's  
Annual Report  
on Form 10-K  
for year  
ended  
December 31,  
1997, SEC  
File No. 1-  
4300). 10.13  
-- Concession  
Agreement for  
Petroleum  
Exploration  
and  
Exploitation  
in the Qarun  
Area in  
Western  
Desert of  
Egypt,  
between Arab  
Republic of  
Egypt, the  
Egyptian  
General  
Petroleum  
Corporation,  
Phoenix  
Resources  
Company of  
Qarun and  
Apache Oil  
Egypt, Inc.,  
dated May 17,  
1993  
(incorporated  
by reference  
to Exhibit  
10(b) to  
Phoenix's  
Annual Report  
on Form 10-K  
for year  
ended  
December 31,  
1993, SEC  
File No. 1-  
547).

EXHIBIT NO.  
DESCRIPTION - ---  
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10.14 --

Agreement for  
Amending the Gas  
Pricing  
Provisions under  
the Concession  
Agreement for  
Petroleum  
Exploration and  
Exploitation in  
the Qarun Area,  
effective June  
16, 1994

(incorporated by  
reference to  
Exhibit 10.18 to  
Registrant's  
Annual Report on  
Form 10-K for  
year ended  
December 31,  
1996, SEC File  
No. 1-4300).

+10.15 -- Apache  
Corporation  
Corporate  
Incentive  
Compensation Plan  
A (Senior  
Officers' Plan),  
dated July 16,  
1998

(incorporated by  
reference to  
Exhibit 10.13 to  
Registrant's  
Annual Report on  
Form 10-K for  
year ended  
December 31,  
1998, SEC File  
No. 1-4300).

+10.16 -- Apache  
Corporation  
Corporate  
Incentive  
Compensation Plan  
B (Strategic  
Objectives  
Format), dated  
July 16, 1998

(incorporated by  
reference to  
Exhibit 10.14 to  
Registrant's  
Annual Report on  
Form 10-K for  
year ended  
December 31,  
1998, SEC File  
No. 1-4300).

+10.17 -- Apache  
Corporation  
401(k) Savings  
Plan, dated  
August 1, 2002

(incorporated by  
reference to  
Exhibit 10.1 to  
Registrant's  
Quarterly Report  
on Form 10-Q for  
the quarter ended  
September 30,  
2002, SEC File  
No. 1-4300).

+10.18 --  
Amendment to  
Apache  
Corporation  
401(k) Savings  
Plan, dated  
January 27, 2003,  
effective January  
1, 2003

(incorporated by  
reference to  
Exhibit 10.18 to

Registrant's Annual Report on Form 10-K, as amended by Form 10-K/A, for year ended December 31, 2002, SEC File No. 1-4300).  
+10.19 -- Apache Corporation Money Purchase Retirement Plan, dated August 1, 2002 (incorporated by reference to Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002, SEC File No. 1-4300).  
+10.20 -- Amendment to Apache Corporation Money Purchase Retirement Plan, dated January 27, 2003, effective January 1, 2003 (incorporated by reference to Exhibit 10.20 to Registrant's Annual Report on Form 10-K for year ended December 31, 2002, SEC File No. 1-4300).  
+10.21 -- Non-Qualified Retirement/Savings Plan of Apache Corporation, restated January 1, 1997, and amendments effective January 1, 1997, January 1, 1998 and January 1, 1999 (incorporated by reference to Exhibit 10.17 to Registrant's Annual Report on Form 10-K for year ended December 31, 1998, SEC File No. 1-4300).  
+10.22 -- Amendment to Non-Qualified Retirement/Savings Plan of Apache Corporation, dated February 22, 2000, effective January 1, 1999 (incorporated by reference to Exhibit 4.7 to Registrant's Registration Statement on Form S-8, Registration No. 333-31092, filed February 25, 2000); and Amendment dated July 27, 2000 (incorporated by reference to Exhibit 4.8 to Amendment No. 1 to Registrant's Registration Statement on Form

S-8, Registration  
No. 333-31092,  
filed August 18,  
2000). +10.23 --  
Amendment to Non-  
Qualified  
Retirement/Savings  
Plan of Apache  
Corporation,  
dated August 3,  
2001, effective  
September 1, 2000  
and July 1, 2001  
(incorporated by  
reference to  
Exhibit 10.13 to  
Registrant's  
Quarterly Report  
on Form 10-Q, as  
amended by Form  
10-Q/A, for the  
quarter ended  
June 30, 2001,  
SEC File No. 1-  
4300). +\*10.24 --  
Amendment to Non-  
Qualified  
Retirement/Savings  
Plan of Apache  
Corporation,  
dated December  
18, 2003,  
effective January  
1, 2004. +10.25 -  
- Apache  
Corporation 1990  
Stock Incentive  
Plan, as amended  
and restated  
September 13,  
2001  
(incorporated by  
reference to  
Exhibit 10.01 to  
Registrant's  
Quarterly Report  
on Form 10-Q, as  
amended by Form  
10-Q/A, for the  
quarter ended  
September 30,  
2001, SEC File  
No. 1-4300).  
+10.26 -- Apache  
Corporation 1995  
Stock Option  
Plan, as amended  
and restated  
September 13,  
2001  
(incorporated by  
reference to  
Exhibit 10.02 to  
Registrant's  
Quarterly Report  
on Form 10-Q for  
the quarter ended  
September 30,  
2001, as amended  
by Form 10-Q/A,  
SEC File No. 1-  
4300). +\*10.27 --  
Apache  
Corporation 2000  
Share  
Appreciation  
Plan, as amended  
and restated  
February 5, 2004.

EXHIBIT NO.  
DESCRIPTION

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+10.28 --

Apache  
Corporation  
1996

Performance  
Stock Option  
Plan, as  
amended and  
restated  
September  
13, 2001

(incorporated  
by reference  
to Exhibit  
10.03 to

Registrant's  
Quarterly  
Report on  
Form 10-Q,  
as amended  
by Form 10-  
Q/A, for the  
quarter  
ended

September  
30, 2001,  
SEC File No.  
1-4300).

+10.29 --

Apache  
Corporation  
1998 Stock

Option Plan,  
as amended  
and restated  
September  
13, 2001

(incorporated  
by reference  
to Exhibit  
10.04 to

Registrant's  
Quarterly  
Report on  
Form 10-Q,  
as amended  
by Form 10-  
Q/A, for the  
quarter  
ended

September  
30, 2001,  
SEC File No.  
1-4300).

+10.30 --

Apache  
Corporation  
2000 Stock

Option Plan,  
as amended  
and restated  
March 5,  
2003

(incorporated  
by reference  
to Exhibit  
4.5 to

Registrant's  
Registration  
Statement on  
Form S-8,  
Registration  
No. 333-

103758,  
filed March  
12, 2003).

+\*10.31 --

Apache  
Corporation  
2003 Stock

Appreciation  
Rights Plan,  
dated and  
effective  
May 1, 2003.

+10.32 --  
1990

Employee  
Stock Option  
Plan of The  
Phoenix  
Resource  
Companies,  
Inc., as  
amended  
through  
September  
29, 1995,  
effective  
April 9,  
1990

(incorporated  
by reference  
to Exhibit  
10.33 to  
Registrant's  
Annual  
Report on  
Form 10-K  
for year  
ended  
December 31,  
1996, SEC  
File No. 1-  
4300).  
+10.33 --  
Apache  
Corporation  
Income  
Continuance  
Plan, as  
amended and  
restated May  
3, 2001

(incorporated  
by reference  
to Exhibit  
10.30 to  
Registrant's  
Annual  
Report on  
Form 10-K  
for the year  
ended  
December 31,  
2001, SEC  
File No. 1-  
4300).  
+10.34 --  
Apache  
Corporation  
Deferred  
Delivery  
Plan, as  
amended and  
restated  
December 18,  
2002,  
effective  
May 2, 2002

(incorporated  
by reference  
to Exhibit  
4.5 to Post-  
Effective  
Amendment  
No. 2 to  
Registrant's  
Registration  
Statement on  
Form S-8,  
Registration  
No. 333-  
31092, filed  
March 11,  
2003).  
+10.35 --  
Apache  
Corporation  
Executive  
Restricted  
Stock Plan,  
as amended  
and restated  
December 18,  
2002,  
effective  
May 2, 2002

(incorporated  
by reference  
to Exhibit

4.5 to Post  
Effective  
Amendment  
No. 1 to  
Registrant's  
Registration  
Statement on  
Form S-8,  
Registration  
No. 333-  
97403, filed  
December 30,  
2002).  
+10.36 --  
Apache  
Corporation  
Non-Employee  
Directors'  
Compensation  
Plan, as  
amended and  
restated May  
1, 2003,  
effective  
July 1, 2003  
(incorporated  
by reference  
to Exhibit  
10.1 to  
Registrant's  
Quarterly  
Report on  
Form 10-Q,  
as amended  
by Form 10-  
Q/A, for the  
quarter  
ended June  
30, 2003,  
SEC File No.  
1-4300).  
+10.37 --  
Apache  
Corporation  
Outside  
Directors'  
Retirement  
Plan, as  
amended and  
restated May  
3, 2001  
(incorporated  
by reference  
to Exhibit  
10.08 to  
Registrant's  
Quarterly  
Report on  
Form 10-Q,  
as amended  
by Form 10-  
Q/A, for the  
quarter  
ended June  
30, 2001,  
SEC File No.  
1-4300).  
+\*10.38 --  
Apache  
Corporation  
Equity  
Compensation  
Plan for  
Non-Employee  
Directors,  
as amended  
and restated  
February 5,  
2004. +10.39  
-- Amended  
and Restated  
Employment  
Agreement,  
dated  
December 5,  
1990,  
between  
Registrant  
and Raymond  
Plank  
(incorporated  
by reference  
to Exhibit  
10.39 to

Registrant's  
Annual  
Report on  
Form 10-K  
for year  
ended  
December 31,  
1996, SEC  
File No. 1-  
4300).  
+10.40 --  
First  
Amendment,  
dated April  
4, 1996, to  
Restated  
Employment  
Agreement  
between  
Registrant  
and Raymond  
Plank  
(incorporated  
by reference  
to Exhibit  
10.40 to  
Registrant's  
Annual  
Report on  
Form 10-K  
for year  
ended  
December 31,  
1996, SEC  
File No. 1-  
4300).  
+10.41 --  
Amended and  
Restated  
Employment  
Agreement,  
dated  
December 20,  
1990,  
between  
Registrant  
and John A.  
Kocur  
(incorporated  
by reference  
to Exhibit  
10.10 to  
Registrant's  
Annual  
Report on  
Form 10-K  
for year  
ended  
December 31,  
1990, SEC  
File No. 1-  
4300).  
+10.42 --  
Employment  
Agreement,  
dated June  
6, 1988,  
between  
Registrant  
and G.  
Steven  
Farris  
(incorporated  
by reference  
to Exhibit  
10.6 to  
Registrant's  
Annual  
Report on  
Form 10-K  
for year  
ended  
December 31,  
1989, SEC  
File No. 1-  
4300).

EXHIBIT NO.  
DESCRIPTION

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+10.43 --

Amended and Restated Conditional Stock Grant Agreement, dated June 6, 2001, between Registrant and G. Steven Farris

(incorporated by reference to Exhibit 10.10 to Registrant's Quarterly Report on Form 10-Q, as amended by Form 10-Q/A, for the quarter ended June 30, 2001, SEC File No. 1-4300).

10.44 --

Amended and Restated Gas Purchase Agreement, effective July 1, 1998, by and among Registrant and MW Petroleum Corporation, as seller, and Producers Energy Marketing, LLC, as buyer

(incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K, dated June 18, 1998, filed June 23, 1998, SEC File No. 1-4300).

10.45 --

Deed of Guaranty and Indemnity, dated January 11, 2003, made by Registrant in favor of BP

Exploration Operating Company Limited

(incorporated by reference to Registrant's Current Report on Form 8-K, dated and filed

January 13,  
2003, SEC  
File No. 1-  
4300). \*12.1  
-- Statement  
of  
Computation  
of Ratios of  
Earnings to  
Fixed  
Charges and  
Combined  
Fixed  
Charges and  
Preferred  
Stock  
Dividends  
\*14.1 --  
Code of  
Business  
Conduct  
\*21.1 --  
Subsidiaries  
of  
Registrant  
\*23.1 --  
Consent of  
Ernst &  
Young LLP  
\*23.2 --  
Consent of  
Ryder Scott  
Company  
L.P.,  
Petroleum  
Consultants  
\*24.1 --  
Power of  
Attorney  
(included as  
a part of  
the  
signature  
pages to  
this report)  
\*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

- -----  
\* Filed herewith.

+ Management contracts or compensatory plans or arrangements required to be  
filed herewith pursuant to Item 15 hereof.

NOTE: Debt instruments of the Registrant defining the rights of long-term  
debt holders in principal amounts not exceeding 10 percent of the  
Registrant's consolidated assets have been omitted and will be provided to  
the Commission upon request.

(b) Reports filed on Form 8-K

The following current reports on Form 8-K were filed by the Company during  
the fiscal quarter ended December 31, 2003:

Item 5 -- Other Events -- dated December 18, 2003, filed December 22, 2003

On December 18, 2003, Apache announced that (i) the holders of its common  
stock approved a proposal to increase the number of authorized common shares  
to 430 million from 215 million in order to complete the previously announced  
two-for-one stock split and (ii) the record date for the stock split was  
December 31, 2003, with the additional shares distributed January 14, 2004.

SIGNATURES

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

APACHE CORPORATION

/s/ G. STEVEN FARRIS

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

Dated: March 11, 2004

POWER OF ATTORNEY

The officers and directors of Apache Corporation, whose signatures appear below, hereby constitute and appoint G. Steven Farris, Roger B. Plank, P. Anthony Lannie and Eric L. Harry each of them (with full power to each of them to act alone), the true and lawful attorney-in-fact to sign and execute, on behalf of the undersigned, any amendment(s) to this report and each of the undersigned does hereby ratify and confirm all that said attorneys shall do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

NAME TITLE

DATE ----

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/s/ G.  
STEVEN  
FARRIS  
Director,  
President,  
Chief  
March 11,  
2004 -----

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Executive  
Officer  
and Chief  
G. Steven  
Farris  
Operating  
Officer  
(Principal  
Executive  
Officer)

/s/ ROGER  
B. PLANK  
Executive  
Vice  
President  
and March  
11, 2004 -  
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--- Chief  
Financial  
Officer  
Roger B.  
Plank  
(Principal  
Financial  
Officer)

/s/ THOMAS  
L.  
MITCHELL  
Vice  
President  
and  
Controller  
March 11,  
2004 -----

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(Principal

Accounting  
Thomas L.  
Mitchell  
Officer)  
/s/  
RAYMOND  
PLANK  
Chairman  
of the  
Board  
March 11,  
2004 -----  
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Raymond  
Plank /s/  
FREDERICK  
M. BOHEN  
Director  
March 11,  
2004 -----  
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Frederick  
M. Bohlen  
/s/  
RANDOLPH  
M. FERLIC  
Director  
March 11,  
2004 -----  
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Randolph  
M. Ferlic  
/s/ EUGENE  
C.  
FIEDOREK  
Director  
March 11,  
2004 -----  
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Eugene C.  
Fiedorek  
/s/ A. D.  
FRAZIER,  
JR.  
Director  
March 11,  
2004 -----  
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A. D.  
Frazier,  
Jr.

NAME  
TITLE  
DATE --  
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/s/  
PATRICIA  
ALBJERG  
GRAHAM  
Director  
March  
11,  
2004 --  
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Patricia  
Albjerg  
Graham  
/s/  
JOHN A.  
KOCUR  
Director  
March  
11,  
2004 --  
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John A.  
Kocur  
/s/  
GEORGE  
D.  
LAWRENCE  
Director  
March  
11,  
2004 --  
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George  
D.  
Lawrence  
/s/ F.  
H.  
MERELLI  
Director  
March  
11,  
2004 --  
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F.  
H.  
Merelli  
/s/  
RODMAN  
D.  
PATTON  
Director  
March  
11,  
2004 --  
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Rodman

D.

Patton

/s/

CHARLES

J.

PITMAN

Director

March

11,

2004 --

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Charles

J.

Pitman

/s/ JAY

A.

PRECOURT

Director

March

11,

2004 --

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A.

Precourt

## REPORT OF MANAGEMENT

The financial statements and related financial information of Apache Corporation and subsidiaries were prepared by and are the responsibility of management. The statements have been prepared in conformity with accounting principles generally accepted in the United States and include amounts that are based on management's best estimates and judgments.

Management maintains and places reliance on systems of internal control designed to provide reasonable assurance, weighing the costs with the benefits sought, that all transactions are properly recorded in the Company's books and records, that policies and procedures are adhered to, and that assets are safeguarded. The systems of internal controls are supported by written policies and guidelines, internal audits and the selection and training of qualified personnel.

The consolidated financial statements of Apache Corporation and subsidiaries have been audited by the independent auditors, Ernst & Young LLP for 2003 and 2002 and Arthur Andersen LLP for 2001. Their audits included developing an overall understanding of the Company's accounting systems, procedures and internal controls and conducting tests and other auditing procedures sufficient to support their opinion on the fairness of the consolidated financial statements.

The Apache Corporation Board of Directors exercises its oversight responsibility for the financial statements through its Audit Committee, composed solely of outside directors who are not current employees of Apache or who have not been employees of Apache within the past ten years. The Audit Committee meets periodically with management, internal auditors and the independent auditors to ensure that they are successfully completing designated responsibilities. The internal auditors and independent auditors have open access to the Audit Committee to discuss auditing and financial reporting issues.

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

Roger B. Plank  
Executive Vice President and Chief  
Financial Officer

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

Houston, Texas  
March 11, 2004

REPORT OF INDEPENDENT AUDITORS

To the Shareholders of Apache Corporation:

We have audited the accompanying consolidated balance sheets of Apache Corporation (a Delaware corporation) and subsidiaries as of December 31, 2003 and 2002 and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the two years in the period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of Apache Corporation as of December 31, 2001, and for the year then ended, were audited by other auditors who have ceased operations and whose report dated March 12, 2002 expressed an unqualified opinion on those financial statements before the adjustments described in Note 1. Their report, however, had an explanatory paragraph indicating that the Company, as described in Note 1 to the consolidated financial statements, changed its method of accounting for crude oil inventories effective January 1, 2000, and as discussed in Notes 1 and 4 to the consolidated financial statements changed its method of accounting for derivative instruments effective January 1, 2001.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Apache Corporation and subsidiaries as of December 31, 2003 and 2002 and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States.

As discussed above, the financial statements of Apache Corporation as of December 31, 2001, and for the year then ended, were audited by other auditors who have ceased operations. As described in Note 1, these financial statements have been revised to reflect third party gathering and transportation costs as an operating cost instead of a reduction of revenues as previously reported. We audited the adjustments described in Note 1 that were applied to revise the 2001 consolidated statement of operations. As described in Note 1, the Company's Board of Directors approved a five percent stock dividend and a two-for-one stock split, and all references to number of shares and per share information in the financial statements have been adjusted to reflect the stock dividend and stock split on a retroactive basis. We audited the adjustments that were applied to restate the number of shares and per share information reflected in the 2001 financial statements. Our procedures included (a) agreeing the authorization for the five percent stock dividend and the two-for-one stock split the Company's underlying records obtained from management, and (b) testing the mathematical accuracy of the restated number of shares, basic and diluted earnings per share. In our opinion, such adjustments are appropriate and have been properly applied. However, we were not engaged to audit, review, or apply any procedures to the 2001 financial statements of Apache Corporation other than with respect to such adjustments; accordingly, we do not express an opinion or any other form of assurance on the 2001 financial statements taken as a whole.

As discussed in Notes 1 and 2 to the consolidated financial statements, effective January 1, 2003, the Company change its method of accounting for Asset Retirement Obligations and stock-based compensation.

ERNST & YOUNG LLP

Houston, Texas  
March 11, 2004

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders of Apache Corporation:

We have audited the accompanying consolidated balance sheet of Apache Corporation (a Delaware corporation) and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Apache Corporation and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2000, the Company changed its method of accounting for crude oil inventories. In addition, as discussed in Notes 1 and 4 to the consolidated financial statements, effective January 1, 2001, the Company changed its method of accounting for derivative instruments.

ARTHUR ANDERSEN LLP

Houston, Texas  
March 12, 2002

THIS IS A COPY OF AN ACCOUNTANTS' REPORT PREVIOUSLY ISSUED BY ARTHUR ANDERSEN LLP, AND HAS NOT BEEN REISSUED BY ARTHUR ANDERSEN. SEE ITEM 9 OF THIS FORM 10-K FOR FURTHER INFORMATION.

APACHE CORPORATION AND SUBSIDIARIES

STATEMENT OF CONSOLIDATED OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, -----	2003	2002	2001	---
----- (IN THOUSANDS,				
EXCEPT PER COMMON SHARE DATA) REVENUES AND				
OTHER: Oil and gas production				
revenues.....	\$4,198,920	\$2,559,748		
	\$2,822,959			
Other.....	(8,621)	125	(13,568)	
	4,190,299	2,559,873	2,809,391	
----- OPERATING EXPENSES:				
Depreciation, depletion and				
amortization.....	1,073,286	843,879	820,831	
Asset retirement obligation				
accretion.....	37,763	--	--	International
impairments.....	19,600	65,000	12,813	
	457,903	399,919	699,663	Lease operating
costs.....	60,460	38,567	34,584	
				Gathering and transportation
costs.....	121,793	67,309		
	74,722			Severance and other
taxes.....				
				administrative.....
				104,588
				88,710
				Financing costs: Interest
				expense.....
				155,667
				178,915
				Amortization of deferred loan
				costs.....
				2,163
				1,859
				2,460
				Capitalized
				interest.....
				(52,891)
				(40,691)
				(56,749)
				Interest
				income.....
				(3,290)
				(4,002)
				(5,864)
				-----
				2,259,374
				1,644,679
				1,602,528
				-----
				PREFERRED INTERESTS OF
				SUBSIDIARIES.....
				8,668
				16,224
				7,609
				-----
				INCOME BEFORE
				INCOME TAXES.....
				1,922,257
				898,970
				1,199,254
				Provision for income
				taxes.....
				827,004
				344,641
				475,855
				-----
				INCOME
				BEFORE CHANGE IN ACCOUNTING PRINCIPLE.....
				1,095,253
				554,329
				723,399
				Cumulative effect of
				change in accounting principle, net of income
				tax.....
				26,632
				--
				-----
				NET
				INCOME.....
				1,121,885
				554,329
				723,399
				Preferred stock
				dividends.....
				5,680
				10,815
				19,601
				-----
				INCOME
				ATTRIBUTABLE TO COMMON STOCK.....
				\$1,116,205
				\$ 543,514
				\$ 703,798
				=====
				===== BASIC NET INCOME PER
				COMMON SHARE: Before change in accounting
				principle.....
				\$ 3.38
				\$ 1.83
				\$ 2.44
				Cumulative effect of change in accounting
				principle.....
				.08
				--
				-----
				\$
				3.46
				\$ 1.83
				\$ 2.44
				=====
				=====
				DILUTED NET INCOME PER COMMON SHARE:
				Before change in accounting
				principle.....
				\$ 3.35
				\$ 1.80
				\$ 2.37
				Cumulative effect of change in accounting
				principle.....
				.08
				--
				-----
				\$
				3.43
				\$ 1.80
				\$ 2.37
				=====
				=====

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

APACHE CORPORATION AND SUBSIDIARIES

STATEMENT OF CONSOLIDATED CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, -----			
	2003	2002	2001
----- (IN THOUSANDS) CASH FLOWS FROM OPERATING			
ACTIVITIES: Net			
income.....	\$		
1,121,885	\$ 554,329	\$ 723,399	Adjustments to reconcile
net income to net cash provided by operating activities:			
Depreciation, depletion and amortization.....			
1,073,286	843,879	820,831	Asset retirement obligation
accretion.....	37,763	--	Provision for
deferred income taxes.....	546,357		
137,672	305,214	Amortization of deferred loan	
costs.....	2,163	1,859	2,460
International impairments.....			
12,813	19,600	65,000	Cumulative effect of change in
accounting principle, net of income			
tax.....	(26,632)	--	--
Other.....			
32,923	9,531	10,469	Changes in operating assets and
liabilities, net of effects of acquisitions: (Increase)			
decrease in receivables.....	(94,295)		
(122,830)	199,160	(Increase) decrease in	
inventories.....	(4,216)	717	(3,005)
(Increase) decrease in drilling advances and other.....			
(19,881)	(26,116)	(14,474)	(Increase) decrease in
deferred charges and other.....	(29,520)	496	(922)
Increase (decrease) in accounts payable.....			
68,176	32,219	(143,969)	Increase (decrease) in accrued
expenses.....	11,227	(16,595)	10,065
(decrease) in advances from gas purchasers.....	(16,246)		
(14,574)	(13,079)	Increase (decrease) in deferred credits	
and noncurrent			
liabilities.....			
(9,903)	(39,469)	(56,149)	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES.....			
2,705,900	1,380,718	1,905,000	-----
CASH FLOWS FROM INVESTING ACTIVITIES: Additions			
to property and equipment.....			
(1,594,936)	(1,037,368)	(1,528,984)	Acquisition of BP
properties.....	(1,140,156)	--	--
- Acquisition of Shell			
properties.....	(203,033)	--	--
Acquisition of Louisiana			
properties.....	(258,885)	--	--
Acquisition of Fletcher subsidiaries, net of cash			
acquired.....			
--	(465,018)	Acquisition of Repsol properties, net of	
cash acquired.... -- (446,933) Acquisition of			
Occidental properties.....	(22,000)		
(11,000)	(11,000)	Proceeds from sales of oil and gas	
properties.....	58,944	7,043	348,296
Proceeds from (purchase of) short-term investments, net... --			
	101,723	(103,863)	
Other.....			
(57,576)	(37,520)	(76,835)	-----
NET CASH USED IN INVESTING ACTIVITIES.....			
(2,958,757)	(1,236,007)	(2,284,337)	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Long-term			
borrowings.....			
1,780,870	1,467,929	2,759,740	Payments on long-term
debt.....	(1,613,362)		
(1,553,471)	(2,733,641)	Dividends	
paid.....	(72,832)		
(68,879)	(54,492)	Common stock	
activity.....	582,865		
30,708	10,205	Treasury stock activity,	
net.....	5,350	1,991	(42,959)
Cost of debt and equity			
transactions.....	(5,417)	(6,728)	
(1,718)	(Repurchase of) proceeds from preferred interests		
of			
subsidiaries.....			
(443,000)	--	440,654	-----
NET CASH PROVIDED BY (USED IN) FINANCING			
ACTIVITIES.....	234,474		
(128,450)	377,789	-----	NET
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....			
(18,383)	16,261	(1,548)	CASH AND CASH EQUIVALENTS AT
BEGINNING OF YEAR.....	51,886	35,625	37,173
----- CASH AND CASH EQUIVALENTS			
AT END OF YEAR..... \$ 33,503 \$ 51,886 \$			
	35,625	=====	=====

The accompanying notes to consolidated financial statements are an integral part



APACHE CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

DECEMBER 31, -----	2003	2002	-----
--- (IN THOUSANDS) ASSETS CURRENT ASSETS:			
Cash and cash equivalents.....	\$ 33,503	\$	
51,886 Receivables, net of allowance.....	639,055	527,687	
Inventories.....	125,867	109,204	Drilling
advances.....	45,298	58,062	Prepaid assets and
other.....	42,585	32,706	
-----	899,072	766,781	-----
--- PROPERTY AND EQUIPMENT: Oil and gas, on the basis of full cost accounting: Proved properties.....			
16,277,930	12,827,459		Unproved properties and properties under development, not being
amortized.....	795,161		
656,272 Gas gathering, transmission and processing facilities.....	828,169	784,271	
Other.....	239,548	194,685	
14,462,687		18,140,808	Less: Accumulated depreciation, depletion and amortization.....
(6,880,723)	(5,997,102)		
11,260,085	8,465,585		OTHER
ASSETS: Goodwill,			
net.....	189,252		
189,252			Deferred charges and
other.....	67,717	38,233	
-----	\$12,416,126	\$ 9,459,851	=====
===== LIABILITIES AND SHAREHOLDERS' EQUITY CURRENT			
LIABILITIES: Accounts payable.....			
300,598	\$ 214,288		Accrued operating
expense.....	72,250	47,382	
			Accrued exploration and
development.....	212,028	146,871	
			Accrued compensation and
benefits.....	56,237	32,680	Accrued
interest.....	32,621		
	30,880		Accrued income
taxes.....	18,936	44,256	
			Oil and gas derivative
instruments.....	63,542	--	
Other.....	64,166	15,878	
		820,378	532,235
----- LONG-TERM			
DEBT.....			
2,326,966	2,158,815		DEFERRED
CREDITS AND OTHER NONCURRENT LIABILITIES: Income			
taxes.....	1,697,238	1,120,609	Advances from gas
purchasers.....	109,207	125,453	
			Asset retirement
obligation.....	739,775	--	Oil
and gas derivative instruments.....	5,931	3,507	
Other.....	183,833	158,326	
			2,735,984
1,407,895			PREFERRED INTERESTS OF
SUBSIDIARIES.....			
		436,626	
--- COMMITMENTS AND CONTINGENCIES (Note 11)			
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, 332,509,478
and 310,929,080			shares issued,
respectively.....	207,818	194,331	Paid-in
capital.....	4,038,007	3,427,450	Retained
			earnings.....
2,445,698	1,427,607		Treasury stock, at cost, 8,012,302
			and 8,422,656 shares,
respectively.....			
(105,169)	(110,559)		Accumulated other comprehensive
loss.....	(151,943)	(112,936)	
-----	6,532,798	4,924,280	-----
\$12,416,126	\$ 9,459,851	=====	=====

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

APACHE CORPORATION AND SUBSIDIARIES

STATEMENT OF CONSOLIDATED SHAREHOLDERS' EQUITY

SERIES B SERIES C COMPREHENSIVE PREFERRED  
 PREFERRED COMMON PAID-IN RETAINED INCOME STOCK  
 STOCK STOCK CAPITAL EARNINGS -----

-----  
 - (IN THOUSANDS) BALANCE AT DECEMBER 31,  
 2000..... \$98,387 \$ 208,207  
 \$182,636 \$2,148,673 \$1,226,531 Comprehensive  
 income (loss): Net  
 income..... \$  
 723,399 -- -- -- 723,399 Currency  
 translation adjustments..... (74,028)  
 -- -- -- -- Commodity  
 hedges..... 12,136 --  
 -- -- -- -- Marketable  
 securities..... 307 -- -- --  
 -- -- -- -- Comprehensive  
 income..... \$ 661,814  
 ===== Cash dividends:  
 Preferred.....  
 -- -- -- -- (19,601) Common (\$.17 per  
 share).....  
 (48,980) Ten percent common stock  
 dividend..... -- -- -- 544,848  
 (544,871) Common shares  
 issued..... -- -- 2,652  
 109,086 -- Treasury shares purchased,  
 net..... -- -- -- 1,218 -----

BALANCE AT DECEMBER 31,  
 2001..... 98,387 208,207  
 185,288 2,803,825 1,336,478 Comprehensive  
 income (loss): Net  
 income..... \$  
 554,329 -- -- -- 554,329 Currency  
 translation adjustments..... 5,328 --  
 -- -- -- -- Commodity  
 hedges..... (16,322) -  
 -- -- -- -- Marketable  
 securities..... (125) -- --  
 -- -- -- -- Comprehensive  
 income..... \$ 543,210  
 ===== Cash dividends:  
 Preferred.....  
 -- -- -- -- (10,815) Common (\$.19 per  
 share).....  
 (56,565) Five percent common stock  
 dividend..... -- -- -- 395,820  
 (395,820) Common shares  
 issued..... -- -- 1,240  
 26,044 -- Conversion of Series C Preferred  
 Stock..... -- (208,207) 7,803 200,404 --  
 Treasury shares issued,  
 net..... -- -- -- 666 --

Other.....  
 -- -- -- 691 -----

----- BALANCE AT DECEMBER 31,  
 2002..... 98,387 -- 194,331  
 3,427,450 1,427,607 Comprehensive income  
 (loss): Net  
 income.....  
 \$1,121,885 -- -- -- 1,121,885 Commodity  
 hedges..... (39,007) -  
 -- -- -- -- Comprehensive  
 income..... \$1,082,878  
 ===== Cash dividends:  
 Preferred.....  
 -- -- -- -- (5,680) Common (\$.22 per  
 share).....  
 (72,200) Five percent common stock  
 dividend..... -- -- 581 25,333  
 (25,914) Common shares  
 issued..... -- -- 12,906  
 579,107 -- Treasury shares issued,  
 net..... -- -- -- 4,109 --

Other.....  
 -- -- -- 2,008 -----

----- BALANCE AT DECEMBER 31,  
 2003..... \$98,387 \$ --  
 \$207,818 \$4,038,007 \$2,445,698 =====  
 =====

ACCUMULATED OTHER TOTAL TREASURY COMPREHENSIVE  
 SHAREHOLDERS' STOCK INCOME (LOSS) EQUITY -----  
 ----- (IN  
 THOUSANDS) BALANCE AT DECEMBER 31,  
 2000..... \$ (69,562) \$  
 (40,232) \$3,754,640 Comprehensive income  
 (loss): Net  
 income..... -- --

- 723,399	Currency translation		
adjustments.....	--	(74,028)	(74,028)
Commodity hedges.....			
	--	12,136	12,136
		Marketable	
securities.....	--	307	307
		Comprehensive	
income.....		Cash	
		dividends:	
Preferred.....			
	--	(19,601)	Common (\$ .17 per
share).....	--	(48,980)	
		Ten percent common stock	
dividend.....	--	(23)	Common
shares issued.....	--		
		111,738	Treasury shares purchased,
net.....	(42,323)	--	(41,105)
			BALANCE AT DECEMBER
		31, 2001.....	(111,885)
		(101,817)	4,418,483
		Comprehensive income	
		(loss): Net	
income.....	--		
	-	554,329	Currency translation
adjustments.....	--	5,328	5,328
Commodity hedges.....			
	--	(16,322)	(16,322)
		Marketable	
securities.....	--	(125)	
		(125)	Comprehensive
income.....		Cash	
		dividends:	
Preferred.....			
	--	(10,815)	Common (\$ .19 per
share).....	--	(56,565)	
		Five percent common stock	
dividend.....	--		Common shares
issued.....	--		27,284
		Conversion of Series C Preferred	
Stock.....	--		Treasury shares
issued, net.....	1,326	--	1,992
Other.....			
	--	691	
			BALANCE AT DECEMBER 31,
		2002.....	(110,559)
		4,924,280	Comprehensive income (loss): Net
income.....	--		
	-	1,121,885	Commodity
hedges.....	--		
	(39,007)	(39,007)	Comprehensive
income.....		Cash	
		dividends:	
Preferred.....			
	--	(5,680)	Common (\$ .22 per
share).....	--	(72,200)	
		Five percent common stock	
dividend.....	--		Common shares
issued.....	--		
		592,013	Treasury shares issued,
net.....	5,390	--	9,499
Other.....			
	--	2,008	
			BALANCE AT DECEMBER 31,
		2003.....	\$(105,169)
		\$(151,943)	\$6,532,798
		=====	=====
		=====	

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

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations -- Apache Corporation (Apache or the Company) is an independent energy company that explores for, develops and produces natural gas, crude oil and natural gas liquids. The Company's North American exploration and production activities are divided into two U.S. operating regions (Central and Gulf Coast) and a Canadian region. Approximately 70 percent of the Company's proved reserves are located in North America. Internationally, Apache has exploration and production interests in Egypt, offshore Western Australia, in the United Kingdom North Sea (North Sea), offshore The People's Republic of China (China) and in Argentina. In 2003, we ceased operations in Poland.

The Company's future financial condition and results of operations will depend upon prices received for its oil and natural gas production and the costs of finding, acquiring, developing and producing reserves. A substantial portion of the Company's production is sold under market-sensitive contracts. Prices for oil and natural gas are subject to fluctuations in response to changes in supply, market uncertainty and a variety of other factors beyond the Company's control. These factors include worldwide political instability (especially in the Middle East), the foreign supply of oil and natural gas, the price of foreign imports, the level of consumer demand, and the price and availability of alternative fuels.

Stock Dividends -- On September 13, 2001, the Company's Board of Directors declared a 10 percent stock dividend payable on January 21, 2002 to shareholders of record on December 31, 2001. As a result, the Company reclassified approximately \$545 million from retained earnings to common stock and paid-in capital, which represents the fair market value at the date of declaration of the shares distributed. No fractional shares were issued and cash payments totaling \$891,000 were made in lieu of fractional shares.

On December 18, 2002, the Company's Board of Directors declared a five percent stock dividend payable on April 2, 2003 to shareholders of record on March 12, 2003. As a result, in December 2002, the Company reclassified approximately \$396 million from retained earnings to common stock and paid-in capital, which represents the fair market value at the date of declaration of the shares distributed. Since the Company's January 22, 2003 public offering of 19.8 million shares of common stock occurred prior to the record date, an additional \$26 million was reclassified from retained earnings to common stock and paid-in capital. No fractional shares were issued and cash payments totaling \$1 million were made in lieu of fractional shares.

Two-for-One Stock Split -- On December 18, 2003, the Company announced that holders of its common stock approved an increase in the number of authorized common shares to 430 million from 215 million in order to complete a previously announced two-for-one stock split. The record date for the stock split was December 31, 2003 and the additional shares were distributed on January 14, 2004.

All share and per share information in these financial statements and notes thereto have been restated to reflect the 10 percent and five percent stock dividends and the two-for-one stock split.

Principles of Consolidation -- The accompanying consolidated financial statements include the accounts of Apache and its subsidiaries after elimination of intercompany balances and transactions. The Company consolidates all investments in which the Company, either through direct or indirect ownership, has more than a 50 percent voting interest. The Company's interests in oil and gas exploration and production ventures and partnerships are proportionately consolidated, including Apache Offshore Investment Partnership.

Cash Equivalents -- The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. These investments are carried at cost, which approximates fair value.

Allowance for Doubtful Accounts -- The Company routinely assesses the recoverability of all material trade and other receivables to determine their collectibility. Many of Apache's receivables are from joint interest owners on properties of which the Company is the operator. Thus, Apache may have the ability to withhold future revenue disbursements to recover any non-payment of joint interest billings. Generally, the

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Company's crude oil and natural gas receivables are collected within two months. However, during 2001 and 2002, the Company experienced a gradual decline in the timeliness of receipts from the Egyptian General Petroleum Corporation (EGPC). Deteriorating economic conditions during 2001 and 2002 in Egypt lessened the availability of U.S. dollars, resulting in an additional one to two month delay in receipts from EGPC. While hard currency shortages in Egypt could lead to further delays, we did not experience any further delays in 2003.

The Company accrues a reserve on a receivable when, based on the judgment of management, it is probable that a receivable will not be collected and the amount of any reserve may be reasonably estimated. As of December 31, 2003 and 2002, the Company had an allowance for doubtful accounts of \$30 million and \$31 million, respectively.

Marketable Securities -- The Company accounts for investments in debt and equity securities in accordance with Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Investments in debt securities classified as "held to maturity" are recorded at amortized cost. Investments in debt and equity securities classified as "available for sale" are recorded at fair value with unrealized gains and losses recognized in other comprehensive income, net of income taxes. The Company utilizes the average-cost method in computing realized gains and losses, which are included in Revenues and Other in the consolidated statements of operations.

Inventories -- Inventories consist principally of tubular goods and production equipment, stated at the lower of weighted-average cost or market, and oil produced but not sold, stated at the lower of cost (a combination of production costs and depreciation, depletion and amortization (DD&A) expense) or market.

Property and Equipment -- The Company uses the full-cost method of accounting for its investment in oil and gas properties. Under this method, the Company capitalizes all acquisition, exploration and development costs incurred for the purpose of finding oil and gas reserves, including salaries, benefits and other internal costs directly attributable to these activities. Historically, total capitalized internal costs in any given year have not been material to total oil and gas costs capitalized in such year. Apache capitalized \$65 million, \$52 million and \$55 million of these internal costs in 2003, 2002 and 2001, respectively. Costs associated with production and general corporate activities, however, are expensed in the period incurred. Interest costs related to unproved properties and properties under development are also capitalized to oil and gas properties. Unless a significant portion of the Company's proved reserve quantities in a particular country are sold (greater than 25 percent), proceeds from the sale of oil and gas properties are accounted for as a reduction to capitalized costs, and gains and losses are not recognized.

Apache computes the DD&A of oil and gas properties on a quarterly basis using the unit-of-production method based upon production and estimates of proved reserve quantities. Unproved properties are excluded from the amortizable base until evaluated. The cost of exploratory dry wells is transferred to proved properties and thus subject to amortization immediately upon determination that a well is dry in those countries where proved reserves exist. In countries where the Company has not booked proved reserves, all costs associated with a prospect or play are considered quarterly for impairment upon full evaluation of such prospect or play. This evaluation considers among other factors, seismic data, requirements to relinquish acreage, drilling results, remaining time in the commitment period, remaining capital plans, and political, economic, and market conditions. Geological and geophysical (G&G) costs are recorded in Proved Property and therefore subject to amortization as incurred in mature basins. In exploration areas, G&G costs are capitalized in Unproved Property and evaluated as part of the total capitalized costs associated with a prospect or play. Prior to 2003, future development costs and dismantlement, restoration and abandonment costs, net of estimated salvage values, were added to the amortizable base. Beginning in 2003, Apache changed its method of accounting for dismantlement, restoration and abandonment costs (see Note 2).

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

In performing its quarterly ceiling test, the Company limits, on a country-by-country basis, the capitalized costs of proved oil and gas properties, net of accumulated DD&A and deferred income taxes, to the estimated future net cash flows from proved oil and gas reserves discounted at 10 percent, net of related tax effects, plus the lower of cost or fair value of unproved properties included in the costs being amortized. If capitalized costs exceed this limit, the excess is charged to additional DD&A expense. Included in the estimated future net cash flows are Canadian provincial tax credits expected to be realized beyond the date at which the legislation, under its provisions, could be repealed. To date, the Canadian provincial governments have not indicated an intention to repeal this legislation. Please see Note 15 "Future Net Cash Flows" for a discussion on calculation of estimated future net cash flows.

Given the volatility of oil and gas prices, it is reasonably possible that the Company's estimate of discounted future net cash flows from proved oil and gas reserves could change in the near term. If oil and gas prices decline significantly, even if only for a short period of time, it is possible that write-downs of oil and gas properties could occur.

Unproved properties are assessed quarterly for possible impairments or reductions in value. If a reduction in value has occurred, the impairment is transferred to proved properties. Unproved properties that are individually insignificant are generally amortized over an average holding period. For international operations where a reserve base has not yet been established, the impairment is charged to earnings. During 2003 and 2002, the Company recorded approximately \$13 million (\$8 million after tax) and \$20 million (\$12 million after tax), respectively, in impairments of unproved property costs in Poland. During 2001, the Company recorded a \$65 million (\$41 million after tax) impairment of unproved property costs in China and Poland.

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

Should such a change be required, the amounts related to business combinations and major asset purchases after June 30, 2001 that would be classified as "intangible undeveloped mineral interest" were \$78 million and \$259 million as of December 31, 2002 and December 31, 2003, respectively. The amounts related to business combinations and major asset purchases after June 30, 2001 that would be classified as "intangible developed mineral interest" were \$332 million and \$1.4 billion as of December 31, 2002 and December 31, 2003, respectively. Intangible developed mineral interest amounts are presented net of accumulated depletion, depreciation and amortization (DD&A). Accumulated DD&A was estimated using historical depletion rates applied proportionately to the costs of the acquisitions to be classified as "intangible developed mineral interest". The amounts noted above only include mineral rights acquired in business combinations or major asset purchases, and exclude those acquired individually or in groups as we have not

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

historically tracked these in this manner. The Company has also not historically tracked the amount of mineral rights in the proved property balances related to producing leases or relinquished leases. We are currently identifying a methodology to do so for transactions subsequent to June 30, 2001.

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

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

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

Buildings, equipment and gas gathering, transmission and processing facilities are depreciated on a straight-line basis over the estimated useful lives of the assets, which range from three to 20 years. Accumulated depreciation for these assets totaled \$309 million and \$240 million at December 31, 2003 and 2002, respectively.

Goodwill -- The Company adopted SFAS No. 142 effective January 1, 2002. SFAS No. 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes Accounting Principles Board (APB) Opinion No. 17 "Intangible Assets." As a result of this pronouncement, goodwill is no longer subject to amortization. Rather, goodwill of each reporting unit is tested for impairment on an annual basis, or more frequently if an event occurs or circumstances change that would reduce the fair value of the reporting unit below its carrying amount. Goodwill totaled \$189 million at December 31, 2003 and 2002, representing the excess of the purchase price over the estimated fair value of the assets acquired and liabilities assumed in the Fletcher Challenge Energy (Fletcher) and Repsol YPF (Repsol) acquisitions, adjusted for currency fluctuations. Approximately \$103 million and \$86 million of goodwill remain in Canada and Egypt, respectively. Apache deemed the geographic areas to be the reporting unit. Apache recognized no impairment of goodwill during 2003 or 2002. Had the principles of SFAS No. 142 been applied to prior years, goodwill amortization of \$7 million (\$4 million after tax) expensed during 2001 would not have been incurred. Income attributable to common stock for the comparative period, adjusted to exclude the effect of goodwill amortization, would have increased diluted earnings per share by \$.01.

Accounts Payable -- Included in accounts payable at December 31, 2003 and 2002, are liabilities of approximately \$78 million and \$43 million, respectively, representing the amount by which checks issued, but not presented to the Company's banks for collection, exceeded balances in applicable bank accounts.

Revenue Recognition -- Oil and gas revenues are recognized when production is sold to a purchaser at a fixed or determinable price, when delivery has occurred and title has transferred, and if collectibility of the revenue is probable.

Apache uses the sales method of accounting for gas production imbalances. The volumes of gas sold may differ from the volumes to which Apache is entitled based on its interests in the properties. These differences create imbalances that are recognized as a liability only when the estimated remaining reserves will not be

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

sufficient to enable the underproduced owner to recoup its entitled share through production. The Company's recorded liability of \$4 million for gas imbalances on December 31, 2003 was unchanged from the prior year-end. The liability is reflected in other non-current liabilities. No receivables are recorded for those wells where Apache has taken less than its share of production. Gas imbalances are reflected as adjustments to proved gas reserves and future cash flows in the unaudited supplemental oil and gas disclosures. Adjustments for gas imbalances totaled less than one percent of Apache's proved gas reserves at December 31, 2003, 2002 and 2001. Cash received relating to future revenues is deferred and recognized when all revenue recognition criteria are met.

The Company's Egyptian operations are conducted pursuant to production sharing contracts under which contractor partners pay all operating and capital costs for exploring and developing the concessions. A percentage of the production, usually up to 40 percent, is available to the contractor partners to recover all operating and capital costs. The balance of the production is split among the contractor partners and EGPC on a contractually defined basis.

Derivative Instruments and Hedging Activities -- Apache periodically enters into commodity derivative contracts to manage its exposure to oil and gas price volatility. Commodity derivative contracts, which are usually placed with major financial institutions that the Company believes are minimal credit risks, may take the form of futures contracts, swaps or options. The oil and gas reference prices upon which these commodity derivative contracts are based, reflect various market indices that have a high degree of historical correlation with actual prices received by the Company for its oil and gas production.

Apache accounts for its derivative instruments in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. SFAS No. 133 establishes accounting and reporting standards requiring that all derivative instruments be recorded on the balance sheet as either an asset or liability measured at fair value (which is generally based on information obtained from independent parties) and requires that changes in fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Hedge accounting treatment allows unrealized gains and losses on cash flow hedges to be deferred in other comprehensive income. Realized gains and losses from the Company's cash flow hedges, including terminated contracts, are generally recognized in oil and gas production revenues when the forecasted transaction occurs. If at any time the likelihood of occurrence of a hedged forecasted transaction ceases to be "probable," hedge accounting under SFAS No. 133 will cease on a prospective basis and all future changes in the fair value of the derivative will be recognized directly in earnings. Amounts recorded in other comprehensive income prior to the change in the likelihood of occurrence of the forecasted transaction will remain in other comprehensive income until such time the forecasted transaction impacts earnings. If it becomes probable that the original forecasted production will not occur, then the derivative gain or loss would be reclassified from accumulated other comprehensive income into earnings immediately. Hedge effectiveness is measured at least quarterly based on the relative changes in fair value between the derivative contract and the hedged item over time and any ineffectiveness is immediately reported under Revenues and Other in the statement of consolidated operations.

Income Taxes -- Oil and gas exploration and production is a global business. As a result, Apache is subject to taxation on our income in numerous jurisdictions. The Company records deferred tax assets and liabilities to account for the expected future tax consequences of events that have been recognized in its financial statements and tax returns. Apache routinely assesses the realizability of its deferred tax assets. If the Company concludes that it is more likely than not that some portion or all of the deferred tax assets will not be realized under accounting standards, the tax asset would be reduced by a valuation allowance. The Company considers future taxable income in making such assessments. Numerous judgments and assumptions are inherent in the determination of future taxable income, including factors such as future operating conditions (particularly as related to prevailing oil and gas prices).

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Earnings from Apache's international operations are permanently reinvested; therefore, the Company does not recognize deferred taxes on the unremitted earnings of its international subsidiaries. If it becomes apparent that some or all of the unremitted earnings will be remitted, the Company would then reflect taxes on those earnings.

In respect to the U. S. dollar denominated debt issued by our Canadian subsidiaries, the Company believes any deferred tax asset generated because of fluctuations in the U.S./Canadian dollar exchange rates is not realizable and, consequently, no deferred tax asset should be recognized. Any potential future deferred tax liabilities are recognized as appropriate.

Foreign Currency Translation -- The U.S. dollar has been determined to be the functional currency for each of Apache's international operations. The functional currency is determined country-by-country based on relevant facts and circumstances of the cash flows, commodity pricing environment, and financing arrangements in each country. In light of the continuing transformation of the U.S. and Canadian energy markets into a single energy market, the Company adopted the U.S. dollar as the functional currency in Canada, effective October 1, 2002. Prior to this, our Canadian subsidiaries' functional currency was the Canadian dollar. Translation adjustments resulting from translating the Canadian subsidiaries' foreign currency financial statements into U.S. dollar equivalents were reported separately and accumulated in other comprehensive income. Some of the Company's Canadian subsidiaries had intercompany debt denominated in U.S. dollars. Prior to conversion, these transactions were long-term investments, and therefore, foreign currency gains and losses were recognized in other comprehensive income. Transaction gains and losses are recognized in Revenues and Other. Currency translation adjustments held in other comprehensive income on the balance sheet will remain there indefinitely unless there is a substantially complete liquidation of the Company's Canadian operations.

The Company accounts for foreign currency gains and losses in accordance with SFAS No. 52 "Foreign Currency Translation." Foreign currency translation gains and losses related to deferred taxes are recorded as a component of its provision for income taxes, while all other foreign currency gains and losses are reflected in Revenues and Other. In 2003, the Company recorded additional deferred tax expense of \$172 million as a result of the weaker U.S. dollar (see Note 7, Income Taxes). Foreign currency gains and losses in 2003, reflected in Revenues and Other netted to a loss of \$2 million.

Net Income Per Common Share -- Basic net income per common share is computed by dividing income attributable to common stock by the weighted-average number of common shares outstanding during the period. Diluted net income per common share reflects the potential dilution that could occur if the Company's dilutive outstanding stock options were exercised using the average common stock price for the period and if the Company's 6.5% Automatically Convertible Equity Securities, Conversion Preferred Stock, Series C (Series C Preferred Stock) was converted to common stock using the conversion rate in effect during the period. The Series C Preferred Stock converted to Apache common stock on May 15, 2002. These potentially dilutive securities are excluded from the computation of dilutive earnings per share when their effect is antidilutive. Contingently issuable shares under the 2000 Share Appreciation Plan (Share Appreciation Plan) will be excluded from the calculation of income per common share until the stated goals are met (see Note 9).

Stock-Based Compensation -- On December 31, 2003, the Company had several stock-based employee compensation plans, which include the Stock Option Plans, the Performance Plan, the Share Appreciation Plan and restricted stock. These plans are defined and described more fully in Note 9. Prior to 2003, the Company accounted for those plans under the recognition and measurement provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. No material stock-based employee compensation cost is reflected in 2002 and 2001 net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

granted, modified, or settled after January 1, 2003. Therefore, the cost related to stock-based employee compensation included in the determination of net income for 2003 is less than that which would have been recognized if the fair value based method had been applied to all awards since the original effective date of SFAS No. 123, as amended. 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 Stock Option Plans, the Performance Plan, the Share Appreciation Plan and restricted stock.

FOR THE YEAR ENDED DECEMBER 31, -----			
	2003	2002	2001
----- (IN THOUSANDS) Income attributable to			
Common Stock, as reported.....	\$1,116,205		
\$543,514 \$703,798 Add: Stock-based employee			
compensation expense included in reported net			
income, net of related tax effects.....	2,524		
1,087 -- Deduct: Total stock-based employee			
compensation expense determined under fair value			
based method for all awards (see Note 9), net of			
related tax effects.....	(23,001)		
(20,830) (22,463) ----- Pro			
forma Income Attributable to Common			
Stock.....	\$1,095,728	\$523,771	\$681,335
===== ===== Net Income per Common			
Share: Basic: As			
reported.....			
\$ 3.46 \$ 1.83 \$ 2.44 Pro			
forma.....			
3.40 1.76 2.37 Diluted: As			
reported.....			
\$ 3.43 \$ 1.80 \$ 2.37 Pro			
forma.....			
3.37 1.72 2.29			

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. The stock appreciation rights, described in Note 9, are not included in the above table because it is a cash based plan.

Use of Estimates -- The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Certain accounting policies involve judgments and uncertainties to such an extent that there is reasonable likelihood that materially different amounts could have been reported under different conditions, or if different assumptions had been used. Apache evaluates its estimates and assumptions on a regular basis. The Company bases its estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates and assumptions used in preparation of its financial statements. Significant estimates with regard to these financial statements include the estimate of proved oil and gas reserve quantities and the related present value of estimated future net cash flows therefrom (see Note 15).

Treasury Stock -- The Company follows the weighted-average-cost method of accounting for treasury stock transactions.

Change in Accounting Principle -- In May 2003, the SEC issued Staff Accounting Bulletin No. 103, "Update of Codification of Staff Accounting Bulletins" (SAB No. 103) to update existing codification of all staff accounting bulletins. SAB No. 103 provided new guidance regarding the calculation of the "ceiling" or

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

limitation on the amount of oil and gas properties that can be capitalized on the balance sheet under the full-cost method of accounting. The ceiling calculation dictates that prices and costs in effect as of the last day of the period are generally held constant indefinitely. SAB No. 103 codifies the view that using end-of-period prices, as adjusted for cash flow hedges, represents the best measure of estimated future cash flows to calculate the ceiling limitation. Consistent with the guidance in SAB No. 103, the Company now adjusts the end-of-period price by the effect of cash flow hedges.

Reclassifications -- To comply with the consensus reached on Emerging Issues Task Force Issue 00-10, "Accounting for Shipping and Handling Fees and Costs," third party gathering and transportation costs have been reported as an operating cost instead of a reduction of revenues as previously reported. Reclassifications have been made to reflect this change in prior period statements of consolidated operations. Certain other prior period amounts have been reclassified to conform with current year presentations.

## 2. NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires that an asset retirement obligation (ARO) associated with the retirement of a tangible long-lived asset be recognized as a liability in the period in which a legal obligation 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.

The Company adopted SFAS No. 143 on January 1, 2003, which resulted in an increase to net oil and gas properties of \$410 million and additional liabilities related to asset retirement obligations of \$369 million. These amounts reflect the ARO of the company had the provisions of SFAS No. 143 been applied since inception and resulted in a non-cash cumulative effect increase to earnings of \$27 million (\$41 million pretax). In accordance with the provisions of SFAS No. 143, Apache records an abandonment liability associated with its oil and gas wells and platforms when those assets are placed in service, rather than its past practice of accruing the expected undiscounted abandonment costs on a unit-of-production basis over the productive life of the associated full-cost pool. Under SFAS No. 143, depletion expense is reduced since a discounted ARO is depleted in the property balance rather than the undiscounted value previously depleted under the old rules. The lower depletion expense under SFAS No. 143 is offset, however, by accretion expense, which is recognized over time as the discounted liability is accreted to its expected settlement value.

Inherent in the fair value calculation of ARO are numerous assumptions and judgments including the ultimate settlement amounts, inflation factors, credit adjusted discount rates, timing of settlement, and changes in the legal, regulatory, environmental and political environments. To the extent future revisions to these assumptions impact the fair value of the existing ARO liability, a corresponding adjustment is made to the oil and gas property balance.

The \$27 million (\$41 million pretax) cumulative increase to earnings upon adoption did not take into consideration potential impacts of adopting SFAS No. 143 on previous full-cost property impairment tests. The Company chose not to re-calculate historical full-cost impairment tests (ceiling test) upon adoption even though historical oil and gas property balances would have been higher had the Company applied the provisions of the statement. Management believes this approach is appropriate because SFAS No. 143 is silent on this issue and was not effective during the prior ceiling test periods. Had the Company re-calculated the historical full-cost ceiling tests and included the impact as a component of the cumulative effect of adoption, the ultimate gain recognized would have potentially been reduced. A ceiling test calculation was performed upon adoption and at the end of each reporting period subsequent to adoption and no impairment was

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

necessary. In calculating ceiling limitations, the Company includes the undiscounted ARO as part of future development costs, essentially reducing the present value of its future net revenues and full-cost ceiling limit. To compare the property balance, which included the ARO component, to the full-cost ceiling limit, which has been reduced by a similar abandonment cost, the Company nets the ARO liability against the property balance. The Company believes this is appropriate since there must be a comparable basis between the net book value of the properties and the full-cost ceiling limitation.

The following table is a reconciliation of the asset retirement obligation liability since adoption (in thousands):

Asset retirement obligation upon adoption on January 1, 2003.....	\$368,537
Liabilities incurred.....	392,287
Liabilities settled.....	(35,315)
Accretion expense.....	37,763
Revisions in estimated liabilities.....	(23,497)
	-----
Asset retirement obligation at December 31, 2003.....	\$739,775
	=====

Liabilities incurred during the period primarily relate to asset retirement obligations assumed in connection with the BP p.l.c. (BP) Gulf of Mexico, BP North Sea and Shell Exploration and Production Company (Shell) property acquisitions. Liabilities settled during the period relate to individual properties plugged and abandoned, and approximately \$2.8 million of liabilities associated with property sold. The downward revision to the estimated liability resulted primarily from having an independent review of expected obligations of abandoning the North Sea platforms, offset by the Company's annual reassessment of the expected cash outflows and assumptions inherent in the ARO calculation.

The pro forma asset retirement obligation would have been approximately \$334 million at January 1, 2002 had the Company adopted the provisions of SFAS 143 on January 1, 2002. The following table shows the pro forma effect of the implementation on the Company's Income Attributable to Common Stock and Net Income per Common Share had SFAS No. 143 been adopted by the Company on January 1, 2001.

FOR THE YEAR ENDED DECEMBER 31, -----		
----- 2002 2001 -----		
(IN THOUSANDS, EXCEPT PER SHARE DATA)		
Income Attributable to Common Stock, as reported.....	\$543,514	\$703,798
Effect on Net Income had SFAS No. 143 been applied.....	(986)	(3,083)
-----		
Income Attributable to Common Stock, as adjusted.....	\$542,528	
\$700,715 =====		Basic Net
Income per Common Share: Net Income, as reported.....	\$ 1.83	\$ 2.44
Effect on Net Income had SFAS No. 143 been applied.....	--	(.01)
-----		
Net Income, as adjusted.....	\$ 1.83	\$ 2.43
=====		Diluted
Net Income per Common Share: Net Income, as reported.....	\$ 1.80	\$ 2.37
Effect on Net Income had SFAS No. 143 been applied.....	--	(.01)
-----		
Net Income, as adjusted.....	\$ 1.80	\$ 2.36
=====		

In January 2003, the FASB issued Interpretation No. 46 "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51." Interpretation No. 46 requires a company to consolidate a variable interest entity (VIE) if the company has a variable interest (or combination of variable

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

interests) that is exposed to a majority of the entity's expected losses if they occur, receive a majority of the entity's expected residual returns if they occur, or both. In addition, more extensive disclosure requirements apply to the primary and other significant variable interest owners of the VIE. This interpretation applies immediately to VIEs created after January 31, 2003, and to VIEs in which an enterprise obtains an interest after that date. It is also generally effective for the first fiscal year or interim period beginning after December 31, 2003, to VIEs in which a company holds a variable interest that is acquired before February 1, 2003. This interpretation did not affect the Company's consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150 "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards on how companies classify and measure certain financial instruments with characteristics of both liabilities and equity. The statement requires that the Company classify as liabilities the fair value of all mandatorily redeemable financial instruments that had previously been recorded as equity or elsewhere in the consolidated financial statements. This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise effective for all existing financial instruments, except for minority interests in limited-life entities, beginning in the third quarter of 2003. As stated in Note 12, the Company paid off the Preferred Interests of Subsidiaries in September 2003; therefore, this statement did not have a material impact on the Company's financial statements.

## 3. ACQUISITIONS AND DIVESTITURES

## Acquisitions

On January 13, 2003, Apache announced that it had entered into agreements to purchase producing properties in the North Sea and Gulf of Mexico from subsidiaries of BP for \$1.3 billion, with \$670 million allocated to the Gulf of Mexico properties and \$630 million allocated to properties in the North Sea. The properties included estimated proved reserves of 233.2 million barrels of oil equivalent (MMboe), 147.6 MMboe located in the North Sea with the balance in the Gulf of Mexico. Both purchase agreements were effective as of January 1, 2003. As is customary, Apache assumed BP's abandonment obligation for the properties, which was considered in determining the purchase price. Both the Gulf of Mexico and North Sea assets acquired from BP were funded with net proceeds of approximately \$554 million from the issuance of 19.8 million shares of common stock in January 2003, and proceeds from additional debt of approximately \$604 million borrowed under existing lines of credit and commercial paper.

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

The acquisition of the UK North Sea properties closed on April 2, 2003, at which time Apache paid a purchase price, adjusted for normal closing and working capital adjustments, of \$630 million. The acquisition of the North Sea properties includes a 96 percent interest in the Forties Field and establishes a new core area for the Company. In conjunction with the Forties acquisition, Apache may be required to issue a letter of credit to BP to cover the present value of related asset retirement obligations if the rating of the Company's senior unsecured debt is lowered by both Moody's and Standard and Poor's from its current ratings of A3 and

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

A-, respectively. Should this occur, the initial letter of credit amount would be 175 million British pounds (\$306 million U.S. at December 31, 2003). Apache has agreed to sell all of the North Sea production through December 2004 to BP at a combination of fixed and market sensitive prices pursuant to a contract entered into in connection with the North Sea purchase agreement.

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

U.S.	--	U.K.	--	GULF OF MEXICO	NORTH SEA	TOTAL*	--
----- (IN THOUSANDS)							
Proved							
property.....							
\$539,110	\$	854,835	\$1,393,945	Unproved			
property.....							
57,500	65,000	122,500	Working capital acquired,				
net.....			--	10,957	10,957		
Asset retirement							
obligation.....				(69,000)			
(250,887)	(319,887)	Deferred income tax					
liability.....			--	(50,381)			
(50,381)	-----	-----	-----	Cash			
consideration.....							
\$527,610	\$	629,524	\$1,157,134	=====	=====		
			=====				

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

On July 3, 2003, Apache announced that it had completed the acquisition of producing properties on the Outer Continental Shelf of the Gulf of Mexico from Shell for \$200 million, subject to normal post-closing adjustments, including preferential rights. Prior to the transaction, Morgan Stanley Capital Group, Inc. (Morgan Stanley) paid Shell \$300 million to acquire an overriding royalty interest in a portion of the reserves to be produced over the next four years. Shell's sale of an overriding royalty interest to Morgan Stanley is commonly known in the industry as a volumetric production payment (VPP). Under the terms of the VPP, Morgan Stanley is to receive a fixed volume of oil and gas production over approximately four years beginning in August 2003 for gas and November 2003 for oil. The VPP reserves and production will not be recorded by Apache.

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

In 2003, the Company also completed other acquisitions for cash consideration totaling \$126 million. These acquisitions added approximately 28 MMboe to the Company's proved reserves.

On December 17, 2002, Apache announced the acquisition of certain South Louisiana properties comprising 234,000 net acres (366 square miles) with net proved reserves of approximately 29.8 MMboe, 88 percent of which is natural gas, from a private company. The acquisition includes 135 producing wells, access to 849 square miles of 3-D seismic covering the relatively contiguous acreage position and ownership of the surface and mineral rights on most of the acreage, for approximately \$259 million, subject to post-closing adjustments. Apache also entered into a separate exploration joint venture with the seller whereby the seller will actively generate prospects on certain South Louisiana acreage for a total cost of \$25 million over a two-year period (see Note 11).

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

In 2002, the Company also completed other acquisitions for cash consideration totaling \$95 million. These acquisitions added approximately 19.5 MMboe to the Company's proved reserves.

In March 2001, Apache completed the acquisition of substantially all of Repsol's oil and gas concession interests in Egypt for approximately \$447 million in cash, subject to normal post closing adjustments. The properties included interests in seven Western Desert concessions and had estimated proved reserves of 66 MMboe as of the acquisition date. The Company already held interests in five of the seven concessions.

In March 2001, Apache completed the acquisition of subsidiaries of Fletcher for approximately \$465 million in cash and 3.8 million restricted shares of Apache common stock issued to Shell Overseas Holdings (valued at \$26.425 per share), subject to normal post closing adjustments. The transaction included properties located primarily in Canada's Western Sedimentary Basin. Estimated proved reserves totaled 120.8 MMboe as of the acquisition date. Apache assumed a liability of \$103 million representing the fair value of derivative instruments and fixed-price commodity contracts entered into by Fletcher.

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

FLETCHER REPSOL -----	(IN THOUSANDS)	Value of
properties acquired, including gathering and transportation		
facilities.....	\$ 571,718	
	\$299,933	
Goodwill.....		
107,200 90,000 Derivative instruments and fixed-price		
contracts.....	(103,486) --	Common stock
issued.....	(100,325) -	
- Working capital acquired,		
net.....	(2,846) 57,000	Notes
assumed.....		
(5,356) -- Deferred income tax		
liability.....	(1,887) --	-----
-- ----- Cash paid, net of cash		
acquired.....	\$ 465,018	\$446,933
	=====	=====

In August 2001, Apache completed the acquisition of properties located in Texas, Oklahoma and New Mexico with estimated proved reserves of 9.2 MMboe as of the acquisition date for approximately \$53 million in cash and the assumption of certain liabilities, representing the fair value of derivative instruments of \$9 million, subject to normal post-closing adjustments.

In November 2001, Apache completed the acquisition of all of Novus Bukha Limited's (Novus) oil and gas concession interests in Egypt for approximately \$66 million in cash. The acquisition included estimated proved reserves of approximately 11.7 MMboe as of the acquisition date. The properties included interests in three Western Desert concessions, in which Apache previously held an interest.

In 2001, the Company also completed other acquisitions for cash consideration totaling \$44 million. These acquisitions added approximately 4.9 MMboe to the Company's proved reserves.

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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, 2002 and the Fletcher and Repsol transactions occurred on January 1, 2001. The pro forma information includes only significant acquisitions and numerous assumptions, and is not necessarily indicative of future results of operations:

FOR THE YEAR ENDED		
DECEMBER 31, -----		
-----		
----- 2003		
2002	2001	-----
-----		
----- AS REPORTED		
PRO FORMA AS REPORTED		
PRO FORMA AS REPORTED		
PRO FORMA (UNAUDITED) --		
-----		
----- (IN		
THOUSANDS, EXCEPT PER		
COMMON SHARE DATA)		
Revenues and		
other.....		
\$4,190,299	\$4,428,261	
\$2,559,873	\$3,490,487	
\$2,809,391	\$2,916,346	
Net		
income.....		
1,121,885	1,195,082	
554,329	683,284	723,399
748,976	Preferred stock	
dividends.....		
5,680	5,680	10,815
10,815	19,601	19,601
Income attributable to		
common		
stock.....		
1,116,205	1,189,402	
543,514	672,469	703,798
729,375	Net income per	
common share:		
Basic.....		
\$ 3.46	\$ 3.68	\$ 1.83
2.12	\$ 2.44	\$ 2.52
Diluted.....		
3.43	3.64	1.80
2.09	2.37	
Average common		
shares		
outstanding(1).....		
322,498	323,583	297,234
317,036	288,014	288,900

(1) Pro forma shares assume the issuance of 19.8 million common shares as of January 1, 2002.

Each transaction described above has been accounted for using the purchase method of accounting and has been included in the consolidated financial statements of Apache since the date of acquisition.

Divestitures

During 2003, Apache sold marginal properties containing 6.9 MMboe of proved reserves, for \$59 million. Apache used the sales proceeds to reduce bank debt.

During 2002, Apache sold marginal properties containing 1.8 MMboe of proved reserves, for \$7 million. Apache used the sales proceeds to reduce bank debt.

During 2001, Apache sold marginal properties, primarily in North America, containing 88 MMboe of proved reserves, for \$348 million. Apache used the proceeds to reduce bank debt.

4. DERIVATIVE INSTRUMENTS AND FIXED-PRICE PHYSICAL CONTRACTS

Apache uses a variety of strategies to manage its exposure to fluctuations in commodity prices. As established by the Company's hedging policy, Apache primarily enters into cash flow hedges in connection with selected acquisitions. The success of these acquisitions is significantly influenced by Apache's ability to achieve targeted production at forecasted prices. These hedges effectively reduce price risk on a portion of the production from the acquisitions.

During the first quarter of 2003, in conjunction with the acquisitions from BP and during the fourth quarter of 2002, in conjunction with the South

Louisiana properties acquisition, Apache entered into, and designated as cash flow hedges, natural gas and crude oil fixed-price swaps and natural gas option collars. These positions were entered into in accordance with the Company's hedging policy and involved several

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

counterparties which are rated A+ or better. As of December 31, 2003, the outstanding positions of our cash flow hedges were as follows:

TOTAL WEIGHTED FAIR VALUE	
VOLUMES AVERAGE ASSET/ PRODUCTION PERIOD INSTRUMENT TYPE (MMBTU/BBL) FLOOR/CEILING (LIABILITY) - ----- -----	
(IN THOUSANDS)	
2004.....	
Gas Collars 18,300,000	
\$3.25/5.81 \$ (8,420) Gas Fixed-	
Price Swap 51,240,000 4.52	
(46,099) Oil Fixed-Price Swap	
1,550,000 26.59 (9,023)	
2005.....	
Gas Collars 9,050,000 3.25/5.20	
(5,931)	

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 SFAS No. 133 and, therefore, the Company has designated and accounted for the contract under the accrual method. As of December 31, 2003, the outstanding terms of the contract were as follows:

CRUDE OIL FIXED-PRICE PHYSICAL SALES CONTRACT (BRENT) - ----- -----	
TOTAL	
VOLUMES AVERAGE PRODUCTION PERIOD (BARRELS) FIXED PRICE - ----- -----	
2004.....	
14,175,000 \$22.24	

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

GROSS AFTER TAX -----	
- (IN THOUSANDS) Unrealized loss	
on derivatives at December 31,	
2002..... \$ (7,141) \$ (4,186)	
Net losses realized into	
earnings.....	
80,975 50,272 Net change in	
derivative fair	
value.....	
(143,150) (89,279) -----	
--- Unrealized loss on derivatives	
at December 31, 2003..... \$	
(69,316) \$(43,193) =====	
=====	

Based on current market prices, the Company recorded an unrealized loss in other comprehensive income of \$69 million (\$43 million after tax). Any loss will be realized in future earnings contemporaneously with the related sales of natural gas and crude oil production applicable to specific hedges. Were current prices to hold, a loss of \$63 million (\$39 million after tax) would be realized over the next 12 months. However, these amounts could vary materially as a result of changes in market conditions. The contracts designated as hedges qualified and continue to qualify for hedge accounting in accordance with SFAS No. 133, as amended.

2001 Unwind -- Prior to Apache's derivative activity during 2002, the Company had entered into derivative positions divided into three general categories: (1) Apache's hedging activity, (2) derivatives assumed in acquisitions (Acquired Contracts), and (3) advances from gas purchasers. Driven by the uncertainty of how the collapse of Enron Corporation could have impacted the derivative markets, Apache closed all of its derivative positions and certain fixed-price physical contracts during October and November 2001, receiving proceeds of approximately \$62 million (referred to as the "Unwind").

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Upon adoption of SFAS No. 133 on January 1, 2001, or as of the acquisition date in the case of the Acquired Contracts, the fair value of Apache's derivative instruments was:

APACHE HEDGING ACQUIRED ADVANCES FROM ACTIVITY CONTRACTS GAS PURCHASER (JANUARY 1, 2001) (ACQUISITION DATE) (JANUARY 1, 2001) ----- ----- (IN THOUSANDS) Commodity derivatives instruments..... \$(116,229) \$ (98,557) \$ 121,453 Fixed-price physical contracts..... -- (14,085) (121,453) -- ----- --- \$(116,229) \$(112,642) \$ -- =====
---

At the time SFAS No. 133 was implemented, natural gas prices were approaching record highs. Although Apache was realizing higher prices on its un-hedged production, the fair value of the Company's cash flow hedges was out-of-the-money by approximately \$116 million (\$71 million, net of income tax). This unrealized loss was reflected as a charge to other comprehensive income. Throughout the year, commodity prices were trending downward. As a result, Apache realized only \$40 million of this loss during the year. In connection with the Unwind, the Company closed out the rest of these open positions and received cash proceeds of \$8 million. These proceeds were recognized in earnings as the original hedged production occurred.

The Company also uses long-term, fixed-price physical contracts to lock in a portion of its natural gas production at a given price. In the Unwind, the Company received approximately \$13 million to terminate contracts with certain counterparties. Since the Company has no continuing performance obligations under the contracts, the amount was recognized as a gain in Revenues and Other in 2001.

In addition to the cash flow hedges the Company entered into, Apache assumed \$113 million of derivative and physical contracts in connection with two acquisitions. Because these derivatives were out-of-the-money when the Company acquired them, the liability was factored into the consideration paid to the sellers (see Note 3). Since commodity prices generally decreased after the acquisitions, Apache was able to settle this liability in the Unwind for only \$67 million, including \$37 million paid to terminate the remaining open positions. As a result, Apache recognized a gain of \$32 million during 2001 and \$14 million during 2002 and a loss of \$336,000 during 2003. As of December 31, 2003, an immaterial amount remains and will be recognized in 2004.

Effective January 1, 2001, Apache recognized a derivative asset of \$121 million reflecting the fair value of gas price swaps entered into in connection with certain advance payments received from gas purchasers in 1998 and 1997. Apache also recognized a derivative liability of \$121 million reflecting the fair value of an embedded fixed price physical contract. The net effect of these transactions resulted in Apache delivering natural gas to the advance purchasers at prevailing market prices. Apache terminated the gas price swaps in the Unwind, receiving proceeds of \$78 million. These proceeds will be recognized into earnings over the remaining life of the contracts and effectively increase the original contract's fixed prices by approximately 51 percent. Upon termination, Apache designated the remaining contractual volumes of gas that will be delivered to the purchaser as a normal, fixed-price physical contract. See Note 8 for additional information on the advances from gas purchasers.

5. SHORT-TERM INVESTMENTS

In August 2001, Apache purchased \$116 million in U.S. Government Agency Notes. The Company subsequently sold \$13 million of the notes in 2001. Of the remaining balance, \$17 million were designated as "available for sale" securities and were sold for approximately \$17 million in January 2002. Approximately \$86 million were designated as "held to maturity" and carried at amortized cost. These notes paid interest at rates from 6.25 percent to 6.375 percent and matured on October 15, 2002.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

6. DEBT

Long-Term Debt

DECEMBER 31, -----	2003	2002	-----
----- (IN THOUSANDS) Apache: Money market			
lines of credit.....	\$ 5,200		
\$ 8,900 Global credit facility --			
U.S.....	--	--	Commercial
paper.....			
130,000 271,400 6.25-percent debentures due 2012, net			
of discount.....	397,525	397,307	7-percent notes
due 2018, net of discount.....	148,506		
148,446 7.625-percent notes due 2019, net of			
discount.....	149,161	149,134	7.7-percent
notes due 2026, net of discount.....	99,665		
99,660 7.95-percent notes due 2026, net of			
discount.....	178,636	178,614	7.375-percent
debentures due 2047, net of discount.....	148,014		
148,009 7.625-percent debentures due 2096, net of			
discount.....	149,175	149,175	-----
1,405,882 1,550,645 -----			Subsidiary
and other obligations: Money market lines of			
credit.....	--	--	Global
credit facility -- Canada.....	--	--	
-- Fletcher			
notes.....			
5,356 5,356 Apache Finance Australia 6.5-percent notes			
due 2007, net of			
discount.....			
169,390 169,260 Apache Finance Australia 7-percent			
notes due 2009, net of			
discount.....			
99,597 99,535 Apache Finance Canada 4.375-percent			
notes due 2015, net of			
discount.....			
349,688 -- Apache Finance Canada 7.75-percent notes			
due 2029, net of			
discount.....			
297,053 297,019 Apache Clearwater notes due			
2003.....	--	37,000	-----
-----	921,084	608,170	-----
Total			
debt.....			
2,326,966 2,158,815 Less: current			
maturities.....	--	--	
-----			Long-term
debt.....			
\$2,326,966 \$2,158,815 =====			=====

On June 3, 2002, Apache entered into a new \$1.5 billion global credit facility to replace its existing global and 364-day credit facilities. The new global credit facility consists of four separate bank facilities: a \$750 million 364-day facility in the United States (364-day facility); a \$450 million five-year facility in the United States (U.S. five-year facility); a \$150 million five-year facility in Australia; and a \$150 million five-year facility in Canada. The financial covenants of the global credit facility require the Company to: (i) maintain a consolidated tangible net worth, plus the aggregate amount of any non-cash write-downs, of at least \$2.8 billion as of December 31, 2003, adjusted for subsequent earnings, (ii) maintain an aggregate book-value for assets of Apache and certain subsidiaries, as defined, on an unconsolidated basis of at least \$2 billion as of December 31, 2003, and (iii) maintain a ratio of debt to capitalization of not greater than 60 percent at the end of any fiscal quarter. The Company was in compliance with all financial covenants at December 31, 2003.

The five-year facilities are scheduled to mature on June 3, 2007 and the 364-day facility is currently scheduled to mature on May 28, 2004. The 364-day facility allows the Company the option to convert outstanding revolving loans at maturity into one-year term loans. The Company may request extensions of the maturity dates subject to approval of the lenders. At the Company's option, the interest rate is based on (i) the

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

greater of (a) The JP Morgan 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. In addition, the U.S. five-year facility allows the Company the option to borrow under competitive auctions. At December 31, 2003, the margin over LIBOR for committed loans was .30 percent on the five-year facilities and .32 percent on the 364-day facility. If the total amount of the loans borrowed under all of the facilities equals or exceeds 33 percent of the total facility commitments, then an additional .125 percent will be added to the margins over LIBOR. The Company also pays a quarterly facility fee of .10 percent on the total amount of each of the five-year facilities and .08 percent on the total amount of the 364-day facility. The facility fees vary based upon the Company's senior long-term debt rating. The U.S. five-year facility and the 364-day facility are used to support Apache's commercial paper program. The available borrowing capacity under the global credit facility at December 31, 2003 was \$1.4 billion.

At December 31, 2003, the Company also had certain uncommitted money market lines of credit which are used from time to time for working capital purposes, under which an aggregate of \$5.2 million was outstanding as of December 31, 2003. Such borrowings are classified as long-term debt in the accompanying consolidated balance sheet as the Company has the ability and intent to refinance such amounts on a long-term basis through available borrowing capacity under the U.S. five-year facility and the 364-day facility.

The Company has a \$1.2 billion commercial paper program which enables Apache to borrow funds for up to 270 days at competitive interest rates. The commercial paper balances at December 31, 2003 and 2002 were classified as long-term debt in the accompanying consolidated balance sheet as the Company has the ability and intent to refinance such amounts on a long-term basis through either the rollover of commercial paper or available borrowing capacity under the U.S. five-year facility and the 364-day facility. The weighted average interest rate for commercial paper was 1.19 percent in 2003 and 1.85 percent in 2002.

In April 2002, the Company issued \$400 million principal amount, \$397 million net of discount, of senior unsecured 6.25-percent notes maturing on April 15, 2012. The notes are redeemable, as a whole or in part, at Apache's option, subject to a make-whole premium. The proceeds were used to repay a portion of the Company's outstanding commercial paper and for general corporate purposes.

On May 15, 2003, Apache Finance Canada Corporation (Apache Finance Canada) issued \$350 million of 4.375 percent, 12-year, senior unsecured notes in a private placement. On March 4, 2004, the Company completed an exchange offer with the holders of the notes, issuing publicly traded, registered notes of the same principal amount and with the same interest rates, payment terms and maturity. The notes are irrevocably and unconditionally guaranteed by Apache and are redeemable, as a whole or in part, at Apache Finance Canada's option, subject to a make-whole premium. Interest is payable semi-annually on May 15 and November 15 of each year commencing on November 15, 2003. The proceeds of the original note offering were used to reduce bank debt and outstanding commercial paper and for general corporate purposes.

The Company does not have the right to redeem any of its notes or debentures (other than the Apache Corporation 6.25-percent notes due April 15, 2012, the Apache Finance Australia 6.5-percent notes due 2007 and the Apache Finance Canada 4.375-percent notes due 2015) prior to maturity. Under certain conditions, the Company has the right to advance maturity on the 7.7-percent notes, 7.95-percent notes, 7.375-percent debentures and 7.625-percent debentures.

The notes issued by Apache Finance Pty Ltd (Apache Finance Australia) and Apache Finance Canada are irrevocably and unconditionally guaranteed by Apache and, in the case of Apache Finance Australia, by Apache North America, Inc., an indirect wholly-owned subsidiary of the Company. Under certain conditions related to changes in relevant tax laws, Apache Finance Australia and Apache Finance Canada have the right to redeem the notes prior to maturity. The Apache Finance Australia 6.5-percent notes and the Apache Finance Canada 4.375-percent notes may be redeemed at the Company's option subject to a make-whole premium (see Note 17).

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

In August 2003, the Apache Clearwater, Inc. notes matured and were repaid using commercial paper.

The \$14 million of discounts on the Company's debt at December 31, 2003, is being amortized over the life of the debt issuances as additional interest expense.

As of December 31, 2003 and 2002, the Company had approximately \$22 million and \$19 million, respectively, of unamortized deferred loan costs associated with its various debt obligations. These costs are included in deferred charges and other in the accompanying consolidated balance sheet and are being amortized to expense over the life of the related debt.

The indentures for the notes described above place certain restrictions on the Company, including limits on Apache's ability to incur debt secured by certain liens and its ability to enter into certain sale and leaseback transactions. Upon certain change in control, all of these debt instruments would be subject to mandatory repurchase, at the option of the holders.

Aggregate Maturities of Debt

(IN THOUSANDS)

2004.....	\$ --
2005.....	830
2006.....	274
2007.....	307,590
2008.....	353
Thereafter.....	2,017,919 ----- \$2,326,966 =====

The Company made cash payments for interest, net of amounts capitalized, of \$96 million, \$99 million and \$105 million for the years ended December 31, 2003, 2002 and 2001, respectively.

7. INCOME TAXES

Income before income taxes is composed of the following:

FOR THE YEAR ENDED DECEMBER 31, -----	-----	-----	-----
----- 2003 2002 2001 -----	-----	-----	-----
(IN THOUSANDS) United			
States.....	\$		
	918,432	\$286,840	\$ 605,392
Foreign.....			
	1,003,825	612,130	593,862 -----
Total.....			
	\$1,922,257	\$898,970	\$1,199,254 =====
			=====

The total provision for income taxes consists of the following:

FOR THE YEAR ENDED DECEMBER 31, -----	-----	-----	-----	-----
----- 2003 2002 2001 -----	-----	-----	-----	-----
(IN THOUSANDS) Current taxes:				
Federal.....				
	\$ 37,472	\$ 25,657	\$ 19,054	
State.....				
	2,296	1,564	4,995	
Foreign.....				
	240,879	179,748	146,592	Deferred
taxes.....				
	546,357	137,672	305,214 -----	
Total.....				
	\$827,004	\$344,641	\$475,855 =====	=====

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

A reconciliation of the U.S. federal statutory income tax amounts to the effective amounts is shown below:

FOR THE YEAR ENDED DECEMBER 31, -----				
-----	2003	2002	2001	----- (IN
	THOUSANDS)			Statutory income
tax.....				\$672,790
\$314,639	\$419,739			State income tax, less federal
benefit.....	22,961	7,171	15,135	Effect
of foreign operations.....				
49,657	35,283	38,890		Canadian tax rate
reduction.....	(71,340)	--	--	
Additional deferred taxes related to currency				
fluctuations.....				
171,930	--	--		Realized tax basis in
investment.....	(23,234)	(16,321)		
(1,350)				All other,
net.....				4,240
3,869	3,441			\$827,004
\$475,855	=====	=====	=====	\$344,641

The net deferred tax liability is comprised of the following:

DECEMBER 31, -----		2003 2002 -----	
-----	(IN THOUSANDS)	Deferred tax assets:	Deferred
income.....			\$
(1,446)	\$ (1,120)	Federal net operating loss	
carryforwards.....	(21,781)	(40,700)	State
net operating loss carryforwards.....			
(19,693)	(16,436)	Statutory depletion	
carryforwards.....		(5,723)	(5,652)
Alternative minimum tax			
credits.....	(9,141)	(13,836)	
Foreign net operating loss			
carryforwards.....	(206,548)	(9,764)	Accrued
expenses and liabilities.....			
(5,683)	(5,818)		
Other.....			
(5,401)	(3,539)		Total deferred tax
assets.....	(275,416)	(96,865)	
Valuation			
allowance.....	--	9,764	
-----	-----	Net deferred tax	
assets.....	(275,416)	(87,101)	
-----	-----	Deferred tax liabilities:	
Depreciation, depletion and			
amortization.....	1,972,654	1,207,710	Total
deferred tax liabilities.....			
1,972,654	1,207,710		Net deferred
income tax liability.....			
\$1,697,238	\$1,120,609	=====	=====

The Company has not recorded deferred income taxes on the undistributed earnings of its foreign subsidiaries as management intends to permanently reinvest such earnings. As of December 31, 2003, the undistributed earnings of the foreign subsidiaries amounted to approximately \$3.2 billion. Upon distribution of these earnings in the form of dividends or otherwise, the Company may be subject to U.S. income taxes and foreign withholding taxes. It is not practical, however, to estimate the amount of taxes that may be payable on the eventual remittance of these earnings after consideration of available foreign tax credits. Presently, limited foreign tax credits are available to reduce the U.S. taxes on such amounts if repatriated.

At December 31, 2003, the Company had U.S. federal net operating loss carryforwards of \$62 million, state net operating loss carryforwards of \$381 million and foreign net operating loss carryforwards of \$8 million for China and \$513 million for the United Kingdom. The state and federal net operating losses will expire over the next 15 and 20 years, respectively, if they are not otherwise utilized. The foreign net operating loss for China has a 5-year carryover period while the United Kingdom loss has an unlimited carryover period. The

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Company has alternative minimum tax (AMT) credit carryforwards of \$9 million that can be carried forward indefinitely, but which can be used only to reduce regular tax liabilities in excess of AMT liabilities.

The Company made cash payments for income and other taxes, net of refunds, of \$309 million, \$171 million and \$172 million for the years ended December 31, 2003, 2002 and 2001, respectively.

#### 8. ADVANCES FROM GAS PURCHASERS

In July 1998, Apache received \$72 million from a purchaser as an advance payment for future natural gas deliveries ranging from 6,726 MMBtu per day to 24,669 MMBtu per day, for a total of 45,330,949 MMBtu, over a ten-year period commencing August 1998. In addition, the purchaser pays Apache a monthly fee of \$.08 per MMBtu on the contracted volumes. Concurrent with this arrangement, Apache entered into three gas price swap contracts with a third party under which Apache became a fixed price payor for identical volumes at prices ranging from \$2.34 per MMBtu to \$2.56 per MMBtu. The net result of these related transactions was that gas delivered to the purchaser was reported as revenue at prevailing spot prices with Apache realizing a premium associated with the monthly fee paid by the purchaser.

In August 1997, Apache received \$115 million from a purchaser as an advance payment for future natural gas deliveries of 20,000 MMBtu per day over a ten-year period commencing September 1997. In addition, the purchaser pays Apache a monthly fee of \$.07 per MMBtu on the contracted volumes. Concurrent with this arrangement, Apache entered into two gas price swap contracts with a third party under which Apache became a fixed price payor for identical volumes at average prices starting at \$2.19 per MMBtu in 1997 and escalating to \$2.59 per MMBtu in 2007. The net result of these related transactions was that gas delivered to the purchaser was reported as revenue at prevailing spot prices with Apache realizing a premium associated with the monthly fee paid by the purchaser.

Contracted volumes relating to these arrangements are included in the Company's unaudited supplemental oil and gas disclosures.

These advance payments have been classified as advances from gas purchasers and are being recognized in oil and gas production revenues as gas is delivered to the purchasers under the terms of the contracts. At December 31, 2003 and 2002, advances of \$109 and \$125 million, respectively, were outstanding. Gas volumes delivered to the purchaser are reported as revenue at prices used to calculate the amount advanced, before imputed interest, plus or minus amounts paid or received by Apache applicable to the price swap agreements. Interest expense is recorded based on a rate of eight percent .

In October and November 2001, Apache terminated the gas price swap contracts associated with these advances and received proceeds of \$78 million. The effect of terminating these derivative instruments reduces future price risk exposure to natural gas price volatility by establishing a fixed price for the remaining quantities of gas to be delivered under the terms of the contracts. Upon termination, Apache designated the remaining contractual volumes of gas that will be delivered to the purchasers as a normal fixed-price physical sale. The prices used in settling the derivatives represented an average 51 percent increase over the prices reflected in the original contracts. No gain or loss was recognized at termination. The settlement is carried as advances from gas purchases on the consolidated balance sheet and will be recognized in monthly sales based on the portion of the proceeds applicable to each production month over the remaining life of the contracts.









NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

of shares contingently issuable under the Share Price Goals as of December 31, 2003, 2002 and 2001 is presented in the table below (shares in thousands):

SHARES SUBJECT TO CONDITIONAL GRANTS	2003	2002	2001	
----- Outstanding, beginning of year.....	6,234	6,390	5,764	
Granted.....		522	436	1,294
Forfeited.....	(432)	(592)	(668)	
----- Outstanding, end of year(1).....	6,324	6,234	6,390	
----- Exercisable, end of year.....				
----- Weighted average fair value of conditional grants -- Share Price				
Goals(2).....	\$ 7.98	\$ 9.31		\$ 6.75

- (1) Represents shares issuable upon attainment of \$43.29, \$51.95 and \$77.92 per share price goals of 1,370,624 shares, 3,431,250 shares and 1,522,818 shares, respectively, in 2003, 1,351,792 shares, 3,381,050 shares and 1,501,398 shares, respectively, in 2002 and 1,386,268 shares, 3,464,788 shares and 1,539,794 shares, respectively, in 2001.
- (2) The fair value of each Share Price Goal conditional grant is estimated as of the date of grant using a Monte Carlo simulation with the following weighted-average assumptions used for grants in 2003, 2002 and 2001, respectively: (i) risk-free interest rate of 2.77, 2.90 and 4.16 percent; (ii) expected volatility of 36.69, 38.77 and 46.27 percent; and (iii) expected dividend yield of .70, .70 and .77 percent.

The Production Goal will be attained if and when the Company's average daily production equals or exceeds .67 barrels of oil equivalent per diluted share (calculated on an annualized basis) during any fiscal quarter ending before January 1, 2005. Such level of production was approximately twice the Company's level of production at the time the Share Appreciation Plan was adopted. Shares issuable in connection with the Production Goal will be a number of shares of the Company's common stock equal to (a) 37.5 percent, 75 percent or 150 percent of a participant's annual base salary (at the time of attainment), as applicable, divided by (b) the average daily per share closing price of the Company's common stock for the fiscal quarter during which the Production Goal is attained.

In 2001, the Company modified the Stock Option Plans, 1996 Performance Stock Option Plan and 2000 Share Appreciation Plan to allow for immediate vesting upon a change in control of ownership. This modification did not require recognition of any compensation expense.

In December 1998, the Company entered into a conditional stock grant agreement with an executive of the Company which would award up to 230,992 shares of the Company's common stock in five annual installments. Each installment has a five-year vesting period, 40 percent of the conditional grants will be paid in cash at the market value of the stock on the date of payment and the balance (138,594 shares) will be issued in Apache common stock. In 2001, the Company modified the conditional stock grant agreement to allow for immediate vesting upon a change in control of ownership. This modification did not require recognition of any compensation expense.

Preferred Stock

The Company has five million shares of no par preferred stock authorized, of which 25,000 shares have been designated as Series A Junior Participating Preferred Stock (the Series A Preferred Stock), 100,000 shares have been designated as the 5.68 percent Series B Cumulative Preferred Stock (the Series B Preferred Stock) and, from May 13, 1999 until December 16, 2003, 140,000 shares were designated as Series C Preferred Stock. The shares of Series A Preferred Stock are authorized for issuance pursuant to certain rights

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

that trade with Apache common stock outstanding and are reserved for issuance upon the exercise of the Rights as defined and discussed below.

Rights to Purchase Series A Preferred Stock -- In December 1995, the Company declared a dividend of one right (a Right) for each 2.31 shares (adjusted for the 10 percent and five percent stock dividends and the two-for-one stock split) of Apache common stock outstanding on January 31, 1996. Each full Right entitles the registered holder to purchase from the Company one ten-thousandth (1/10,000) of a share of Series A Preferred Stock at a price of \$100 per one ten-thousandth of a share, subject to adjustment. The Rights are exercisable 10 calendar days following a public announcement that certain persons or groups have acquired 20 percent or more of the outstanding shares of Apache common stock or 10 business days following commencement of an offer for 30 percent or more of the outstanding shares of Apache common stock. In addition, if a person or group becomes the beneficial owner of 20 percent or more of Apache's outstanding common stock (flip in event), each Right will become exercisable for shares of Apache's common stock at 50 percent of the then market price of the common stock. If a 20 percent shareholder of Apache acquires Apache, by merger or otherwise, in a transaction where Apache does not survive or in which Apache's common stock is changed or exchanged (flip over event), the Rights become exercisable for shares of the common stock of the company acquiring Apache at 50 percent of the then market price for Apache common stock. Any Rights that are or were beneficially owned by a person who has acquired 20 percent or more of the outstanding shares of Apache common stock and who engages in certain transactions or realizes the benefits of certain transactions with the Company will become void. If an offer to acquire all of the Company's outstanding shares of common stock is determined to be fair by Apache's board of directors, the transaction will not trigger a flip in event or a flip over event. The Company may also redeem the Rights at \$.01 per Right at any time until 10 business days after public announcement of a flip in event. The Rights will expire on January 31, 2006, unless earlier redeemed by the Company. Unless the Rights have been previously redeemed, all shares of Apache common stock issued by the Company after January 31, 1996 will include Rights. Unless and until the Rights become exercisable, they will be transferred with and only with the shares of Apache common stock.

Series B Preferred Stock -- In August 1998, Apache issued 100,000 shares (\$100 million) of Series B Preferred Stock in the form of one million depository shares, each representing one-tenth (1/10) of a share of Series B Preferred Stock, for net proceeds of \$98 million. The Series B Preferred Stock has no stated maturity, is not subject to a sinking fund and is not convertible into Apache common stock or any other securities of the Company. Apache has the option to redeem the Series B Preferred Stock at \$1,000 per preferred share on or after August 25, 2008. Holders of the shares are entitled to receive cumulative cash dividends at an annual rate of \$5.68 per depository share when, and if, declared by Apache's board of directors.

Series C Preferred Stock -- In May 1999, Apache issued 140,000 shares (\$217 million) of Series C Preferred Stock in the form of seven million depository shares each representing one-fiftieth (1/50) of a share of Series C Preferred Stock, for net proceeds of \$211 million. Holders of the shares were entitled to receive cumulative cash dividends at an annual rate of 6.5 percent, or \$2.015 per depository share when, and if, declared by Apache's board of directors.

In 2000, Apache bought back 75,900 depository shares at an average price of \$34.42 per share. The excess of the purchase price to reacquire the depository shares over the original issuance price is reflected as a preferred stock dividend. The remaining depository shares converted into 13,109,730 shares of Apache common stock in 2002.

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Comprehensive Income -- Components of accumulated other comprehensive income (loss) consist of the following:

FOR THE YEAR ENDED DECEMBER 31, -----			
----- 2003 2002 2001 -----			
----- (IN THOUSANDS) Currency			
translation adjustments.....			
\$(108,750) \$(108,750) \$(114,078) Unrealized gain			
(loss) on available for sale			
securities.....			
-- -- 125 Unrealized gain (loss) on derivatives			
(Note 4)..... (43,193) (4,186) 12,136 -----			
----- Accumulated other			
comprehensive loss..... \$ 151,943			
\$(112,936) \$(101,817) =====			
=====			

The unrealized gain (loss) on available for sale securities at December 31, 2001 is net of income tax expense of \$67,000. The currency translation adjustments are not adjusted for income taxes as they relate to a permanent investment in non-U.S. subsidiaries.

10. FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2003 and 2002. See Note 6 for a discussion of the Company's derivative instruments.

2003 2002 -----				
----- CARRYING FAIR CARRYING FAIR				
AMOUNT VALUE AMOUNT VALUE -----				
----- (IN THOUSANDS) Long-term				
debt: Apache Money market lines of				
credit..... \$ 5,200 \$				
5,200 \$ 8,900 \$ 8,900 Global credit				
facility -- U.S..... --				
-- -- -- Commercial				
paper.....				
130,000 130,000 271,400 271,400 6.25-				
percent				
debentures.....				
397,525 445,600 397,307 448,880 7-				
percent				
notes.....				
148,506 175,725 148,446 179,445 7.625-				
percent				
notes.....				
149,161 183,660 149,134 180,990 7.7-				
percent				
notes.....				
99,665 121,840 99,660 122,890 7.95-				
percent				
notes.....				
178,636 224,910 178,614 226,926 7.375-				
percent				
debentures.....				
148,014 179,640 148,009 177,090 7.625-				
percent				
debentures.....				
149,175 179,220 149,175 179,205				
Subsidiary and other obligations Money				
market lines of				
credit..... -- -- --				
Global credit facility --				
Canada..... -- -- --				
Fletcher				
notes.....				
5,356 5,731 5,356 6,065 Apache Finance				
Australia 6.5-percent notes.....				
169,390 189,431 169,260 193,936 Apache				
Finance Australia 7-percent				
notes..... 99,597 115,440 99,535				
116,430 Apache Finance Canada 4.375-				
percent notes..... 349,688 329,770 -				
-- Apache Finance Canada 7.75-percent				
notes..... 297,053 374,730 297,019				
380,280 Apache Clearwater				
notes..... -- --				
37,000 37,000				

The following methods and assumptions were used to estimate the fair value of the financial instruments summarized in the table above. The Company's trade receivables and trade payables are by their very nature short-term. The carrying values included in the accompanying consolidated balance sheet approximate fair value at December 31, 2003 and December 31, 2002.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Long-Term Debt -- The fair value of the notes and debentures is based upon an estimate provided to the Company by an independent investment banking firm. The carrying amount of the global credit facility, commercial paper, money market lines of credit and Apache Clearwater notes approximated fair value because the interest rates are variable and reflective of market rates.

## 11. COMMITMENTS AND CONTINGENCIES

## Litigation

China -- Texaco China, B.V. initiated an arbitration proceeding against Apache China Corporation LDC in September 2001. Texaco China later added Apache Bohai Corporation LDC to the arbitration. In the arbitration Texaco claims \$47 million in damages, plus interest, arising from Apache Bohai's alleged failure to drill three wells, prior to re-assignment of the interest to Texaco. Apache China and Apache Bohai believe they have not breached their contract obligations to Texaco and that, in any event, Texaco has not suffered any damages. Texaco will fully recover its costs associated with drilling the wells under its cost recovery contract with the Chinese national oil company, and the value of the interest re-assigned by Apache to Texaco far exceeds any damages that could be claimed by Texaco. Therefore, Apache believes that any material recovery by Texaco is remote. The hearing was held in January 2004, and a decision is expected in the second quarter of 2004.

Canada -- In December 2000, certain subsidiaries of the Company and Murphy Oil Corporation (Murphy) filed a lawsuit in Canada charging The Predator Corporation Ltd. (Predator) and others with misappropriation and misuse of confidential well data to obtain acreage offsetting a significant natural gas discovery made by Apache and Murphy during 2000 in the Ladyfern area of northeast British Columbia. In February 2001, Predator filed a counterclaim seeking more than C\$6 billion and has since reduced this amount to no more than C\$4 billion. Management believes that the counterclaim is without merit, the amount claimed by Predator is frivolous, and the likelihood of success is remote.

The Company is involved in litigation and is subject to governmental and regulatory controls arising in the ordinary course of business. The Company has an accrued liability of less than \$8 million for legal contingencies that are probable of occurring and can be reasonably estimated. It is management's opinion that the loss for any litigation matters and claims that are reasonably possible to occur will not have a material adverse affect on the Company's financial position or results of operations.

Environmental -- The Company, as an owner or lessee and operator of oil and gas properties, is subject to various federal, provincial, state, local and foreign country laws and regulations relating to discharge of materials into, and protection of, the environment. These laws and regulations may, among other things, impose liability on the lessee under an oil and gas lease for the cost of pollution clean-up resulting from operations and subject the lessee to liability for pollution damages. In some instances, the Company may be directed to suspend or cease operations in the affected area. We maintain insurance coverage, which we believe is customary in the industry, although we are not fully insured against all environmental risks.

Apache manages its exposure to environmental liabilities on properties to be acquired by identifying existing problems and assessing the potential liability. The Company also conducts periodic reviews, on a company-wide basis, to identify changes in its environmental risk profile. These reviews evaluate whether there is a probable liability, its amount, and the likelihood that the liability will be incurred. The amount of any potential liability is determined by considering, among other matters, incremental direct costs of any likely remediation and the proportionate cost of employees who are expected to devote a significant amount of time directly to any possible remediation effort. As it relates to evaluations of purchased properties, depending on the extent of an identified environmental problem, the Company may exclude a property from the acquisition, require the seller to remediate the property to Apache's satisfaction, or agree to assume liability for the remediation of the property. The Company's general policy is to limit any reserve additions to any incidents or

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

sites that are considered probable to result in an expected remediation cost exceeding \$100,000. Any environmental costs and liabilities that are not reserved for are treated as an expense when actually incurred. In our estimation, neither these expenses nor expenses related to training and compliance programs, are likely to have a material impact on our financial condition. As of December 31, 2003, the Company had an undiscounted reserve for environmental remediation of approximately \$10 million. Apache is not aware of any environmental claims existing as of December 31, 2003, which have not been provided for or would otherwise have a material impact on its financial position or results of operations. There can be no assurance, however, that current regulatory requirements will not change, or past non-compliance with environmental laws will not be discovered on the Company's properties.

**Exploration Agreement** -- In conjunction with the purchase of oil and gas properties in December 2002, Apache entered into a separate exploration joint venture with the seller whereby the seller will actively generate prospects on certain South Louisiana acreage through December 31, 2004. Under the terms of the agreement, Apache will pay up to \$25 million for the seller's share of seismic, lease acquisition and drilling and completion cost on covered prospects, with no more than \$13 million of carried cost required to be paid on behalf of the seller through December 31, 2003. Apache has the option, but not the obligation, to participate in any individual prospect proposed by the seller. If Apache does not pay a total of \$25 million of covered cost through December 31, 2004, it is obligated to pay the difference to the seller within 90 days of the expiration of the agreement. Covered costs of \$5 million have been paid by Apache through December 31, 2003.

**International Lease Concessions** -- The Company, through its subsidiaries, has acquired or has been conditionally or unconditionally granted exploration rights in Australia, Egypt, China and the North Sea. In order to comply with the contracts and agreements granting these rights, the Company, through various wholly-owned subsidiaries, is committed to expend approximately \$52 million through 2007.

**Retirement and Deferred Compensation Plans** -- The Company provides a 401(k) savings plan for employees which allows participating employees to elect to contribute up to 25 percent of their salaries, with Apache making matching contributions up to a maximum of six percent of each employee's salary. In addition, the Company annually contributes six percent of each participating employee's compensation, as defined, to a money purchase retirement plan. The 401(k) plan and the money purchase retirement plan are subject to certain annually-adjusted, government-mandated restrictions which limit the amount of each employee's contributions.

For certain eligible employees, the Company also provides a non-qualified retirement/savings plan which allows the deferral of up to 50 percent of each such employee's salary, and which accepts employee contributions and the Company's matching contributions in excess of the above-referenced restrictions on the 401(k) savings plan and money purchase retirement plan. Additionally, Apache Energy Limited, Apache Canada Ltd. and Apache North Sea Limited maintain separate retirement plans, as required under the laws of Australia, Canada and the United Kingdom, respectively.

Vesting in the Company's contributions to the 401(k) savings plan, the money purchase retirement plan and the non-qualified retirement/savings plan occurs at the rate of 20 percent per year. Upon a change in control of ownership, vesting is immediate. Total costs under all plans were \$25 million, \$18 million and \$16 million for 2003, 2002 and 2001, respectively. The unfunded liability for all plans as of December 31, 2003 and 2002 has been recorded in other accrued expenses.

Effective July 1, 2003, as part of the BP North Sea acquisition, Apache assumed a funded noncontributory defined benefit pension plan (U.K. Pension Plan) covering existing BP North Sea employees hired by the Company as part of the acquisition. Contributions made by Apache to BP's plan were immaterial prior to Apache's plan becoming effective. The pension plan provides defined benefits based on years of service and final average salary. The plan is closed to newly hired employees.

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Apache also has a postretirement benefit plan covering substantially all of its U.S. employees. The postretirement benefit plan provides for medical benefits up until the age of 65. The plan is contributory with participants' contributions adjusted annually.

The following tables set forth the benefit obligation, fair value of plan assets and funded status at December 31, 2003 and the underlying weighted average actuarial assumptions used for the UK Pension Plan and U.S. postretirement benefit plan. Apache uses a measurement date of December 31 for its pension and postretirement benefit plans. Although the postretirement benefit plan was in effect during 2002 and 2001, tabular information is not provided as the total provisions were immaterial to the Company.

POSTRETIREMENT PENSION BENEFITS BENEFITS 2003 2003 -----	
----- (IN THOUSANDS) CHANGE IN	
PROJECTED BENEFIT OBLIGATION	Projected benefit obligation
beginning of period.....	\$ 60,190 \$ 7,117 Service
cost.....	2,668
	780 Interest
cost.....	1,562
	525 Foreign currency exchange rate
changes.....	3,185 -
Amendments.....	
	-- -- Actuarial
losses/(gains).....	(3,963)
	1,115 Effect of curtailment and
settlements.....	-- -- Benefits
paid.....	--
	(172) Retiree
contributions.....	-- 74
-----	----- Projected benefit obligation at end of
year.....	63,642 9,439 CHANGE IN PLAN ASSETS
	Fair value of plan assets at beginning of
period.....	47,572 -- Actual return on plan
assets.....	688 -- Foreign
currency exchange rate changes.....	2,628
	-- Employer
contributions.....	1,532
	98 Benefits
paid.....	--
	(172) Retiree
contributions.....	-- 74
-----	----- Fair value of plan assets at end of
year.....	52,420 -- RECONCILIATION OF FUNDED
	STATUS Funded status of
plan.....	(11,222)
	(9,439) Unrecognized actuarial
(gain)/loss.....	(3,576) 4,072
	Unrecognized prior service
cost.....	-- -- Unrecognized net
transition obligation.....	-- 573 -----
	----- Accrued benefit
asset/(obligation).....	(14,798)
(4,794) WEIGHTED AVERAGE ASSUMPTIONS USED AS OF DECEMBER	
31, 2003 Discount	
rate.....	5.50%
	6.25% Salary
increases.....	3.75%
	N/A Expected return on
assets.....	6.50% N/A
	Healthcare cost trend -- Initial in
2004.....	N/A 10.00% --
Ultimate in 2009.....	N/A
	5.00%

As of December 31, 2003, the accumulated benefit obligation for the pension plan was \$46.7 million. The following table sets forth the components of the net periodic cost.

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The following tables set forth the components of the net periodic cost and the underlying weighted average actuarial assumptions used for the pension and postretirement benefit plan for the 6-month and 12-month periods ended December 31, 2003, respectively.

POSTRETIREMENT PENSION BENEFITS BENEFITS 2003 2003	
----- (IN THOUSANDS)	
COMPONENTS OF NET PERIODIC BENEFIT COSTS Service	
cost.....	\$ 2,668 \$ 780 Interest
cost.....	1,562 525 Expected return on
assets.....	(1,260) --
Amortization	
of:.....	--
Prior service	
cost.....	-- --
Transition	
obligation.....	-- 44
Actuarial	
(gain)/loss.....	-
203 Effect of curtailment and	
settlements.....	-- -----
--- Net periodic benefit	
cost.....	\$ 2,970
\$1,552 WEIGHTED AVERAGE ASSUMPTIONS USED FOR	
PERIODS ENDED DECEMBER 31, 2003 Discount	
rate.....	5.50% 6.75% Salary
increases.....	3.75% N/A Expected return on
assets.....	6.50% N/A
Healthcare cost trend -- Initial in	
2003.....	N/A 10.00%
-- Ultimate in	
2006.....	N/A 5.00%

Assumed health care cost trend rates effect amounts reported for postretirement benefits. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

POSTRETIREMENT BENEFITS --	
-----	
1% INCREASE 1% DECREASE --	
----- (IN	
THOUSANDS) Effect on	
service and interest cost	
components.....	
\$152 \$(134) Effect on	
postretirement benefit	
obligation.....	
905 (809)	

Apache expects to contribute \$5 million to its pension plan in 2004. The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in thousands):

2004.....	\$ 9
2005.....	108
2006.....	128
2007.....	388
2008.....	778
Years 2009 -- 2013.....	10,621

The Company does not anticipate any material contributions or benefit payments to be made in future years with respect to the postretirement benefit plan.

Operating Lease and Other Commitments -- The Company has leases for buildings, facilities and equipment with varying expiration dates through 2013. Net rental expense was \$17 million, \$16 million and \$18 million for 2003, 2002 and 2001, respectively.

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

As of December 31, 2003, minimum rental commitments under long-term operating leases, net of sublease rentals, drilling rigs and long-term pipeline transportation commitments, ranging from one to 20 years, are as follows:

	NET MINIMUM COMMITMENTS		PIPELINE TOTAL LEASES	
	DRILLING RIGS TRANSMISSION			
	(IN THOUSANDS)			
2004.....	\$108,285	\$12,529	\$68,677	\$ 27,079
2005.....	40,875	10,396	7,265	23,214
2006.....	33,468	9,782	2,957	20,729
2007.....	29,303	6,384	2,957	19,962
2008.....	25,779	5,568	486	19,725
Thereafter.....	66,040	27,535	38,505	
	-----	\$303,750	\$72,194	\$82,342 \$149,214
	=====	=====	=====	=====

12. PREFERRED INTERESTS OF SUBSIDIARIES

In August 2001, Apache entered into a series of financing transactions, described below, to pay down existing debt and increase financial flexibility.

Apache contributed interests in various fields valued at \$923 million to new subsidiaries in connection with the financing transactions. Additionally, Apache contributed \$116 million in U.S. Government Agency Notes (see Note 5). Unrelated institutional investors contributed \$443 million (\$441 million, net of issuance costs) to the various subsidiaries in exchange for preferred stock (\$82 million) of the subsidiaries and a limited partner interest (\$361 million) in one of the entities. The third party investors were entitled to receive a weighted average return of 123 basis points above the prevailing LIBOR interest rate. The preferred stock and limited partner interests were repayable from the assets of the subsidiaries. Apache retained credit risks related to collection of proceeds from product sales and intercompany loans. Apache also had an obligation to contribute an aggregate amount not to exceed \$250 million to fund present and future business operations of the subsidiaries. However, the investors were not entitled to receive more than their \$443 million original investment, plus the agreed-upon return. One of the subsidiaries also issued \$37 million of senior floating rate notes, which matured and were repaid in August 2003 (see Note 6).

The limited partnership was scheduled to terminate as of August 9, 2021. However, the general partner, an Apache subsidiary, could elect to retire all or part of the limited partner's interest at any time without penalty. On September 26, 2003, Apache repurchased and retired the preferred interests issued by three of its subsidiaries for approximately \$443 million, plus an additional \$1 million for accrued dividends and distributions. The transactions involved the purchase of preferred stock issued by two of the Company's subsidiaries for approximately \$82 million and the retirement of a limited partnership interest in a partnership controlled by a subsidiary of the Company for approximately \$361 million. Apache funded the transactions with available cash on hand and by issuing commercial paper under its existing commercial paper facility.

Prior to the early repurchase, the assets and liabilities of the subsidiaries were included in Apache's consolidated financial statements at historical costs, with the preferred stock and limited partner interests of the subsidiaries reflected as a preferred interests of subsidiaries in the consolidated balance sheet. The dividends paid on the preferred stock and distributions paid on the limited partner interests were reflected as preferred interests of subsidiaries in the statement of consolidated operations.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## 13. TRANSACTIONS WITH RELATED PARTIES AND MAJOR CUSTOMERS

Cinergy Corp. -- In June 1998, Apache contracted with Cinergy Corp. to market substantially all the Company's natural gas production from the United States and agreed to develop terms for the marketing of most of Apache's Canadian production under an amended and restated gas purchase agreement effective July 1, 1998. Apache sold its 57 percent interest in ProEnergy for 771,258 shares of Cinergy Corp. common stock, which the Company subsequently sold for \$26 million. In December 1998, Apache and Cinergy Corp. agreed to postpone the negotiation of terms to market most of Apache's Canadian production. Under the terms of the original gas purchase agreement, ProEnergy, renamed Cinergy Marketing and Trading LLC (Cinergy), was to market Apache's North American natural gas production until June 30, 2008, with an option, following prior notice, to terminate on June 30, 2004. During this period, Apache was generally obligated to deliver most of its United States gas production to Cinergy and, under certain circumstances, reimburse Cinergy if certain gas throughput thresholds were not met. The prices received for its gas production under this agreement approximated market prices.

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

Related Parties -- George D. Lawrence, a member of the Company's board of directors and the former president and chief executive officer of Phoenix Resource Companies, Inc. (Phoenix), joined Apache's board in conjunction with the Company's acquisition of Phoenix by a merger (the "Merger") on May 20, 1996, through which Phoenix became a wholly-owned subsidiary of Apache. Merger consideration totaled \$396.3 million, consisting of approximately 12,190,000 shares of Apache's common stock (28,158,900 shares after adjustment for the stock dividends and the two-for-one stock split) valued at \$26.00 per share (\$11.2554 after adjustment), \$14.9 million of net value associated with Phoenix stock options assumed by Apache, and \$64.5 million in cash.

Upon consummation of the Merger, Apache assumed Phoenix stock options that remained outstanding on May 20, 1996, including those granted to Mr. Lawrence pursuant to Phoenix's 1990 Employee Stock Option Plan. In March 2003, Mr. Lawrence received 8,291 shares of Apache common stock (16,582 shares after adjustment for the stock split) as a result of the exercise of all of his remaining stock options from the Phoenix 1990 Employee Stock Option Plan. Such exercise was for 21,656 shares of Apache common stock at an exercise price of \$21.50 per share (43,312 shares of Apache common stock at an exercise price of \$10.75 per share after adjustment for the stock split). Mr. Lawrence paid the net exercise price of \$466,000 and required taxes of \$345,000 by surrendering 13,365 shares of Apache common stock valued at \$60.65 per share (26,730 shares at \$30.33 after adjustment for the stock split).

In the ordinary course of business, Cimarex Energy, Co. (Cimarex), formerly Key Production Company, Inc., paid to Apache \$4 million during 2003, \$2 million during 2002 and \$4 million during 2001 for Cimarex's proportionate share of drilling and workover costs, mineral interests and routine expenses relating to oil and gas wells in which Cimarex owns interests and of which Apache is the operator. Cimarex was paid approximately \$6 million in 2003, \$4 million in 2002, and \$7 million in 2001 directly by Apache or related entities for its proportionate share of revenues from wells in which Cimarex marketed its revenues with Apache as operator. Apache paid to Cimarex approximately \$1 million during 2003 and \$217,000 during 2002 for Apache's proportionate share of drilling and workover costs, mineral interests and routine expenses relating to oil and gas wells in which Apache owns interests and of which Cimarex is the operator. Apache was paid approximately \$2 million in 2003 and \$785,000 in 2002 directly by Cimarex for its proportionate share of revenues from wells in which Apache marketed its revenues with Cimarex as operator. F. H. Merelli, a

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

member of Apache's board of directors, is chairman of the board, chief executive officer and president of Cimarex.

In the ordinary course of business, Matador Petroleum Corporation or related entities (Matador) paid to Apache approximately \$793,000 during 2003 and \$708,000 during 2002 for Matador's proportionate share of drilling and workover costs, mineral interests and routine expenses relating to oil and gas wells in which Matador owns interests and of which Apache is the operator. Matador was paid approximately \$1 million in 2003 and 2002 directly by Apache for its proportionate share of revenues from wells in which Matador marketed its revenues with Apache as operator. Apache paid to Matador during 2003 and 2002 approximately \$654,000 and \$2 million, respectively, for Apache's proportionate share of drilling and workover costs, mineral interests and routine expenses relating to oil and gas wells in which Apache owns interests and of which Matador is the operator. Apache was paid approximately \$915,000 and \$621,000 in 2003 and 2002, respectively, directly by Matador for its proportionate share of revenues from wells in which Apache marketed its revenues with Matador as operator. Eugene C. Fiedorek, a member of Apache's board of directors, was a member of the board of directors of Matador until its acquisition by Tom Brown, Inc. in March 2003.

During 2003, Apache and its subsidiaries made donations of \$201,000, in cash, property and services, to the Ucross Foundation. During 2003, Apache also paid \$40,000 to the Ucross Foundation for food, lodging and other expenses incurred in connection with executive retreats held at the Ucross Foundation's facilities. On February 5, 2004, Apache entered into an agreement to purchase the Clear Creek Hunting Preserve, Inc. from Ucross Foundation for a total purchase price of \$77,000. The Ucross Foundation was founded in 1981 as a non-profit organization whose primary objectives include the restoration of the historic Clear Fork headquarters of the Pratt and Ferris Cattle Company of Wyoming, the promotion of the preservation of other historical sites in the area, and the maintenance of an artists-in-residence program for writers and other artists. To help ensure that the accomplishments of the Ucross Foundation are reasonably secure, Apache's board of directors has approved a conditional charitable contribution of \$10,000,000 to be made to the Ucross Foundation upon a change of control of the Company, as defined in the Company's income continuance plan. Raymond Plank, chairman of Apache's board of directors, is chairman of the board of trustees of Ucross Foundation, and G. Steven Farris, a director and officer of Apache, and Roger B. Plank, an officer of Apache, are trustees of Ucross Foundation.

During 2003, 2002 and 2001, Apache and its subsidiaries made donations of \$500,000, \$300,000 and \$3 million, in cash, property and services, to The Fund for Teachers: A Foundation to Recognize, Stimulate and Enhance, which is a Texas non-profit corporation. In addition, during 2003, Apache accrued a \$4,650,000 donation to the Fund for Teachers that was pledged in 2003 and will be paid in 2004. The Fund for Teachers seeks to provide resources directly to teachers to support learning experiences of their own design to increase their effectiveness with students, and is currently focused on funding summer sabbaticals for selected applicants. The Company's board of directors also authorized potential donations to The Fund for Teachers of up to \$5,000,000 in cash, property and services to be made in each of 2004 and 2005. If a change of control of the Company occurs, as defined in the Company's income continuance plan, any and all of the donations that have not yet been made to the Fund for Teachers will become immediately due and payable to the Fund for Teachers. Raymond Plank, chairman of Apache's board of directors, is chairman of the board and president of The Fund for Teachers.

In the ordinary course of business, Apache paid to Maralo, LLC or related entities ("Maralo") during 2002 approximately \$9,000 in revenues relating to four oil and gas wells in which Maralo owns an interest and of which Apache is operator. During 2001, Apache paid Maralo approximately \$70,000 in revenues relating to five oil and gas wells in which Maralo owns an interest and of which Apache is the operator. Maralo paid Apache approximately \$1,000 in 2002 and \$16,000 in 2001 for Maralo's share of routine expenses relating to such wells. Also during 2002 and 2001, Maralo sub-leased certain office space from Apache, for which Maralo

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

paid Apache approximately \$95,000 in both years. Mary Ralph Lowe, a member of Apache's board of directors through December 19, 2003, is president, chief executive officer and the sole stockholder of Maralo.

During 2002, in the ordinary course of business, Aquila, Inc. ("Aquila") and related companies paid to Apache approximately \$33 million for natural gas produced by Apache, primarily in Canada. Aquila was paid approximately \$348,000 by Apache for gathering, transportation and compression services provided by Aquila. Janine McArdle, Vice-President -- Oil and Gas Marketing of Apache since October 2002, previously was employed by Aquila Europe.

Major Customers -- In 2003, purchases by Cinergy and EGPC accounted for 12 percent and 15 percent of the Company's oil and gas production revenues, respectively. In 2002, purchases by Cinergy and EGPC accounted for 19 percent and 22 percent of the Company's oil and gas production revenues, respectively. In 2001, purchases by Cinergy and EGPC accounted for 35 percent and 17 percent of the Company's oil and gas production revenues, respectively. No other purchaser has accounted for more than 10 percent of revenues for 2003, 2002 or 2001.

Concentration of Credit Risk -- The Company's revenues are derived principally from uncollateralized sales to customers in the oil and gas industry; therefore, customers may be similarly affected by changes in economic and other conditions within the industry. Apache has not experienced significant credit losses on such sales. Apache sells all of its Egyptian crude oil and natural gas to the EGPC for U.S. dollars. Deteriorating economic conditions during 2001 and 2002 in Egypt lessened the availability of U.S. dollars, resulting in an additional one to two month delay in receipts from EGPC. While hard currency shortages in Egypt could lead to further delays, we did not experience any further delays in 2003.

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

14. BUSINESS SEGMENT INFORMATION

Apache has six reportable segments which are primarily in the business of crude oil and natural gas exploration and production. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on profit or loss from oil and gas operations before income and expense items incidental to oil and gas operations and income taxes. Apache's reportable segments are managed separately based on their geographic locations. Financial information by operating segment is presented below:

	UNITED STATES	NORTH AMERICA	OTHER	INTERNATIONAL	TOTAL
-----					
(IN THOUSANDS) 2003 Oil and Gas Production					
Revenues.....	\$2,023,492	\$ 823,273	\$ 652,913	\$391,968	\$273,044
Operating Expenses:					
Depreciation, depletion and amortization.....	512,691	172,056	182,209	120,322	72,053
1,073,286 Asset retirement obligation accretion.....	18,861	5,275	--	2,239	11,282
International impairments.....	--	--	--	12,813	12,813
Lease operating costs.....	302,095	153,598	82,558	44,395	109,140
Gathering and transportation costs....	21,128	28,154	--	--	11,178
Severance and other taxes.....	52,651	20,183	--	--	28,245
	19,591	1,123	121,793	-----	-----
-----					
Operating Income (Loss).....	\$1,116,066	\$ 444,007	\$ 388,146	\$196,767	\$ 49,800
	\$ (1,644)	2,193,142	=====	=====	=====
=====					
Other Income (Expense):					
Administrative, selling and other.....	(8,621)				
Financing costs, net.....	(138,524)				(115,072)
Preferred interests of subsidiaries.....	(8,668)				
Income Before Income Taxes... \$	1,922,257	=====	=====	=====	=====
Net Property and Equipment...	\$5,268,990	\$2,727,620	\$1,357,646	\$891,567	\$869,574
	\$11,260,085	=====	=====	=====	=====
=====					
Total Assets.....	\$5,621,681	\$2,961,111	\$1,744,164	\$970,764	\$941,577
	\$12,416,126	=====	=====	=====	=====
=====					
Additions to Net Property and					

Equipment.....  
\$1,486,895 \$ 630,436 \$  
276,293 \$159,923 \$941,629  
\$ 33,426 \$ 3,528,602  
=====  
=====  
=====  
=====  
=====

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

UNITED NORTH OTHER STATES  
CANADA EGYPT AUSTRALIA SEA  
INTERNATIONAL TOTAL -----  
-----

(IN THOUSANDS) 2002 Oil  
and Gas Production

Revenues.....	\$1,101,388	\$ 557,720	\$
	560,099	\$334,039	\$ -- \$
	6,502	\$ 2,559,748	
Operating Expenses:			
Depreciation, depletion and amortization.....	387,187	182,584	163,648
	107,993	-- 2,467	843,879
International impairments.....	-- --	-- --	19,600
	19,600	Lease operating costs.....	239,837
	110,078	69,160	37,107 --
	1,721	457,903	Gathering and transportation costs.....
	17,311	21,256	-
	-- --	--	38,567
Severance and other taxes.....	34,792	9,710	-- 22,807 --
	-- 67,309	-----	-----
-----			
--- Operating Income (Loss).....	\$ 422,261	\$	
	234,092	\$ 327,291	\$166,132
	\$ --	\$(17,286)	1,132,490
=====			
=====			
===== Other Income (Expense):			
Other.....	125	Administrative, selling and other.....	
	(104,588)	Financing costs, net.....	(112,833)
		Preferred interests of subsidiaries.....	
	(16,224)	-----	
		Income Before Income Taxes... \$ 898,970	
===== Net Property and Equipment...	\$4,068,362	\$2,190,029	
	\$1,263,560	\$807,332	\$ --
	\$136,302	\$ 8,465,585	
=====			
=====			
===== Total			
Assets.....	\$4,309,736	\$2,401,319	
	\$1,713,267	\$883,704	\$ --
	\$151,825	\$ 9,459,851	
=====			
=====			
===== Additions to Net Property and Equipment.....	\$ 597,954	\$ 379,413	\$
	196,975	\$100,761	\$ -- \$
	37,767	\$ 1,312,870	
=====			
=====			
=====			

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

UNITED NORTH OTHER STATES  
CANADA EGYPT AUSTRALIA SEA  
INTERNATIONAL TOTAL -----  
-----

(IN THOUSANDS) 2001 Oil  
and Gas Production

Revenues.....	\$1,474,628	\$ 628,967	\$
	460,910	\$257,407	\$ --
	1,047	\$ 2,822,959	
Operating Expenses:			
Depreciation, depletion and amortization.....	423,727	178,770	135,225
	82,686	--	423 820,831
International impairments.....	--	--	-- 65,000
65,000 Lease operating costs.....	227,418	90,938	
	49,449	31,728	-- 386
399,919 Gathering and transportation costs.....	15,790	18,794	-- -- --
15,790 18,794 -- -- --			
34,584 Severance and other taxes.....	49,555	13,378	-- 11,789 --
49,555 13,378 -- 11,789 --			
-- 74,722 -----			
-----			
--- Operating Income (Loss).....	\$ 758,138	\$	
	327,087	\$ 276,236	\$131,204
	\$ --	\$(64,762)	1,427,903
=====			
=====			
===== Other Income (Expense):			
Other.....	(13,568)	Administrative, selling and other.....	
	(88,710)	Financing costs, net.....	(118,762)
		Preferred interests of subsidiaries.....	
	(7,609)	-----	Income
		Before Income Taxes... \$	
	\$ 1,199,254	=====	Net
		Property and Equipment...	
	\$3,855,674	\$1,984,147	
	\$1,238,234	\$814,423	\$ --
	\$120,594	\$ 8,013,072	
=====			
=====			
===== Total			
Assets.....	\$4,172,551	\$2,163,615	
	\$1,564,474	\$882,141	\$ --
	\$150,875	\$ 8,933,656	
=====			
=====			
===== Additions to Net Property and Equipment.....	\$ 834,581	\$1,015,184	\$
	515,551	\$113,171	\$ --
	34,048	\$ 2,512,535	
=====			
=====			
=====			

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

15. SUPPLEMENTAL OIL AND GAS DISCLOSURES (UNAUDITED)

Oil and Gas Operations -- The following table sets forth revenue and direct cost information relating to the Company's oil and gas exploration and production activities. Apache has no long-term agreements to purchase oil or gas production from foreign governments or authorities.

	UNITED STATES	OTHER STATES	INTERNATIONAL	TOTAL
-----				
---- (IN THOUSANDS) 2003 Oil and gas production				
revenues.....	\$2,023,492	\$823,273	\$652,913	\$3,499,678
	\$391,968	\$273,044	\$ 34,230	\$699,242
	\$4,198,920			\$4,198,920
-----				
Operating costs: Depreciation, depletion and amortization(1).....				
	489,969	169,029	182,209	841,207
	119,455	71,956	13,914	205,325
	1,046,532			1,046,532
International impairment obligations.....				
	18,861	5,275	-- 2,239	26,375
	106	37,763		37,869
Lease operating expenses.....				
	302,095	153,598	82,558	538,251
	109,140	7,877	699,663	816,680
Gathering and transportation costs.....				
	21,128	28,154	-- -- 11,178	60,460
Production taxes(2).....				
	4,180	-- 28,245	19,591	51,916
		103,754		103,754
Income tax.....				
	427,809	201,421	186,310	815,540
	67,196	21,456	(1,077)	87,575
-----				
	1,310,477	561,657		1,872,134
	451,077	261,530	244,603	957,210
	34,756	2,864,100		2,898,856
-----				

	UNITED STATES	OTHER STATES	INTERNATIONAL	TOTAL
-----				
Results of operations.....				
	\$ 713,015	\$261,616	\$201,836	\$1,176,467
	\$130,438	\$ 28,441	\$ (526)	\$158,353
	\$1,334,820			\$1,334,820
=====				

-----				
Amortization rate per boe.....				
	\$ 7.13	\$ 5.43	\$ 6.62	\$ 6.13
	\$ 6.67	\$ 8.36	\$ 6.59	\$ 6.67
=====				

=====				
-----				
===== 2002 Oil and gas production				
revenues.....	\$1,101,388	\$557,720	\$560,099	\$2,219,207
	\$334,039	-- \$ 6,502		\$340,541
	\$2,559,748			\$2,559,748
-----				
Operating costs: Depreciation, depletion and amortization(1).....				
	369,864	181,087	163,648	714,599
	107,194	-- 2,455	824,248	934,897
International impairment obligations.....				
	-- 19,600	19,600		
Lease operating expenses.....				
	239,837	110,078	69,160	419,075
	-- 1,721	457,903		456,182
Gathering and transportation costs.....				
	17,311	21,256	-- -- --	38,567
Production taxes(2).....				
				33,336

```

4,221 -- 22,808 -- -- 60,365
Income
tax.....
165,390 104,869 157,100
56,756 -- (6,536) 477,579 ---
-----
----- 825,738 421,511 389,908
223,865 -- 17,240 1,878,262 -
-----
----- Results of
operations..... $
275,650 $136,209 $170,191
$110,174 $ -- $(10,738) $
681,486 =====
=====
=====
Amortization rate per
boe..... $ 7.06 $ 5.71 $
6.10 $ 5.36 $ -- $ 3.68 $
6.29 =====
=====
=====
=====

```

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

UNITED NORTH OTHER STATES  
CANADA EGYPT AUSTRALIA SEA  
INTERNATIONAL TOTAL -----  
-----

---- (IN THOUSANDS) 2001 Oil  
and gas production

revenues.....  
\$1,474,628 \$628,967 \$460,910  
\$257,407 \$ -- \$ 1,047  
\$2,822,959 -----  
-----

----- Operating  
costs: Depreciation,  
depletion and  
amortization(1).....  
409,096 177,159 135,086  
81,930 -- 388 803,659

International  
impairments..... -- -- --  
-- 65,000 65,000 Lease  
operating expenses.....  
227,418 90,938 49,449 31,728  
-- 386 399,919 Gathering and  
transportation

costs.....  
15,790 18,794 -- -- --  
34,584 Production  
taxes(2)..... 47,462  
4,895 -- 11,789 -- -- 64,146  
Income

tax.....  
290,573 150,450 132,660  
44,866 -- (24,279) 594,270 --  
-----

----- 990,339 442,236  
317,195 170,313 -- 41,495  
1,961,578 -----  
-----

----- Results of  
operations..... \$  
484,289 \$186,731 \$143,715 \$  
87,094 \$ -- \$(40,448) \$  
861,381 =====  
=====

===== Amortization rate per  
boe..... \$ 6.64 \$ 5.80 \$  
5.66 \$ 4.70 \$ -- \$ 4.72 \$  
6.05 =====  
=====

(1) This amount only reflects DD&A of capitalized costs of oil and gas proved properties and, therefore, does not agree with DD&A reflected on Note 14, Business Segment Information.

(2) This amount only reflects amounts directly related to oil and gas producing properties and, therefore, does not agree with severance and other taxes reflected on Note 14, Business Segment Information.

(3) Effective January 1, 2003, Apache adopted SFAS No. 143 "Asset Retirement Obligations." These amounts reflect current year activity only, as prior periods were adjusted through a one-time cumulative adjustment as described in Note 2, New Accounting Pronouncements.

Costs Not Being Amortized -- The following table sets forth a summary of oil and gas property costs not being amortized at December 31, 2003, by the year in which such costs were incurred. There are no individually significant properties or significant development projects included in costs not being amortized. The majority of the evaluation activities are expected to be completed within five to ten years.

2000 TOTAL 2003 2002 2001 AND PRIOR --  
-----

---- (IN THOUSANDS) Property  
acquisition costs.....  
\$524,865 \$240,741 \$145,629 \$29,247  
\$109,248 Exploration and  
development..... 233,227  
164,297 31,196 27,894 9,840  
Capitalized  
interest..... 37,069  
5,467 10,346 6,104 15,152 -----  
-----

Total.....  
\$795,161 \$410,505 \$187,171 \$63,245  
\$134,240 =====  
=====

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Capitalized Costs Incurred -- The following table sets forth the capitalized costs incurred in oil and gas producing activities:

	UNITED STATES	OTHER	CANADA	EGYPT	AUSTRALIA	NORTH SEA	INTERNATIONAL	TOTAL
-----								
----- (IN THOUSANDS) 2003								
Acquisitions(1).....	\$ 846,736	\$ 6,366	\$ --	\$ 27,105	\$ 687,899	\$ --	\$ --	\$ --
Purchase of non-producing leases.....	\$1,568,106							
	5,795	44,939	--	--	--	--	--	--
		50,734						
Exploration.....	32,020	114,924	54,305	68,493				
	4,314	3,669	277,725					
Development.....	401,726	419,632	188,347					
	59,768	55,890	31,429					
Capitalized interest.....	1,156,792			16,150				
	23,934	7,568	1,973	3,266	--	--	--	--
	52,891							
-----								
----- COSTS								
EXPENDED IN 2003.....								
	1,302,427	609,795	250,220					
	157,339	751,369	35,098					
	3,106,248							
-----								
----- Plus:								
Asset retirement obligation costs(2).....	17,386	--	(3,589)	189,190	154			
Less: Actual retirement expenditures(2).....	(21,840)	(10,639)	--	--	--	--	--	--
	(32,479)							
-----								
----- CAPITALIZED COSTS INCURRED....								
	\$ 1,443,399	\$ 616,542	\$ 250,220	\$ 153,750	\$ 940,559	\$ 35,252	\$ 3,439,722	
=====								
=====								
===== Property sales.....								
	\$ (45,678)	\$ (13,266)	\$ --	\$ --	\$ --	\$ (58,944)	2002	
Acquisitions(1).....	\$ 267,537	\$ 84,170	\$ --	\$ --	\$ --	\$ 351,707	Purchase of non-producing leases.....	
	2,264	20,150	--	--	--	--		
		22,414						
Exploration.....	19,805	2,833	55,580	50,327	--			
	2,330	130,875						
Development.....	280,542	235,208	115,580					
	39,486	--	36,079	706,895				
Capitalized interest.....	13,200							
	14,392	8,875	4,224	--	--	--	--	--
	40,691							
-----								
----- CAPITALIZED COSTS INCURRED....								
	\$ 583,348	\$ 356,753	\$ 180,035	\$ 94,037	\$ --	\$ 38,409	\$ 1,252,582	
=====								
=====								
===== Property sales.....								
	\$ 873	\$ 84	\$ (8,000)	\$ --	\$ --	\$ --	\$ --	\$ --
	(7,043)	2001						
Acquisitions(1).....	\$ 65,395	\$ 561,700	\$ 240,255	\$ --	\$ --	\$ 12,936	\$ 880,286	
Purchase of non-producing leases.....	14,004	27,941	--	--	--	--	--	--

Exploration.....				
47,688	64,172	39,806	38,727	-
	- 12,536	202,929		
Development.....				
637,488	318,232	87,798	46,441	
	-- 8,302	1,098,261		
Capitalized				
interest.....		24,500		
13,920	11,293	7,036	--	--
56,749	-----	-----	-----	-----
-----	-----	-----	-----	-----
-----	-----	CAPITALIZED	-----	-----
COSTS INCURRED....	\$ 789,075			
\$ 985,965	\$379,152	\$ 92,204	\$	
-- \$33,774	\$2,280,170			
=====	=====	=====	=====	=====
=====	=====	=====	=====	=====
=====	=====	Property	=====	=====
sales.....		\$		
(200,445)	\$(147,851)	\$ --	\$ -	
- \$ --	\$ --	\$ (348,296)		

- (1) Acquisitions include unproved costs of \$184 million, \$70 million and \$77 million for transactions completed in 2003, 2002 and 2001, respectively.
- (2) Effective January 1, 2003, Apache adopted SFAS No. 143 "Asset Retirement Obligations". The asset retirement obligation costs reflect abandonment obligations assumed during the year and related revisions. Actual retirement expenditures reflect plugging and abandonment costs during the year that are included in exploration and development activity. Prior periods presentation was not changed to reflect SFAS No. 143 because the amounts were adjusted through a one-time cumulative adjustment as described in Note 2, New Accounting Pronouncements.

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Capitalized Costs -- The following table sets forth the capitalized costs and associated accumulated depreciation, depletion and amortization, including impairments, relating to the Company's oil and gas production, exploration and development activities:

UNITED NORTH  
OTHER STATES  
CANADA EGYPT  
AUSTRALIA SEA  
INTERNATIONAL  
TOTAL -----  
-----  
-----  
-----  
-----

(IN THOUSANDS)

2003 Proved  
properties.....

\$ 9,089,922  
\$3,052,856  
\$1,514,104  
\$1,136,718  
\$655,489 \$  
214,373

\$15,663,462 Asset  
retirement  
obligation  
costs(1)....

322,491 78,513 --  
22,487 189,190  
1,787 614,468

Unproved  
properties.....  
277,159 226,355  
143,161 30,968  
95,878 21,640

795,161 -----  
-----  
-----  
-----

9,689,572  
3,357,724  
1,657,265  
1,190,173 940,557  
237,800

17,073,091  
Accumulated  
DD&A.....

(4,521,062)  
(775,101)  
(663,224)  
(448,522)

(71,956) (91,771)  
(6,571,636) -----  
-----  
-----  
-----

- \$ 5,168,510  
\$2,582,623 \$

994,041 \$ 741,651  
\$868,601 \$  
146,029

\$10,501,455  
=====

=====

=====

=====

=====

=====

===== 2002

Proved  
properties.....

\$ 7,906,966  
\$2,478,623  
\$1,232,119 \$  
970,386 \$ -- \$  
239,365  
\$12,827,459

Unproved  
properties.....

203,366 204,059  
174,925 39,962 --  
33,960 656,272 --  
-----  
-----  
-----

```

-----
---- 8,110,332
    2,682,682
    1,407,044
1,010,348 --
    273,325
    13,483,731
Accumulated
DD&A.....
(4,121,751)
(637,546)
(502,658)
(357,271) --
(137,668)
(5,756,894) -----
-----
-----
-----
-----
- $ 3,988,581
$2,045,136 $
904,386 $ 653,077
$ -- $ 135,657 $
    7,726,837
=====
=====
=====
=====
=====
=====
=====
=====
=====
=====

```

(1) Effective January 1, 2003, Apache adopted SFAS No. 143 "Asset Retirement Obligations." Prior year amounts do not reflect similar asset retirement obligation costs, as they were adjusted through a one-time cumulative adjustment as described in Note 2, New Accounting Pronouncements.

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Oil and Gas Reserve Information -- Proved oil and gas reserve quantities are based on estimates prepared by the Company's engineers in accordance with Rule 4-10 of Regulation S-X. The Company's estimates of proved reserve quantities of its U.S., Canadian and international properties are subject to review by Ryder Scott Company, L.P. Petroleum Consultants, independent petroleum engineers. During 2003, 2002 and 2001, their review covered 78 percent, 68 percent and 61 percent of the reserve value, respectively.

There are numerous uncertainties inherent in estimating quantities of proved reserves and projecting future rates of production and timing of development expenditures. The following reserve data only represents estimates and should not be construed as being exact.

CRUDE OIL, CONDENSATE AND NATURAL GAS  
LIQUID -----

(THOUSANDS OF BARRELS) UNITED NORTH OTHER  
STATES CANADA EGYPT AUSTRALIA SEA INT'L  
TOTAL -----

	PROVED	DEVELOPED			
RESERVES: December 31,					
2000.....	232,361				
66,484 26,028 29,124 -- --		353,997			
December 31,					
2001.....	230,017				
76,250 59,188 45,628 -- 699		411,782			
December 31,					
2002.....	240,880				
89,554 51,162 31,746 -- 1,033		414,375			
December 31,					
2003.....	265,135				
91,501 54,881 26,999 147,880 7,293		593,689			
TOTAL PROVED RESERVES: Balance December					
31, 2000.....	314,704				
113,390 39,101 55,278 -- --		522,473			
Extensions, discoveries and other					
additions.....					
54,533 21,121 17,121 12,320 -- --		105,095			
Purchases of minerals in-					
place.....	6,728 35,298 36,465 --				
-- 1,099 79,590 Revisions of previous					
estimates.....	(7,943) 814 2,621 --				
-- -- (4,508)					
Production.....					
(24,157) (9,916) (14,322) (8,595) -- (42)					
(57,032) Sales of					
properties.....					
(22,428) (23,802) -- -- -- (46,230) ---					
-----					
- ----- Balance December 31,					
2001.....	321,437 136,905				
80,986 59,003 -- 1,057 599,388					
Extensions, discoveries and other					
additions.....					
20,082 31,366 18,227 4,221 -- 11,793					
85,689 Purchases of minerals in-					
place.....	7,109 5,055 -- -- --				
12,164 Revisions of previous					
estimates.....	6,630 159 (8,140)				
106 -- 40 (1,205)					
Production.....					
(21,790) (9,846) (15,977) (11,082) --					
(225) (58,920) Sales of					
properties.....	(46) --				
(305) -- -- (351) -----					
-----					
- ----- Balance					
December 31, 2002.....					
333,422 163,639 74,791 52,248 -- 12,665					
636,765 Extensions, discoveries and other					
additions.....					
35,378 15,649 15,090 11,712 14,489 640					
92,958 Purchases of minerals in-					
place.....	48,886 574 -- 309				
144,071 -- 193,840 Revisions of previous					
estimates.....	953 12 648 (2) --				
(113) 1,498					
Production.....					
(28,098) (9,776) (17,356) (11,165)					
(10,680) (1,230) (78,305) Sales of					
properties.....	(1,176)				
(1,692) -- -- -- (2,868) -----					
-----					
Balance December 31,					
2003.....	389,365 168,406				
73,173 53,102 147,880 11,962 843,888					
=====					
=====					
NATURAL GAS TOTAL -----					

----- (THOUSAND (MILLIONS OF  
CUBIC FEET) BARRELS UNITED NORTH OTHER OF  
OIL STATES CANADA EGYPT AUSTRALIA SEA  
INT'L TOTAL EQUIVALENT) -----

----- PROVED DEVELOPED RESERVES:

December 31,

2000..... 1,579,865  
660,334 93,205 331,390 -- -- 2,664,794  
798,129 December 31,

2001..... 1,407,561  
1,148,516 338,707 307,509 -- 1,524  
3,203,817 945,751 December 31,

2002..... 1,444,677  
1,255,068 246,529 256,790 -- 3,469  
3,206,533 948,797 December 31,

2003..... 1,565,855  
1,411,877 337,844 218,745 3,902 2,750  
3,540,973 1,183,851 TOTAL PROVED RESERVES:

Balance December 31,

2000..... 1,928,053 691,717  
174,611 589,289 -- -- 3,383,670 1,086,418  
Extensions, discoveries and other

additions.....  
166,307 281,037 52,938 25,084 -- --  
525,366 192,656 Purchases of minerals in-

place..... 34,827 512,927 247,302  
-- -- 2,969 798,025 212,594 Revisions of  
previous estimates..... (61,522)

8,391 13,392 -- -- (39,739) (11,131)  
Production.....

(224,600) (108,925) (35,010) (42,684) --  
(236) (411,455) (125,608) Sales of  
properties.....

(167,271) (83,265) -- -- -- (250,536)  
(87,986) -----

Balance December 31,

2001..... 1,675,794  
1,301,882 453,233 571,689 -- 2,733  
4,005,331 1,266,943 Extensions,  
discoveries and other

additions.....  
102,050 70,066 6,123 28,943 -- 3,355  
210,537 120,779 Purchases of minerals in-

place..... 154,459 66,113 -- -- --  
-- 220,572 48,926 Revisions of previous  
estimates..... 37,944 20,900

(37,480) 22 -- 37 21,423 2,366  
Production.....

(183,708) (120,210) (44,769) (42,998) --  
(2,656) (394,341) (124,644) Sales of  
properties..... (2,446)

-- (6,440) -- -- (8,886) (1,832) -----  
-----

Balance December 31,

2002..... 1,784,093  
1,338,751 370,667 557,656 -- 3,469  
4,054,636 1,312,538 Extensions,  
discoveries and other

additions.....  
113,552 387,533 217,455 127,516 105 2,084  
848,245 234,332 Purchases of minerals in-

place..... 391,510 4,510 -- 38,638  
4,423 -- 439,081 267,020 Revisions of  
previous estimates..... 6,073

(8,177) 4,292 -- -- 1 2,189 1,863  
Production.....

(242,782) (116,263) (41,447) (40,537)  
(626) (2,607) (444,262) (152,349) Sales of  
properties.....

(23,054) (671) -- -- (196) (23,921)  
(6,855) -----

Balance

December 31, 2003.....  
2,029,392 1,605,683 550,967 683,273 3,902  
2,751 4,875,968 1,656,549 =====

=====

As of December 31, 2003, 2002 and 2001, on a barrel of equivalent basis 29, 28 and 25 percent of our worldwide reserves, respectively, were classified as proved undeveloped. Approximately 19 percent of our proved developed reserves are classified as proved not producing. These reserves relate to zones that are either behind pipe, or that have been completed but not yet produced or zones that have been produced in the past, but are not now producing due to mechanical reasons. These reserves may be regarded as less certain than producing reserves because they are frequently based on volumetric calculations rather than performance data. Future production associated with behind pipe reserves is scheduled to follow depletion of the currently producing zones in the same wellbores. It should be noted that additional capital may have to be spent to access these reserves. The capital and economic impact of production timing are

reflected in our standardized measure Note 15.

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Future Net Cash Flows -- Future cash inflows are based on year-end oil and gas prices except in those instances where future natural gas or oil sales are covered by physical contract terms providing for higher or lower amounts. Operating costs, production and ad valorem taxes and future development costs are based on current costs with no escalation.

The following table sets forth unaudited information concerning future net cash flows for oil and gas reserves, net of income tax expense. Income tax expense has been computed using expected future tax rates and giving effect to tax deductions and credits available, under current laws, and which relate to oil and gas producing activities. This information does not purport to present the fair market value of the Company's oil and gas assets, but does present a standardized disclosure concerning possible future net cash flows that would result under the assumptions used.

UNITED STATES	OTHER CANADA(1)
EGYPT	AUSTRALIA
	NORTH SEA
	INTERNATIONAL
TOTAL	-----
-----	-----
-----	-----
-----	-----

(IN THOUSANDS)	
2003 Cash	
inflows.....	
\$23,117,256	
\$12,533,197	
\$3,999,829	
\$2,737,289	\$
4,193,438	\$378,032
\$ 46,959,041	
Production costs.....	
(6,012,893)	
(3,049,847)	
(545,505)	
(658,132)	
(2,622,103)	
(63,384)	
(12,951,864)	
Development costs....	
(1,152,182)	
(451,491)	
(397,493)	
(397,206)	
(593,778)	(17,431)
(3,009,581)	Income tax expense...
(4,834,389)	
(2,595,286)	
(997,847)	
(433,667)	
(195,756)	(59,616)
(9,116,561)	-----
-----	-----
-----	-----
-----	-----

- Net cash flows.....	
11,117,792	
6,436,573	
2,058,984	
1,248,284	781,801
237,601	21,881,035
10 percent discount rate.....	
(5,222,609)	
(3,353,451)	
(726,933)	
(536,921)	
(204,248)	(59,029)
(10,103,191)	-----
-----	-----
-----	-----
-----	-----
- Discounted future net cash flows(2).....	\$
5,895,183	\$
3,083,122	

\$1,332,051 \$  
 711,363 \$ 577,553  
 \$178,572 \$  
 11,777,844  
 =====  
 =====  
 =====  
 =====  
 =====  
 =====

===== 2002

Cash

inflows.....  
 \$17,550,514 \$  
 9,597,042  
 \$3,820,016  
 \$2,436,477 \$ --  
 \$402,311 \$  
 33,806,360  
 Production  
 costs.....  
 (4,442,214)  
 (1,955,401)  
 (501,511)  
 (463,282) --  
 (61,905)  
 (7,424,313)  
 Development  
 costs....  
 (662,686)  
 (312,194)  
 (421,454)  
 (235,318) --  
 (19,600)  
 (1,651,252) Income  
 tax expense...  
 (3,875,478)  
 (2,288,073)  
 (963,906)  
 (482,883) --  
 (59,164)  
 (7,669,504) -----  
 -----  
 -----  
 -----

- Net cash

flows.....  
 8,570,136  
 5,041,374  
 1,933,145  
 1,254,994 --  
 261,642 17,061,291  
 10 percent  
 discount

rate.....  
 (4,170,620)  
 (2,633,601)  
 (651,524)  
 (373,032) --  
 (80,894)  
 (7,909,671) -----  
 -----  
 -----  
 -----

- Discounted  
 future net cash

flows(2)..... \$  
 4,399,516 \$  
 2,407,773  
 \$1,281,621 \$  
 881,962 \$ --  
 \$180,748 \$  
 9,151,620  
 =====  
 =====  
 =====  
 =====  
 =====

===== 2001

Cash

inflows.....  
 \$10,424,737 \$  
 5,468,028  
 \$2,831,285  
 \$1,838,437 \$ -- \$  
 22,381 \$  
 20,584,868  
 Production  
 costs.....  
 (3,457,430)  
 (1,538,797)

(564,714)  
 (383,171) --  
 (13,789)  
 (5,957,901)  
 Development  
 costs....  
 (613,594)  
 (333,043)  
 (306,543)  
 (188,017) --  
 (3,532)  
 (1,444,729) Income  
 tax expense...  
 (1,417,677)  
 (851,971)  
 (683,856)  
 (345,392) -- --  
 (3,298,896) -----  
 -----  
 -----  
 -----  
 - Net cash  
 flows.....  
 4,936,036  
 2,744,217  
 1,276,172 921,857  
 -- 5,060 9,883,342  
 10 percent  
 discount  
 rate.....  
 (2,286,959)  
 (1,337,536)  
 (427,744)  
 (286,696) -- (946)  
 (4,339,881) -----  
 -----  
 -----  
 -----  
 - Discounted  
 future net cash  
 flows(2)..... \$  
 2,649,077 \$  
 1,406,681 \$  
 848,428 \$ 635,161  
 \$ -- \$ 4,114 \$  
 5,543,461  
 =====  
 =====  
 =====  
 =====  
 =====  
 =====  
 =====  
 =====

- (1) Included in the estimated future net cash flows are Canadian provincial tax credits expected to be realized beyond the date at which the legislation, under its provisions, could be repealed. To date, the Canadian provincial government has not indicated an intention to repeal this legislation.
- (2) Estimated future net cash flows before income tax expense, discounted at 10 percent per annum, totaled approximately \$16.4 billion, \$13.2 billion and \$7.4 billion as of December 31, 2003, 2002 and 2001, respectively.

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The following table sets forth the principal sources of change in the discounted future net cash flows:

FOR THE YEAR ENDED DECEMBER 31, -----	2003	2002	2001	-----
----- (IN THOUSANDS) Sales, net				
of production costs.....				
\$(3,312,728) \$(1,994,631) \$ (2,327,679) Net change				
in prices and production costs.....	224,609			
4,767,785 (10,125,666) Discoveries and improved				
recovery, net of related				
costs.....				
2,808,283 1,885,266 1,760,299 Change in future				
development costs.....	48,531			
222,160 182,816 Revision of				
quantities.....	22,807			
(15,400) (79,138) Purchases of minerals in-				
place.....	2,743,936	603,608		
1,332,244 Accretion of				
discount.....	1,317,894			
737,112 1,772,520 Change in income				
taxes.....	(795,143)			
(2,200,925) 3,949,890 Sales of				
properties.....				
(90,263) (14,502) (1,306,042) Change in production				
rates and other.....	(341,703)			
(382,314) (1,563,433) -----				
----- \$ 2,626,223 \$ 3,608,159 \$ (6,404,189)				
=====				

Impact of Pricing -- The estimates of cash flows and reserve quantities shown above are based on year-end oil and gas prices, except in those cases where future natural gas or oil sales are covered by physical contracts at specified prices. Forward price volatility is largely attributable to supply and demand perceptions for natural gas and oil.

Under full-cost accounting rules, the Company reviews the carrying value of its proved oil and gas properties each quarter on a country-by-country basis. Under these rules, capitalized costs of proved oil and gas properties, net of accumulated DD&A and deferred income taxes, may not exceed the present value of estimated future net cash flows from proved oil and gas reserves, discounted at 10 percent, plus the lower of cost or fair value of unproved properties included in the costs being amortized, net of related tax effects (the "ceiling"). These rules generally require pricing future oil and gas production at the unescalated oil and gas prices at the end of each fiscal quarter and require a write-down if the "ceiling" is exceeded. Given the volatility of oil and gas prices, it is reasonably possible that the Company's estimate of discounted future net cash flows from proved oil and gas reserves could change in the near term. If oil and gas prices decline significantly, even if only for a short period of time, it is possible that write-downs of oil and gas properties could occur in the future.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

16. SUPPLEMENTAL QUARTERLY FINANCIAL DATA (UNAUDITED)

FIRST	SECOND	THIRD	FOURTH	TOTAL	-
-----					
(IN THOUSANDS,					
EXCEPT PER SHARE AMOUNTS) 2003					
Revenues.....					
\$966,609	\$1,054,356	\$1,104,541			
\$1,064,793	\$4,190,299	Expenses,			
		net.....	654,312		
809,975	827,580	803,179	3,095,046		
-----					
Income before					
change in accounting					
principle.....					
312,297	244,381	276,961	261,614		
1,095,253	Cumulative effect of				
	change in accounting principle,				
	net of income				
tax.....			26,632		
- - -	26,632	-----			
-----					
Net					
income.....					
\$338,929	\$ 244,381	\$ 276,961	\$		
261,614	\$1,121,885	=====			
=====	=====	=====			
Income attributable to					
common					
stock.....					
\$337,509	\$ 242,961	\$ 275,541	\$		
260,194	\$1,116,205	=====			
=====	=====	=====			
Net income per common					
share (1)(2):					
Basic.....					
\$ 1.06	\$ .75	.85	.80	\$ 3.46	
=====	=====	=====	=====	=====	
=====					
Diluted.....					
\$ 1.05	\$ .75	.84	.80	\$ 3.43	
=====	=====	=====	=====	=====	
=====					
2002					
Revenues.....					
\$527,996	\$ 656,315	\$ 645,189	\$		
730,373	\$2,559,873	Expenses,			
		net.....	447,324		
510,005	498,661	549,554	2,005,544		
-----					
Net					
income.....					
\$ 80,672	\$ 146,310	\$ 146,528	\$		
180,819	\$ 554,329	=====			
=====	=====	=====			
Income attributable to					
common					
stock.....					
\$ 75,764	\$ 143,229	\$ 145,122	\$		
179,399	\$ 543,514	=====			
=====	=====	=====			
Net income per common					
share (1)(2):					
Basic.....					
\$ .26	\$ .48	.48	.59	\$ 1.83	
=====	=====	=====	=====	=====	
=====					
Diluted.....					
\$ .26	\$ .48	.48	.59	\$ 1.80	
=====	=====	=====	=====	=====	
=====					

(1) The sum of the individual quarterly net income per common share amounts may not agree with year-to-date net income per common share as each quarterly computation is based on the weighted average number of common shares outstanding during that period. In addition, certain potentially dilutive securities were not included in certain of the quarterly computations of diluted net income per common share because to do so would have been antidilutive.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## 17. SUPPLEMENTAL GUARANTOR INFORMATION

Prior to 2001, Apache Finance Australia was a finance subsidiary of Apache with no independent operations. In this capacity, it issued approximately \$270 million of publicly traded notes that are fully and unconditionally guaranteed by Apache and, beginning in 2001, Apache North America, Inc. The guarantors of Apache Finance Australia have joint and several liability. Similarly, Apache Finance Canada was also a finance subsidiary of Apache and had issued approximately \$300 million of publicly traded notes that were fully and unconditionally guaranteed by Apache.

Generally, the issuance of publicly traded securities would subject those subsidiaries to the reporting requirements of the Securities and Exchange Commission. Since these subsidiaries had no independent operations and qualified as "finance subsidiaries", they were exempted from these requirements.

During 2001, Apache contributed stock of its Australian and Canadian operating subsidiaries to Apache Finance Australia and Apache Finance Canada, respectively. As a result of these contributions, they no longer qualify as finance subsidiaries. As allowed by the SEC rules, the following condensed consolidating financial statements are provided as an alternative to filing separate financial statements.

Each of the companies presented in the condensed consolidating financial statements is wholly owned and has been consolidated in Apache Corporation's consolidated financial statements for all periods presented. 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2003

ALL OTHER APACHE SUBSIDIARIES APACHE  
APACHE FINANCE APACHE OF APACHE  
CORPORATION NORTH AMERICA AUSTRALIA  
FINANCE CANADA CORPORATION -----

----- (IN THOUSANDS) Revenues			
and Other: Oil and gas production			
revenues.....	\$1,687,609	\$ --	\$ --
\$ -- \$2,729,966 Equity in net income of			
affiliates.....	597,020	21,189	33,117
	111,274	(37,160)	
Other.....			
(4,250) -- (25) -- (4,346) -----			
-----			
2,280,379	21,189	33,092	111,274
2,688,460 -----			
----- Operating Expenses:			
Depreciation, depletion and			
amortization.....			
374,534 -- -- --	698,752	Asset	
retirement obligation accretion...			
15,944 -- -- --	21,819	International	
impairments.....			
12,813	Lease operating		
costs.....	264,311	-- --	
-- 654,007	Gathering and transportation		
costs.....	19,558	-- -- --	40,902
Severance and other			
taxes.....	50,899	-- --	63
70,831	Administrative, selling and		
other.....	111,984	-- -- --	26,540
Financing costs,			
net.....	102,142	--	
18,047	40,064	(45,181) -----	
-----			
			939,372
-- 18,047	40,127	1,480,483	-----
-----			
Preferred Interests of			
Subsidiaries..... (592) -- -- --			
9,260 -----			
----- Income (Loss) Before			
Income Taxes.....			
1,341,599	21,189		
15,045	71,147	1,198,717	Provision
(benefit) for income taxes....			
239,471			
-- (6,144)	(14,895)	608,572	-----
-----			
Income (Loss) Before Change in			
Accounting			
Principle.....			
1,102,128	21,189	21,189	86,042
590,145			
Cumulative effect of change in			
accounting principle, net of income			
tax.....			
19,757 -- -- --	6,875	-----	
-----			
Net			
Income.....			
1,121,885	21,189	21,189	86,042
597,020			
Preferred stock			
dividends.....	5,680	-- -- --	
-----			
----- Income Attributable to			
Common Stock.....			
\$1,116,205	\$21,189		
\$21,189	\$ 86,042	\$ 597,020	=====
=====			
=====			
RECLASSIFICATIONS & ELIMINATIONS			
CONSOLIDATED -----			
---- (IN THOUSANDS) Revenues and Other:			
Oil and gas production			
revenues.....	\$(218,655)	\$4,198,920	
Equity in net income of			
affiliates.....	(725,440)	--	
Other.....			
-- (8,621) -----			
(944,095)	4,190,299	-----	
- Operating Expenses: Depreciation,			
depletion and			
amortization.....			
- 1,073,286	Asset retirement obligation		
accretion... --	37,763	International	
impairments.....			
-- 12,813	Lease operating		
costs.....	(218,655)		
699,663	Gathering and transportation		
costs.....	-- 60,460	Severance and	
other taxes.....			
-- 121,793			

Administrative, selling and other.....	--	138,524	Financing costs, net.....	--	
115,072	-----	(218,655)			
2,259,374	-----				
Preferred Interests of Subsidiaries.....					
	-	8,668	-----	-	
Income (Loss) Before Income Taxes.....					
(725,440)	1,922,257				
Provision (benefit) for income taxes....					
--	827,004	-----			
Income (Loss) Before Change in Accounting Principle.....					
(725,440)	1,095,253				
Cumulative effect of change in accounting principle, net of income tax.....					
-	26,632	-----			Net
Income.....					
(725,440)	1,121,885				Preferred stock dividends.....
--	5,680	-----			
Income Attributable to Common Stock.....					
	\$(725,440)				
\$1,116,205	=====	=====			

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)  
 CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS  
 FOR THE YEAR ENDED DECEMBER 31, 2002

ALL OTHER APACHE SUBSIDIARIES APACHE APACHE  
 FINANCE APACHE OF APACHE CORPORATION NORTH  
 AMERICA AUSTRALIA FINANCE CANADA CORPORATION -

-----  
 (IN THOUSANDS) Revenues and  
 Other: Oil and gas production  
 revenues..... \$ 814,225 \$ -- \$ -- \$  
 -- \$ 1,906,009 Equity in net income of  
 affiliates..... 391,295 20,976 32,905  
 76,707 (37,036)  
 Other.....  
 7,909 -- (25) -- (7,759) -----  
 ----- 1,213,429 20,976  
 32,880 76,707 1,861,214 -----  
 ----- Operating Expenses:  
 Depreciation, depletion and  
 amortization..... 211,291 -- -- -- 632,588  
 International  
 impairments..... -- -- -- --  
 19,600 Lease operating  
 costs..... 198,052 -- --  
 -- 420,337 Gathering and transportation  
 costs..... 15,896 -- -- -- 22,671  
 Severance and other  
 taxes..... 34,015 -- -- 270  
 33,024 Administrative, selling and  
 other..... 87,860 -- -- -- 16,728  
 Financing costs,  
 net..... 72,721 --  
 18,050 41,058 (18,996) -----  
 ----- 619,835 -- 18,050  
 41,328 1,125,952 -----  
 ----- Preferred Interests of  
 Subsidiaries..... -- -- -- -- 16,224  
 -----  
 -- Income (Loss) Before Income  
 Taxes..... 593,594 20,976 14,830  
 35,379 719,038 Provision (benefit) for income  
 taxes..... 39,265 -- (6,146) (16,221)  
 327,743 -----  
 ----- Net  
 Income.....  
 554,329 20,976 20,976 51,600 391,295 Preferred  
 stock dividends..... 10,815 -  
 -----

----- Income Attributable to Common  
 Stock..... \$ 543,514 \$20,976 \$ 20,976  
 \$ 51,600 \$ 391,295 =====  
 =====  
 RECLASSIFICATIONS & ELIMINATIONS CONSOLIDATED  
 ----- (IN THOUSANDS)  
 Revenues and Other: Oil and gas production  
 revenues..... \$(160,486) \$  
 2,559,748 Equity in net income of  
 affiliates..... (484,847) --  
 Other.....  
 -- 125 ----- (645,333)  
 2,559,873 ----- Operating  
 Expenses: Depreciation, depletion and  
 amortization..... -- 843,879 International  
 impairments..... -- 19,600  
 Lease operating  
 costs..... (160,486)  
 457,903 Gathering and transportation  
 costs..... -- 38,567 Severance and  
 other taxes..... -- 67,309  
 Administrative, selling and  
 other..... -- 104,588 Financing  
 costs, net..... --  
 112,833 ----- (160,486)  
 1,644,679 ----- Preferred  
 Interests of Subsidiaries..... --  
 16,224 ----- Income (Loss)  
 Before Income Taxes..... (484,847)  
 898,970 Provision (benefit) for income  
 taxes..... -- 344,641 -----  
 --- Net  
 Income.....  
 (484,847) 554,329 Preferred stock  
 dividends..... -- 10,815 ----  
 ----- Income Attributable to  
 Common Stock..... \$(484,847) \$  
 543,514 =====

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2001

ALL OTHER APACHE SUBSIDIARIES APACHE  
APACHE FINANCE APACHE OF APACHE  
CORPORATION NORTH AMERICA AUSTRALIA  
FINANCE CANADA CORPORATION -----

----- (IN THOUSANDS) Revenues  
and Other: Oil and gas production  
revenues..... \$1,388,017 \$ -- \$ --  
\$ -- \$1,897,305 Equity in net income of  
affiliates..... 202,137 16,227 26,170  
88,243 (31,085)

Other.....  
(3,064) -- 3,053 -- (13,557) -----

1,587,090 16,227 29,223 88,243  
1,852,663 -----

----- Operating Expenses:  
Depreciation, depletion and  
amortization.....  
170,854 -- -- 649,977 International  
impairments.....  
65,000 Lease operating  
costs..... 214,075 -- --  
-- 648,207 Gathering and transportation  
costs..... 15,337 -- -- 19,247  
Severance and other  
taxes..... 49,201 -- -- 36  
25,485 Administrative, selling and  
other..... 78,440 -- -- 10,270  
Financing costs,  
net..... 71,150 --  
18,119 37,450 (7,957) -----  
----- 599,057 -  
- 18,119 37,486 1,410,229 -----

----- Preferred Interests of  
Subsidiaries..... -- -- -- 7,609 -

----- Income (Loss) Before Income  
Taxes..... 988,033 16,227 11,104  
50,757 434,825 Provision (benefit) for  
income taxes.... 264,634 -- (5,123)  
(16,344) 232,688 -----

----- Net  
Income.....  
723,399 16,227 16,227 67,101 202,137  
Preferred stock

dividends..... 19,601 -- -- -

- ----- Income Attributable to  
Common Stock..... \$ 703,798 \$16,227  
\$16,227 \$ 67,101 \$ 202,137 =====  
=====

RECLASSIFICATIONS & ELIMINATIONS  
CONSOLIDATED -----

---- (IN THOUSANDS) Revenues and Other:  
Oil and gas production  
revenues..... \$(462,363) \$2,822,959  
Equity in net income of  
affiliates..... (301,692) --

Other.....  
-- (13,568) -----

(764,055) 2,809,391 -----

- Operating Expenses: Depreciation,  
depletion and  
amortization..... -  
- 820,831 International  
impairments..... -- 65,000  
Lease operating

costs..... (462,363)  
399,919 Gathering and transportation  
costs..... -- 34,584 Severance and  
other taxes..... -- 74,722  
Administrative, selling and  
other..... -- 88,710 Financing costs,  
net..... -- 118,762 -----

----- (462,363) 1,602,528 --

----- Preferred Interests  
of Subsidiaries..... -- 7,609 -----

-- ----- Income (Loss) Before  
Income Taxes..... (301,692)  
1,199,254 Provision (benefit) for  
income taxes.... -- 475,855 -----  
----- Net

Income.....

(301,692) 723,399 Preferred stock  
dividends..... -- 19,601 ----  
----- Income Attributable to  
Common Stock..... \$(301,692) \$  
703,798 =====

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2003

ALL OTHER APACHE SUBSIDIARIES APACHE APACHE FINANCE  
APACHE OF APACHE CORPORATION NORTH AMERICA AUSTRALIA  
FINANCE CANADA CORPORATION -----

(IN THOUSANDS)

Cash Provided by (Used in) Operating  
Activities..... \$ 1,136,019 \$ -- \$(19,604)  
\$(39,675) \$ 1,629,160 -----  
----- Cash Flows from Investing  
Activities: Additions to property and  
equipment..... (494,941) -- -- --  
(1,099,995)  
Acquisitions.....  
(736,651) -- -- -- (628,538) Proceeds from sales of  
oil and gas properties..... 45,678 -- -- --  
13,266 Investment in and advances to subsidiaries,  
net..... (480,105) (18,113) -- -- (76,689) Other,  
net.....  
(33,763) -- -- -- (23,813) -----  
----- Net Cash Used in Investing  
Activities..... (1,699,782) (18,113) --  
-- (1,815,769) -----  
----- Cash Flows from Financing Activities:  
Long-term  
borrowings.....  
1,555,361 -- 1,491 2,102 (404,380) Payments on long-  
term debt..... (1,419,788) --  
-- -- (193,574) Dividends  
paid..... (72,832)  
-- -- -- -- Common stock  
activity..... 582,865  
18,113 18,113 37,447 1,127,530 Treasury stock  
activity, net..... 5,350 -- -- --  
-- -- Cost of debt and equity  
transactions..... (5,417) -- -- -- --  
Repurchase of preferred interests of  
subsidiaries.... (82,000) -- -- -- (361,000) -----  
----- Net Cash  
Provided by Financing Activities.....  
563,539 18,113 19,604 39,549 168,576 -----  
----- Net Increase  
(Decrease) in Cash and Cash Equivalents... (224) --  
-- (126) (18,033) Cash and Cash Equivalents at  
Beginning of Year..... 224 -- 2 127 51,533 -----  
----- Cash  
and Cash Equivalents at End of Year..... \$  
-- \$ -- \$ 2 \$ 1 \$ 33,500 =====  
=====

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

Provided by (Used in) Operating Activities..... \$  
-- \$ 2,705,900 ----- Cash Flows  
from Investing Activities: Additions to property and  
equipment..... -- (1,594,936)  
Acquisitions.....  
-- (1,365,189) Proceeds from sales of oil and gas  
properties..... -- 58,944 Investment in and  
advances to subsidiaries, net..... 574,907 --  
Other,  
net..... --  
(57,576) ----- Net Cash Used in  
Investing Activities..... 574,907  
(2,958,757) ----- Cash Flows from  
Financing Activities: Long-term  
borrowings..... 626,296  
1,780,870 Payments on long-term  
debt..... -- (1,613,362)  
Dividends  
paid..... --  
(72,832) Common stock  
activity..... (1,201,203)  
582,865 Treasury stock activity,  
net..... -- 5,350 Cost of debt  
and equity transactions..... -- (5,417)  
Repurchase of preferred interests of  
subsidiaries.... -- (443,000) -----  
----- Net Cash Provided by Financing  
Activities..... (574,907) 234,474 -----  
----- Net Increase (Decrease) in Cash and  
Cash Equivalents... -- (18,383) Cash and Cash  
Equivalents at Beginning of Year..... -- 51,886  
----- Cash and Cash Equivalents at  
End of Year..... \$ -- \$ 33,503 =====  
=====



APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2002

ALL OTHER APACHE SUBSIDIARIES APACHE APACHE  
FINANCE APACHE OF APACHE CORPORATION NORTH  
AMERICA AUSTRALIA FINANCE CANADA CORPORATION

----- (IN THOUSANDS) Cash  
Provided by (Used in) Operating  
Activities.....  
\$ 474,784 \$ -- \$(18,687) \$(43,819) \$ 968,440  
-----  
----- Cash Flows from Investing Activities:  
Additions to property and  
equipment..... (249,971) -- -- --  
(787,397)  
Acquisitions.....  
(269,885) -- -- -- Proceeds from sales of  
oil and gas  
properties.....  
-- -- -- 7,043 Purchase of U.S. Government  
Agency Notes..... -- -- -- 101,723  
Investment in and advances to subsidiaries,  
net.....  
(168,481) (18,050) -- -- (408,837) Other,  
net.....  
(15,105) -- -- -- (22,415) -----  
----- Net Cash  
Used in Investing Activities.....  
(703,442) (18,050) -- -- (1,109,883) -----  
-----  
Cash Flows from Financing Activities: Long-  
term borrowings.....  
1,628,207 -- 637 2,826 225,518 Payments on  
long-term debt.....  
(1,362,800) -- -- -- (190,671) Dividends  
paid..... (68,879)  
-- -- -- -- Common stock  
activity..... 30,708  
18,050 18,050 41,120 128,889 Treasury stock  
activity, net..... 1,991 -- -- --  
-- -- Cost of debt and equity  
transactions..... (6,728) -- -- --  
-----  
----- Net Cash Provided by Financing  
Activities..... 222,499 18,050 18,687  
43,946 163,736 -----  
----- Net Increase (Decrease)  
in Cash and Cash

Equivalents.....  
(6,159) -- -- 127 22,293 Cash and Cash  
Equivalents at Beginning of  
Year.....  
6,383 -- 2 -- 29,240 -----  
----- Cash and Cash  
Equivalents at End of Year..... \$ 224 \$ --  
\$ 2 \$ 127 \$ 51,533 =====  
=====

RECLASSIFICATIONS & ELIMINATIONS CONSOLIDATED  
----- (IN THOUSANDS)  
Cash Provided by (Used in) Operating  
Activities.....  
\$ -- \$ 1,380,718 ----- Cash  
Flows from Investing Activities: Additions to  
property and equipment..... --  
(1,037,368)  
Acquisitions.....  
-- (269,885) Proceeds from sales of oil and  
gas  
properties.....  
-- 7,043 Purchase of U.S. Government Agency  
Notes..... -- 101,723 Investment in and  
advances to subsidiaries,  
net.....  
595,368 -- Other,  
net..... --  
(37,520) ----- Net Cash Used  
in Investing Activities..... 595,368  
(1,236,007) ----- Cash Flows  
from Financing Activities: Long-term  
borrowings.....  
(389,259) 1,467,929 Payments on long-term  
debt..... -- (1,553,471)  
Dividends  
paid..... --  
(68,879) Common stock  
activity..... (206,109)  
30,708 Treasury stock activity,

net..... -- 1,991 Cost of debt  
 and equity transactions..... -- (6,728)  
 ----- Net Cash Provided by  
 Financing Activities..... (595,368)  
 (128,450) ----- Net Increase  
 (Decrease) in Cash and Cash  
 Equivalents.....  
 -- 16,261 Cash and Cash Equivalents at  
 Beginning of  
 Year.....  
 -- 35,625 ----- Cash and Cash  
 Equivalents at End of Year..... \$ -- \$  
 51,886 =====

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2001

ALL OTHER SUBSIDIARIES APACHE APACHE  
APACHE APACHE OF APACHE CORPORATION NORTH  
AMERICA FINANCE AUSTRALIA FINANCE CANADA  
CORPORATION -----

(IN THOUSANDS) Cash Provided by (Used in)  
Operating

Activities.....  
\$ 1,149,273 \$ -- \$(1,575) \$ (29) \$ 757,331  
-----  
----- Cash Flows From Investing  
Activities: Additions to property and  
equipment..... (708,139) -- -- --  
(820,845)  
Acquisitions.....  
(11,000) -- -- -- (911,951) Proceeds from  
sales of oil and gas  
properties.....  
200,445 -- -- -- 147,851 Purchase of U.S.  
Government Agency Notes... -- -- -- --  
(103,863) Investment in and advances to  
subsidiaries,  
net.....  
(1,055,334) (5,568) (5,568) (250,849)  
(652,967) Other,  
net.....  
(17,564) -- -- -- (59,271) -----  
----- Net  
Cash Used in Investing Activities.....  
(1,591,592) (5,568) (5,568) (250,849)  
(2,401,046) -----  
----- Cash Flows from  
Financing Activities: Long-term  
borrowings.....  
2,783,409 -- 1,577 250,878 1,151,428  
Payments on long-term  
debt..... (2,251,000) -- -- --  
(482,641) Dividends  
paid..... (54,492)  
-- -- -- -- Common stock  
activity..... 10,205  
5,568 5,568 -- 531,598 Treasury stock  
activity, net..... (42,959) -- -  
- -- -- Cost of debt and equity  
transactions..... (1,718) -- -- -- --  
Proceeds from preferred interests of  
subsidiaries.....  
-- -- -- 440,654 -----  
----- Net Cash  
Provided by Financing Activities....  
443,445 5,568 7,145 250,878 1,641,039 -----  
-----  
--- Net Increase (Decrease) in Cash and  
Cash

Equivalents.....  
1,126 -- 2 -- (2,676) Cash and Cash  
Equivalents at Beginning of  
Year.....  
5,257 -- -- -- 31,916 -----  
----- Cash and  
Cash Equivalents at End of Year.... \$  
6,383 \$ -- \$ 2 \$ -- \$ 29,240 =====  
=====

RECLASSIFICATIONS & ELIMINATIONS  
CONSOLIDATED -----  
- (IN THOUSANDS) Cash Provided by (Used  
in) Operating

Activities.....  
\$ -- \$ 1,905,000 -----  
Cash Flows From Investing Activities:  
Additions to property and  
equipment..... -- (1,528,984)  
Acquisitions.....  
-- (922,951) Proceeds from sales of oil  
and gas  
properties.....  
-- 348,296 Purchase of U.S. Government  
Agency Notes... -- (103,863) Investment in  
and advances to subsidiaries,  
net.....  
1,970,286 -- Other,  
net..... --  
(76,835) ----- Net Cash  
Used in Investing Activities.....  
1,970,286 (2,284,337) -----

```

--- Cash Flows from Financing Activities:
      Long-term
      borrowings.....
(1,427,552) 2,759,740 Payments on long-
term debt..... -- (2,733,641)
      Dividends
      paid..... --
      (54,492) Common stock
activity..... (542,734)
      10,205 Treasury stock activity,
      net..... -- (42,959) Cost of
      debt and equity transactions..... --
(1,718) Proceeds from preferred interests
      of
      subsidiaries.....
      -- 440,654 ----- Net
Cash Provided by Financing Activities....
(1,970,286) 377,789 -----
- Net Increase (Decrease) in Cash and Cash
Equivalents.....
      -- (1,548) Cash and Cash Equivalents at
      Beginning of
Year.....
      -- 37,173 ----- Cash and
Cash Equivalents at End of Year.... $ --
      $ 35,625 =====

```

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

CONDENSED CONSOLIDATING BALANCE SHEET  
FOR THE YEAR ENDED DECEMBER 31, 2003

ALL OTHER APACHE APACHE APACHE SUBSIDIARIES APACHE  
NORTH FINANCE FINANCE OF APACHE CORPORATION AMERICA  
AUSTRALIA CANADA CORPORATION -----

(IN THOUSANDS) ASSETS Current Assets: Cash and cash equivalents..... \$ -- \$ -- \$  
2 \$ 1 \$ 33,500 Receivables, net of allowance..... 204,078 -- --  
434,977

Inventories.....  
17,646 -- -- 108,221 Drilling advances and other..... 60,159 -- --  
40,488

----- 281,883 -- 2 1 617,186 -----  
Property and Equipment, Net..... 5,235,717 -- --  
6,024,368

----- Other Assets: Intercompany receivable, net..... 1,291,503 -- (1,961)  
93,768 (1,383,310) Goodwill,

net.....  
-- 189,252 Equity in affiliates.....  
3,077,152 183,617 437,860 1,084,711 (803,409)

Deferred charges and other..... 36,672 -- -- 4,767  
26,278

----- \$9,922,927 \$183,617 \$435,901 \$1,183,247  
\$4,670,365 =====

===== LIABILITIES AND SHAREHOLDERS' EQUITY  
Current Liabilities: Accounts payable..... \$  
189,031 \$ -- \$ -- \$ 111,567 Other accrued expenses..... 238,555 --  
1,621 1,803 277,801 -----  
427,586 -- 1,621 1,803 389,368 --

-----  
Long-Term Debt.....  
1,405,882 -- 268,987 646,741 5,356 -----

----- Deferred Credits and Other Noncurrent Liabilities: Income taxes.....  
879,044 -- (18,324) (842) 837,360 Advances from gas purchasers..... 109,207 -- --  
-- Asset retirement

obligation..... 401,349 -- --  
- 338,426 Oil and gas derivative instruments..... 5,931 -- --

Other.....  
161,130 -- -- 22,703 -----  
----- 1,556,661 -- (18,324) (842)

1,198,489 -----  
----- Preferred Interests of Subsidiaries.....

-----  
Commitments and Contingencies Shareholders' Equity..... 6,532,798 183,617 183,617 535,545  
3,077,152 -----

----- \$9,922,927 \$183,617 \$435,901 \$1,183,247  
\$4,670,365 =====

RECLASSIFICATIONS & ELIMINATIONS CONSOLIDATED -----  
----- (IN THOUSANDS) ASSETS  
Current Assets: Cash and cash equivalents..... \$ -- \$

33,503 Receivables, net of allowance..... -- 639,055  
Inventories.....  
-- 125,867 Drilling advances and other..... -- 100,647 -----  
-- 899,072 -----

Property and Equipment, Net..... -- 11,260,085 -----  
----- Other Assets: Intercompany receivable, net..... -- --

Goodwill, net..... --  
189,252 Equity in affiliates.....

(3,979,931) -- Deferred charges and other..... -- 67,717 -----  
-- ----- \$(3,979,931) \$12,416,126 =====

===== LIABILITIES AND SHAREHOLDERS' LIABILITIES  
EQUITY Current Liabilities: Accounts

payable.....		\$ --	\$
	300,598 Other accrued		
expenses.....		-- 519,780	-
	820,378		
	----- Long-Term		
Debt.....		--	
2,326,966	----- Deferred Credits		
	and Other Noncurrent Liabilities: Income		
taxes.....		--	
	1,697,238 Advances from gas		
purchasers.....		-- 109,207	Asset
retirement obligation.....		--	
	739,775 Oil and gas derivative		
instruments.....		-- 5,931	
Other.....			
-- 183,833	----- 2,735,984		----
	----- Preferred Interests of		
Subsidiaries.....			
	----- Commitments and Contingencies		
Shareholders' Equity.....	(3,979,931)	6,532,798	----
	----- \$(3,979,931)	\$12,416,126	
	=====	=====	

APACHE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

CONDENSED CONSOLIDATING BALANCE SHEET  
FOR THE YEAR ENDED DECEMBER 31, 2002

ALL OTHER APACHE SUBSIDIARIES APACHE  
APACHE FINANCE APACHE OF APACHE  
CORPORATION NORTH AMERICA AUSTRALIA  
FINANCE CANADA CORPORATION -----

----- (IN THOUSANDS) ASSETS Current  
Assets: Cash and cash  
equivalents..... \$ 224 \$ -- \$  
2 \$ 127 \$ 51,533 Receivables, net of  
allowance..... 121,410 -- -- --  
406,277

Inventories.....  
15,509 -- -- -- 93,695 Drilling advances  
and other..... 19,468 -- -- --  
58,536 156,611 -- 2 127 610,041 -----

Property and Equipment,  
Net..... 3,403,716 -- -- --  
5,061,869 -----

----- Other Assets:  
Intercompany receivable,  
net..... 1,146,086 -- (662)  
(253,851) (891,573) Goodwill,  
net..... -- -- -- --  
-- 189,252 Equity in  
affiliates.....  
2,994,954 142,422 402,596 958,382  
(808,503) Deferred charges and  
other..... 31,804 -- -- 2,472  
3,957 -----

----- \$7,733,171 \$142,422 \$401,936  
\$ 707,130 \$4,165,043 =====

===== LIABILITIES

AND SHAREHOLDERS' EQUITY Current  
Liabilities: Accounts  
payable..... \$  
124,152 \$ -- \$ -- \$ 90,136 Other  
accrued expenses.....  
134,191 -- 2,229 1,263 180,264 -----  
258,343 -- 2,229 1,263 270,400 -----

----- Long-Term  
Debt.....  
1,550,645 -- 268,795 297,019 42,356 -----

----- Deferred Credits and Other Noncurrent  
Liabilities: Income  
taxes.....  
736,661 -- (11,510) (1,205) 396,663  
Advances from gas  
purchasers..... 125,453 -- -- --  
-- Oil and gas derivative  
instruments..... 3,507 -- -- --

Other.....  
134,282 -- -- -- 24,044 -----  
----- 999,903 --  
(11,510) (1,205) 420,707 -----

----- Preferred  
Interests of Subsidiaries..... -- -- --  
-- 436,626 -----

----- Commitments and  
Contingencies Shareholders'  
Equity..... 4,924,280  
142,422 142,422 410,053 2,994,954 -----

-----  
\$7,733,171 \$142,422 \$401,936 \$ 707,130  
\$4,165,043 =====

RECLASSIFICATIONS & ELIMINATIONS

CONSOLIDATED -----

----- (IN THOUSANDS) ASSETS Current Assets:  
Cash and cash  
equivalents..... \$ -- \$  
51,886 Receivables, net of  
allowance..... -- 527,687

Inventories.....  
-- 109,204 Drilling advances and  
other..... -- 78,004 -- 766,781

----- Property and  
Equipment, Net..... --  
8,465,585 ----- Other

Assets: Intercompany receivable,  
net..... -- -- Goodwill,  
net..... -- --

	189,252	Equity in	
affiliates.....			
(3,689,851) --		Deferred charges and	
other.....	38,233		
--			
		\$(3,689,851) \$9,459,851	
=====			
		LIABILITIES AND	
		SHAREHOLDERS' LIAB EQUITY Current	
		Liabilities: Accounts	
payable.....	\$ -- \$		
	214,288	Other accrued	
expenses.....	317,947		
-----	532,235		
--		Long-Term	
Debt.....	--		
2,158,815		Deferred	
Credits and Other Noncurrent Liabilities:			
		Income	
taxes.....	--		
	1,120,609	Advances from gas	
purchasers.....	125,453	Oil	
and gas derivative instruments.....	--		
	3,507		
Other.....			
--	158,326		
1,407,895		Preferred	
Interests of Subsidiaries.....	--		
436,626		Commitments	
		and Contingencies Shareholders'	
Equity.....	(3,689,851)		
	4,924,280		
		\$(3,689,851) \$9,459,851	=====
			=====

BOARD OF DIRECTORS

FREDERICK M. BOHEN(3)(5)  
Executive Vice President and  
Chief Operating Officer,  
The Rockefeller University

G. STEVEN FARRIS(1)  
President, Chief Executive Officer and  
Chief Operating Officer,  
Apache Corporation

RANDOLPH M. FERLIC, M.D.(1)(2)  
Founder and Former President,  
Surgical Services of the Great Plains, P.C.

EUGENE C. FIEDOREK(2)  
Private Investor, Former Managing Director,  
EnCap Investments L.C.

A. D. FRAZIER, JR.(3)(5)  
President and Chief Executive Officer,  
Caremark Rx, Inc.

PATRICIA ALBJERG GRAHAM(4)  
Charles Warren Research Professor  
of the History of American Education,  
Harvard University

JOHN A. KOCUR(1)(3)  
Attorney at Law; Former Vice Chairman of the Board,  
Apache Corporation

GEORGE D. LAWRENCE(1)(3)  
Private Investor; Former Chief Executive Officer,  
The Phoenix Resource Companies, Inc.

F. H. MERELLI(1)(2)  
Chairman of the Board, Chief Executive Officer  
and President, Cimarex Energy Co.  
(formerly Key Production Company, Inc.)

RODMAN D. PATTON(2)  
Former Managing Director,  
Merrill Lynch Energy Group

CHARLES J. PITMAN(4)  
Former Regional President -- Middle East/Caspian/ Egypt/India, BP Amoco plc;  
Sole Member, Shaker Mountain Energy Associates, LLC

RAYMOND PLANK(1)  
Chairman of the Board, Apache Corporation

JAY A. PRECOURT(4)  
Chairman of the Board and Chief Executive Officer,  
Scissor Tail Energy LLC  
Chairman of the Board, Hermes Consolidated, Inc.

OFFICERS

RAYMOND PLANK  
Chairman of the Board

G. STEVEN FARRIS  
President, Chief Executive Officer and  
Chief Operating Officer

MICHAEL S. BAHORICH  
Executive Vice President -- Exploration and Production Technology

JOHN A. CRUM  
Executive Vice President -- Eurasia and New Ventures

RODNEY J. EICHLER  
Executive Vice President

ROGER B. PLANK  
Executive Vice President and Chief Financial Officer

FLOYD R. PRICE  
Executive Vice President and  
President, Apache Canada Ltd.

JON A. JEPPESEN  
Senior Vice President

JEFFREY M. BENDER  
Vice President -- Human Resources

MICHAEL J. BENSON  
Vice President -- Security

THOMAS P. CHAMBERS  
Vice President -- Corporate Planning

JOHN J. CHRISTMANN  
Vice President -- Business Development

MATTHEW W. DUNDREA  
Vice President and Treasurer

ROBERT J. DYE  
Vice President -- Investor Relations

ERIC L. HARRY  
Vice President and Associate General Counsel

JANICE K. HARTRICK  
Vice President and Associate General Counsel

P. ANTHONY LANNIE  
Vice President and General Counsel

ANTHONY R. LENTINI, JR.  
Vice President -- Public and International Affairs

JANINE J. MCARDLE  
Vice President -- Oil and Gas Marketing

THOMAS L. MITCHELL  
Vice President and Controller

W. KREGG OLSON  
Vice President -- Corporate Reservoir Engineering

JON W. SAUER  
Vice President -- Tax

CHERI L. PEPER  
Corporate Secretary

- - - - -

- (1) Executive Committee
- (2) Audit Committee
- (3) Management, Development and Compensation Committee
- (4) Corporate Governance and Nominating Committee
- (5) Stock Option Plan Committee

SHAREHOLDER INFORMATION

Stock Data

Dividends Price  
Range\* per  
Share\* -----  
-----  
----- HIGH  
LOW DECLARED  
PAID -----  
-----  
---- 2003 First  
Quarter.....  
\$32.15 \$26.26  
\$.0475 \$.0475  
Second  
Quarter.....  
34.60 28.13  
.0500 .0500  
Third  
Quarter.....  
35.04 30.41  
.0600 .0500  
Fourth  
Quarter.....  
41.68 34.05  
.0600 .0600  
2002 First  
Quarter.....  
\$27.71 \$21.12  
\$.0475 \$.0475  
Second  
Quarter.....  
28.61 25.03  
.0475 .0475  
Third  
Quarter.....  
28.57 21.46  
.0475 .0475  
Fourth  
Quarter.....  
28.88 23.53  
.0475 .0475

\* Per share prices and dividend amounts have been adjusted to reflect the effects of the five percent stock dividend in 2002, and the two-for-one stock split in 2003.

The Company has paid cash dividends on its common stock for 39 consecutive years through December 31, 2003. Future dividend payments will depend upon the Company's level of earnings, financial requirements and other relevant factors.

Apache common stock is listed on the New York and Chicago stock exchanges and the NASDAQ National Market (symbol APA). At December 31, 2003, the Company's shares of common stock outstanding were held by approximately 8,000 shareholders of record and 157,000 beneficial owners. Also listed on the New York Stock Exchange are:

o Apache Finance Canada's 7.75% notes, due 2029 (symbol APA 29)

CORPORATE OFFICES

One Post Oak Central  
2000 Post Oak Boulevard  
Suite 100  
Houston, Texas 77056-4400  
(713) 296-6000

INDEPENDENT PUBLIC ACCOUNTANTS

Ernst & Young LLP  
Five Houston Center  
1401 McKinney Street, Suite 1200  
Houston, Texas 77010-2007

STOCK TRANSFER AGENT AND REGISTRAR

Wells Fargo Bank, N.A.  
Attn: Shareowner Services  
P.O. Box 64854  
South St. Paul, Minnesota 55164-0854  
(651) 450-4064 or (800) 468-9716

Communications concerning the transfer of shares, lost certificates, dividend checks, duplicate mailings or change of address should be directed to the stock transfer agent. Shareholders can access account information on the web site: <http://www.shareowneronline.com>.

DIVIDEND REINVESTMENT PLAN

Shareholders of record may invest their dividends automatically in additional shares of Apache common stock at the market price. Participants may also invest

up to an additional \$5,000 in Apache shares each quarter through this service. All bank service fees and brokerage commissions on purchases are paid by Apache. A prospectus describing the terms of the Plan and an authorization form may be obtained from the Company's stock transfer agent, Wells Fargo Bank, N.A.

#### DIRECT REGISTRATION

Shareholders of record may hold their shares of Apache common stock in book-entry form. This eliminates costs related to safekeeping or replacing paper stock certificates. In addition, shareholders of record may request electronic movement of book-entry shares between your account with the Company's stock transfer agent and your broker. Stock certificates may be converted to book-entry shares at any time. Questions regarding this service may be directed to the Company's stock transfer agent, Wells Fargo Bank, N.A.

#### ANNUAL MEETING

Apache will hold its annual meeting of shareholders on Thursday, May 6, 2004, at 10 a.m. in the Ballroom, Doubletree Hotel Houston -- Post Oak, 2001 Post Oak Boulevard, Houston, Texas. Apache plans to web cast the annual meeting live; connect through the Apache web site: <http://www.apachecorp.com>.

#### STOCK HELD IN "STREET NAME"

The Company maintains a direct mailing list to ensure that shareholders with stock held in brokerage accounts receive information on a timely basis. Shareholders wanting to be added to this list should direct their requests to Apache's Public and International Affairs Department, 2000 Post Oak Boulevard, Suite 100, Houston, Texas, 77056-4400, by calling (713) 296-6157 or by registering on Apache's web site: <http://www.apachecorp.com>.

#### FORM 10-K REQUEST

Shareholders and other persons interested in obtaining, without cost, a copy of the Company's Form 10-K filed with the Securities and Exchange Commission may do so by writing to Cheri L. Peper, Corporate Secretary, 2000 Post Oak Boulevard, Suite 100, Houston, Texas, 77056-4400.

#### INVESTOR RELATIONS

Shareholders, brokers, securities analysts or portfolio managers seeking information about the Company are welcome to contact Robert J. Dye, Vice President of Investor Relations, at (713) 296-6662.

Members of the news media and others seeking information about the Company should contact Apache's Public and International Affairs Department at (713) 296-6107.

WEB SITE: [HTTP://WWW.APACHECORP.COM](http://www.apachecorp.com)

INDEX TO EXHIBITS

EXHIBIT NO.  
DESCRIPTION -  
-----  
----- 2.1 --  
Agreement and  
Plan of  
Merger among  
Registrant,  
YPY  
Acquisitions,  
Inc. and The  
Phoenix  
Resource  
Companies,  
Inc., dated  
March 27,  
1996  
(incorporated  
by reference  
to Exhibit  
2.1 to  
Registrant's  
Registration  
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Form S-4,  
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No. 333-  
02305, filed  
April 5,  
1996). 2.2 --  
Purchase and  
Sale  
Agreement by  
and between  
BP  
Exploration &  
Production  
Inc., as  
seller, and  
Registrant,  
as buyer,  
dated January  
11, 2003  
(incorporated  
by reference  
to Exhibit  
2.1 to  
Registrant's  
Current  
Report on  
Form 8-K,  
dated and  
filed January  
13, 2003, SEC  
File No. 1-  
4300). 2.3 --  
Sale and  
Purchase  
Agreement by  
and between  
BP  
Exploration  
Operating  
Company  
Limited, as  
seller, and  
Apache North  
Sea Limited,  
as buyer,  
dated January  
11, 2003  
(incorporated  
by reference  
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2.2 to  
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dated and  
filed January  
13, 2003, SEC  
File No. 1-  
4300). \*3.1 -  
- Restated  
Certificate  
of  
Incorporation  
of

Registrant,  
dated  
February 11,  
2004, as  
filed with  
the Secretary  
of State of  
Delaware on  
February 12,  
2004. \*3.2 --  
Bylaws of  
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as amended  
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2004. 4.1 --  
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for  
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Common Stock  
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by reference  
to Exhibit  
4.1 to  
Registrant's  
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on Form 10-K  
for year  
ended  
December 31,  
1995, SEC  
File No. 1-  
4300). 4.2 --  
Form of  
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for  
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5.68%  
Cumulative  
Preferred  
Stock, Series  
B  
(incorporated  
by reference  
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Report on  
Form 8-K,  
dated and  
filed April  
18, 1998, SEC  
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4300). 4.3 --  
Form of  
Certificate  
for  
Registrant's  
Automatically  
Convertible  
Equity  
Securities,  
Conversion  
Preferred  
Stock, Series  
C  
(incorporated  
by reference  
to Exhibit  
99.8 to  
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1 on Form 8-  
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Current  
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Form 8-K,  
dated and  
filed April  
29, 1999, SEC  
File No. 1-  
4300). 4.4 --  
Rights  
Agreement,  
dated January  
31, 1996,  
between  
Registrant  
and Norwest  
Bank

Minnesota,  
N.A., rights  
agent,  
relating to  
the  
declaration  
of a rights  
dividend to  
Registrant's  
common  
shareholders  
of record on  
January 31,  
1996

(incorporated  
by reference  
to Exhibit  
(a) to  
Registrant's  
Registration  
Statement on  
Form 8-A,  
dated January  
24, 1996, SEC  
File No. 1-  
4300). 10.1 -

- Credit  
Agreement,  
dated June  
12, 1997,  
among  
Registrant,  
the lenders  
named  
therein,  
Morgan  
Guaranty  
Trust  
Company, as  
Global

Documentation  
Agent and  
U.S.  
Syndication  
Agent, The  
First  
National Bank  
of Chicago,  
as U.S.

Documentation  
Agent,  
NationsBank  
of Texas,  
N.A., as Co-  
Agent, Union  
Bank of  
Switzerland,  
Houston  
Agency, as  
Co-Agent, and  
The Chase  
Manhattan  
Bank, as  
Global

Administrative  
Agent

(incorporated  
by reference  
to Exhibit  
10.1 to  
Registrant's  
Current  
Report on  
Form 8-K,  
dated June  
13, 1997,  
filed June  
25, 1997, SEC  
File No. 1-  
4300). 10.2 -

- Form of  
Credit  
Agreement,  
dated as of  
June 3, 2002,  
among  
Registrant,  
the Lenders  
named  
therein,  
JPMorgan  
Chase Bank,  
as Global  
Administrative

Agent, Bank  
of America,  
N.A., as  
Global  
Syndication  
Agent,  
Citibank,  
N.A., as  
Global  
Documentation  
Agent, Bank  
of America,  
N.A. and  
Wachovia  
Bank,  
National  
Association,  
as U.S. Co-  
Syndication  
Agents, and  
Citibank,  
N.A. and  
Union Bank of  
California,  
N.A., as U.S.  
Co-  
Documentation  
Agents  
(excluding  
exhibits and  
schedules)  
(incorporated  
by reference  
to Exhibit  
10.2 to  
Registrant's  
Quarterly  
Report on  
Form 10-Q for  
the quarter  
ended June  
30, 2002, SEC  
File No. 1-  
4300).

EXHIBIT NO.  
DESCRIPTION -  
-----  
----- 10.3 -  
- Form of  
364-Day  
Credit  
Agreement,  
dated as of  
June 3, 2002,  
among  
Registrant,  
the Lenders  
named  
therein,  
JPMorgan  
Chase Bank,  
as Global  
Administrative  
Agent, Bank  
of America,  
N.A., as  
Global  
Syndication  
Agent,  
Citibank,  
N.A., as  
Global  
Documentation  
Agent, Bank  
of America,  
N.A. and BNP  
Paribas, as  
364-Day Co-  
Syndication  
Agents, and  
Deutsche Bank  
AG, New York  
Branch, and  
Societe  
Generale, as  
364-Day Co-  
Documentation  
Agents  
(excluding  
exhibits and  
schedules)  
(incorporated  
by reference  
to Exhibit  
10.3 to  
Registrant's  
Quarterly  
Report on  
Form 10-Q for  
the quarter  
ended June  
30, 2002, SEC  
File No. 1-  
4300). 10.4 -  
- Credit  
Agreement,  
dated June  
12, 1997,  
among Apache  
Canada Ltd.,  
a wholly-  
owned  
subsidiary of  
the  
Registrant,  
the Lenders  
named  
therein,  
Morgan  
Guaranty  
Trust  
Company, as  
Global  
Documentation  
Agent, Royal  
Bank of  
Canada, as  
Canadian  
Documentation  
Agent, The  
Chase  
Manhattan  
Bank of  
Canada, as  
Canadian

Syndication Agent, Bank of Montreal, as Canadian Administrative Agent, and The Chase Manhattan Bank, as Global Administrative Agent

(incorporated by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K, dated June 13, 1997, filed June 25, 1997, SEC File No. 1-4300). 10.5 -

- Form of Credit Agreement, dated as of June 3, 2002, among Apache Canada Ltd, a wholly-owned subsidiary of Registrant, the Lenders named therein, JPMorgan Chase Bank, as Global Administrative Agent, Bank of America, N.A., as Global Syndication Agent, Citibank, N.A., as Global Documentation Agent, Royal Bank of Canada, as Canadian Administrative Agent, The Bank of Nova Scotia and The Toronto-Dominion Bank, as Canadian Co-Syndication Agents, and BNP Paribas (Canada) and Bayerische Landesbank Girozentrale, as Canadian Co-

Documentation Agents

(excluding exhibits and schedules) (incorporated by reference to Exhibit 10.4 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002, SEC File No. 1-4300). 10.6 -

- Credit Agreement,

dated June 12, 1997, among Apache Energy Limited and Apache Oil Australia Pty Limited, wholly-owned subsidiaries of the Registrant, the Lenders named therein, Morgan Guaranty Trust Company, as Global Documentation Agent, Bank of America National Trust and Savings Association, Sydney Branch, as Australian Documentation Agent, The Chase Manhattan Bank, as Australian Syndication Agent, Citisecurities Limited, as Australian Administrative Agent, and The Chase Manhattan Bank, as Global Administrative Agent (incorporated by reference to Exhibit 10.3 to Registrant's Current Report on Form 8-K, dated June 13, 1997, filed June 25, 1997, SEC File No. 1-4300). 10.7 - Form of Credit Agreement, dated as of June 3, 2002, among Apache Energy Limited, a wholly-owned subsidiary of Registrant, the Lenders named therein, JPMorgan Chase Bank, as Global Administrative Agent, Bank of America, N.A., as Global Syndication Agent, Citibank, N.A., as Global Documentation Agent, Citisecurities Limited, as

Australian  
Administrative  
Agent, Bank  
of America,  
N.A., Sydney  
Branch, and  
Deutsche Bank  
AG, Sydney  
Branch, as  
Australian  
Co-  
Syndication  
Agents, and  
Royal Bank of  
Canada and  
Bank One, NA,  
Australia  
Branch, as  
Australian  
Co-  
Documentation  
Agents  
(excluding  
exhibits and  
schedules)  
(incorporated  
by reference  
to Exhibit  
10.5 to  
Registrant's  
Quarterly  
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the quarter  
ended June  
30, 2002, SEC  
File No. 1-  
4300). 10.8 -  
- Concession  
Agreement for  
Petroleum  
Exploration  
and  
Exploitation  
in the Khalda  
Area in  
Western  
Desert of  
Egypt by and  
among Arab  
Republic of  
Egypt, the  
Egyptian  
General  
Petroleum  
Corporation  
and Phoenix  
Resources  
Company of  
Egypt, dated  
April 6, 1981  
(incorporated  
by reference  
to Exhibit  
19(g) to  
Phoenix's  
Annual Report  
on Form 10-K  
for year  
ended  
December 31,  
1984, SEC  
File No. 1-  
547). 10.9 --  
Amendment,  
dated July  
10, 1989, to  
Concession  
Agreement for  
Petroleum  
Exploration  
and  
Exploitation  
in the Khalda  
Area in  
Western  
Desert of  
Egypt by and  
among Arab  
Republic of  
Egypt, the  
Egyptian  
General  
Petroleum

Corporation  
and Phoenix  
Resources  
Company of  
Egypt  
incorporated  
by reference  
to Exhibit  
10(d)(4) to  
Phoenix's  
Quarterly  
Report on  
Form 10-Q for  
quarter ended  
June 30,  
1989, SEC  
File No. 1-  
547).

EXHIBIT NO.  
DESCRIPTION - ---  
-----

10.10 -- Farmout Agreement, dated September 13, 1985 and relating to the Khalda Area Concession, by and between Phoenix Resources Company of Egypt and Conoco Khalda Inc.

(incorporated by reference to Exhibit 10.1 to Phoenix's Registration Statement on Form S-1, Registration No. 33-1069,

filed October 23, 1985). 10.11 -- Amendment, dated March 30, 1989, to Farmout Agreement

relating to the Khalda Area Concession, by and between Phoenix Resources Company of Egypt and Conoco Khalda Inc.

(incorporated by reference to Exhibit 10(d)(5) to Phoenix's Quarterly Report on Form 10-Q for quarter ended June 30, 1989, SEC File No. 1-547). 10.12 -- Amendment, dated May 21, 1995, to Concession Agreement for Petroleum Exploration and Exploitation in the Khalda Area in Western Desert of Egypt between Arab Republic of Egypt, the Egyptian General Petroleum Corporation, Repsol Exploracion Egipto S.A., Phoenix Resources Company of Egypt and Samsung Corporation (incorporated by reference to exhibit 10.12 to Registrant's Annual Report on Form 10-K for year ended December 31, 1997, SEC File No. 1-4300).

10.13 -- Concession Agreement for Petroleum Exploration and Exploitation in the Qarun Area in Western Desert of Egypt, between Arab Republic of Egypt, the Egyptian General Petroleum

Corporation, Repsol Exploracion Egipto S.A., Phoenix Resources Company of Egypt and Samsung Corporation (incorporated by reference to exhibit 10.12 to Registrant's Annual Report on Form 10-K for year ended December 31, 1997, SEC File No. 1-4300).

10.13 -- Concession Agreement for Petroleum Exploration and Exploitation in the Qarun Area in Western Desert of Egypt, between Arab Republic of Egypt, the Egyptian General Petroleum

Corporation, Repsol Exploracion Egipto S.A., Phoenix Resources Company of Egypt and Samsung Corporation (incorporated by reference to exhibit 10.12 to Registrant's Annual Report on Form 10-K for year ended December 31, 1997, SEC File No. 1-4300).

10.13 -- Concession Agreement for Petroleum Exploration and Exploitation in the Qarun Area in Western Desert of Egypt, between Arab Republic of Egypt, the Egyptian General Petroleum

Corporation, Repsol Exploracion Egipto S.A., Phoenix Resources Company of Egypt and Samsung Corporation (incorporated by reference to exhibit 10.12 to Registrant's Annual Report on Form 10-K for year ended December 31, 1997, SEC File No. 1-4300).

Corporation,  
Phoenix Resources  
Company of Qarun  
and Apache Oil  
Egypt, Inc.,  
dated May 17,  
1993

(incorporated by  
reference to  
Exhibit 10(b) to  
Phoenix's Annual  
Report on Form  
10-K for year  
ended December  
31, 1993, SEC  
File No. 1-547).

10.14 --

Agreement for  
Amending the Gas  
Pricing

Provisions under  
the Concession  
Agreement for  
Petroleum

Exploration and  
Exploitation in  
the Qarun Area,  
effective June  
16, 1994

(incorporated by  
reference to  
Exhibit 10.18 to  
Registrant's  
Annual Report on  
Form 10-K for  
year ended  
December 31,  
1996, SEC File  
No. 1-4300).

+10.15 -- Apache  
Corporation  
Corporate  
Incentive

Compensation Plan  
A (Senior  
Officers' Plan),  
dated July 16,  
1998

(incorporated by  
reference to  
Exhibit 10.13 to  
Registrant's  
Annual Report on  
Form 10-K for  
year ended  
December 31,  
1998, SEC File  
No. 1-4300).

+10.16 -- Apache  
Corporation  
Corporate  
Incentive

Compensation Plan  
B (Strategic  
Objectives  
Format), dated  
July 16, 1998

(incorporated by  
reference to  
Exhibit 10.14 to  
Registrant's  
Annual Report on  
Form 10-K for  
year ended  
December 31,  
1998, SEC File  
No. 1-4300).

+10.17 -- Apache  
Corporation  
401(k) Savings  
Plan, dated  
August 1, 2002

(incorporated by  
reference to  
Exhibit 10.1 to  
Registrant's  
Quarterly Report  
on Form 10-Q for  
the quarter ended  
September 30,  
2002, SEC File  
No. 1-4300).

+10.18 --

Amendment to

Apache Corporation  
401(k) Savings Plan, dated January 27, 2003, effective January 1, 2003  
(incorporated by reference to Exhibit 10.18 to Registrant's Annual Report on Form 10-K, as amended by Form 10-K/A, for year ended December 31, 2002, SEC File No. 1-4300).  
+10.19 -- Apache Corporation Money Purchase Retirement Plan, dated August 1, 2002  
(incorporated by reference to Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002, SEC File No. 1-4300).  
+10.20 -- Amendment to Apache Corporation Money Purchase Retirement Plan, dated January 27, 2003, effective January 1, 2003  
(incorporated by reference to Exhibit 10.20 to Registrant's Annual Report on Form 10-K for year ended December 31, 2002, SEC File No. 1-4300).  
+10.21 -- Non-Qualified Retirement/Savings Plan of Apache Corporation, restated January 1, 1997, and amendments effective January 1, 1997, January 1, 1998 and January 1, 1999  
(incorporated by reference to Exhibit 10.17 to Registrant's Annual Report on Form 10-K for year ended December 31, 1998, SEC File No. 1-4300).

EXHIBIT NO.  
DESCRIPTION - ---  
-----

+10.22 --  
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Qualified  
Retirement/Savings  
Plan of Apache  
Corporation,  
dated February  
22, 2000,  
effective January  
1, 1999  
(incorporated by  
reference to  
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Registration  
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filed February  
25, 2000); and  
Amendment dated  
July 27, 2000  
(incorporated by  
reference to  
Exhibit 4.8 to  
Amendment No. 1  
to Registrant's  
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No. 333-31092,  
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2000). +10.23 --  
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Qualified  
Retirement/Savings  
Plan of Apache  
Corporation,  
dated August 3,  
2001, effective  
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and July 1, 2001  
(incorporated by  
reference to  
Exhibit 10.13 to  
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quarter ended  
June 30, 2001,  
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Amendment to Non-  
Qualified  
Retirement/Savings  
Plan of Apache  
Corporation,  
dated December  
18, 2003,  
effective January  
1, 2004. +10.25 -  
- Apache  
Corporation 1990  
Stock Incentive  
Plan, as amended  
and restated  
September 13,  
2001  
(incorporated by  
reference to  
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quarter ended  
September 30,  
2001, SEC File  
No. 1-4300).  
+10.26 -- Apache  
Corporation 1995  
Stock Option  
Plan, as amended  
and restated  
September 13,

2001  
(incorporated by  
reference to  
Exhibit 10.02 to  
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on Form 10-Q for  
the quarter ended  
September 30,  
2001, as amended  
by Form 10-Q/A,  
SEC File No. 1-  
4300). +\*10.27 --

Apache  
Corporation 2000  
Share  
Appreciation  
Plan, as amended  
and restated  
February 5, 2004.  
+10.28 -- Apache  
Corporation 1996  
Performance Stock  
Option Plan, as  
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restated  
September 13,  
2001

(incorporated by  
reference to  
Exhibit 10.03 to  
Registrant's  
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amended by Form  
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quarter ended  
September 30,  
2001, SEC File  
No. 1-4300).

+10.29 -- Apache  
Corporation 1998  
Stock Option  
Plan, as amended  
and restated  
September 13,  
2001

(incorporated by  
reference to  
Exhibit 10.04 to  
Registrant's  
Quarterly Report  
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amended by Form  
10-Q/A, for the  
quarter ended  
September 30,  
2001, SEC File  
No. 1-4300).

+10.30 -- Apache  
Corporation 2000  
Stock Option  
Plan, as amended  
and restated  
March 5, 2003

(incorporated by  
reference to  
Exhibit 4.5 to  
Registrant's  
Registration  
Statement on Form  
S-8, Registration  
No. 333-103758,  
filed March 12,  
2003). +\*10.31 --

Apache  
Corporation 2003  
Stock  
Appreciation  
Rights Plan,  
dated and  
effective May 1,  
2003. +10.32 --  
1990 Employee  
Stock Option Plan  
of The Phoenix  
Resource  
Companies, Inc.,  
as amended  
through September  
29, 1995,  
effective April  
9, 1990

(incorporated by

reference to  
Exhibit 10.33 to  
Registrant's  
Annual Report on  
Form 10-K for  
year ended  
December 31,  
1996, SEC File  
No. 1-4300).

+10.33 -- Apache  
Corporation  
Income

Continuance Plan,  
as amended and  
restated May 3,  
2001

(incorporated by  
reference to  
Exhibit 10.30 to  
Registrant's  
Annual Report on  
Form 10-K for the  
year ended  
December 31,  
2001, SEC File  
No. 1-4300).

+10.34 -- Apache  
Corporation

Deferred Delivery  
Plan, as amended  
and restated  
December 18,  
2002, effective  
May 2, 2002

(incorporated by  
reference to  
Exhibit 4.5 to  
Post-Effective  
Amendment No. 2  
to Registrant's  
Registration

Statement on Form  
S-8, Registration  
No. 333-31092,  
filed March 11,  
2003). +10.35 --

Apache  
Corporation  
Executive

Restricted Stock  
Plan, as amended  
and restated  
December 18,  
2002, effective  
May 2, 2002

(incorporated by  
reference to  
Exhibit 4.5 to  
Post Effective  
Amendment No. 1  
to Registrant's  
Registration

Statement on Form  
S-8, Registration  
No. 333-97403,  
filed December  
30, 2002). +10.36

-- Apache  
Corporation Non-  
Employee  
Directors'  
Compensation

Plan, as amended  
and restated May  
1, 2003,  
effective July 1,  
2003

(incorporated by  
reference to  
Exhibit 10.1 to  
Registrant's  
Quarterly Report  
on Form 10-Q, as  
amended by Form  
10-Q/A, for the  
quarter ended  
June 30, 2003,  
SEC File No. 1-  
4300).

EXHIBIT NO.  
DESCRIPTION

-----  
-----  
+10.37 --  
Apache  
Corporation  
Outside  
Directors'  
Retirement  
Plan, as  
amended and  
restated May  
3, 2001  
(incorporated  
by reference  
to Exhibit  
10.08 to  
Registrant's  
Quarterly  
Report on  
Form 10-Q,  
as amended  
by Form 10-  
Q/A, for the  
quarter  
ended June  
30, 2001,  
SEC File No.  
1-4300).  
+\*10.38 --  
1.1 Apache  
Corporation  
Equity  
Compensation  
Plan for  
Non-Employee  
Directors,  
as amended  
and restated  
February 5,  
2004. +10.39  
-- Amended  
and Restated  
Employment  
Agreement,  
dated  
December 5,  
1990,  
between  
Registrant  
and Raymond  
Plank  
(incorporated  
by reference  
to Exhibit  
10.39 to  
Registrant's  
Annual  
Report on  
Form 10-K  
for year  
ended  
December 31,  
1996, SEC  
File No. 1-  
4300).  
+10.40 --  
First  
Amendment,  
dated April  
4, 1996, to  
Restated  
Employment  
Agreement  
between  
Registrant  
and Raymond  
Plank  
(incorporated  
by reference  
to Exhibit  
10.40 to  
Registrant's  
Annual  
Report on  
Form 10-K  
for year  
ended  
December 31,  
1996, SEC

File No. 1-4300).  
+10.41 -- Amended and Restated Employment Agreement, dated December 20, 1990, between Registrant and John A. Kocur (incorporated by reference to Exhibit 10.10 to Registrant's Annual Report on Form 10-K for year ended December 31, 1990, SEC File No. 1-4300).  
+10.42 -- Employment Agreement, dated June 6, 1988, between Registrant and G. Steven Farris (incorporated by reference to Exhibit 10.6 to Registrant's Annual Report on Form 10-K for year ended December 31, 1989, SEC File No. 1-4300).  
+10.43 -- Amended and Restated Conditional Stock Grant Agreement, dated June 6, 2001, between Registrant and G. Steven Farris (incorporated by reference to Exhibit 10.10 to Registrant's Quarterly Report on Form 10-Q, as amended by Form 10-Q/A, for the quarter ended June 30, 2001, SEC File No. 1-4300).  
10.44 -- Amended and Restated Gas Purchase Agreement, effective July 1, 1998, by and among Registrant and MW Petroleum Corporation,

as seller,  
and  
Producers  
Energy  
Marketing,  
LLC, as  
buyer  
(incorporated  
by reference  
to Exhibit  
10.1 to  
Registrant's  
Current  
Report on  
Form 8-K,  
dated June  
18, 1998,  
filed June  
23, 1998,  
SEC File No.  
1-4300).  
10.45 --  
Deed of  
Guaranty and  
Indemnity,  
dated  
January 11,  
2003, made  
by  
Registrant  
in favor of  
BP  
Exploration  
Operating  
Company  
Limited  
(incorporated  
by reference  
to  
Registrant's  
Current  
Report on  
Form 8-K,  
dated and  
filed  
January 13,  
2003, SEC  
File No. 1-  
4300). \*12.1  
-- Statement  
of  
Computation  
of Ratios of  
Earnings to  
Fixed  
Charges and  
Combined  
Fixed  
Charges and  
Preferred  
Stock  
Dividends  
\*14.1 --  
Code of  
Business  
Conduct  
\*21.1 --  
Subsidiaries  
of  
Registrant  
\*23.1 --  
Consent of  
Ernst &  
Young LLP  
\*23.2 --  
Consent of  
Ryder Scott  
Company  
L.P.,  
Petroleum  
Consultants  
\*24.1 --  
Power of  
Attorney  
(included as  
a part of  
the  
signature  
pages to  
this report)  
\*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

- -----

\* Filed herewith.

+ Management contracts or compensatory plans or arrangements required to be filed herewith pursuant to Item 15 hereof.

NOTE: Debt instruments of the Registrant defining the rights of long-term debt holders in principal amounts not exceeding 10 percent of the Registrant's consolidated assets have been omitted and will be provided to the Commission upon request.

DELAWARE  
The First State

I, HARRIET SMITH WINDSOR, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO  
HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE RESTATED  
CERTIFICATE OF "APACHE CORPORATION", FILED IN THIS OFFICE ON THE TWELFTH DAY OF  
FEBRUARY, A.D. 2004, AT 10:06 O'CLOCK A.M.

A FILED COPY OF THIS CERTIFICATE HAS BEEN FORWARDED TO THE NEW CASTLE  
COUNTY RECORDER OF DEEDS.

[Seal]

/s/ Harriet Smith Windsor

-----  
Harriet Smith Windsor,  
Secretary of State  
AUTHENTICATION: 2926444

0482215 8100  
040098414

DATE: 02-12-04

RESTATED  
CERTIFICATE OF INCORPORATION  
OF  
APACHE CORPORATION

APACHE CORPORATION, a corporation organized and existing under the laws of the State of Delaware, hereby certifies as follows:

1. The name of the corporation is Apache Corporation and the name under which the corporation was originally incorporated was Apache Oil Corporation. The date of filing of its original Certificate of Incorporation with the Secretary of State was the 6th day of December, 1954.

2. This Restated Certificate of Incorporation only restates and integrates and does not further amend the provisions of the Certificate of Incorporation of this corporation as heretofore amended or supplemented, and there is no discrepancy between those provisions and the provisions of this Restated Certificate of Incorporation.

3. The text of the Certificate of Incorporation, as amended or supplemented heretofore, is hereby restated without further amendments or changes to read as herein set forth in full:

FIRST. The name of the corporation is APACHE CORPORATION.

SECOND. The Registered Office in the state of Delaware is located at the Corporation Trust Center, 1209 Orange Street, in the county of New Castle, Wilmington, Delaware 19801. The Registered Agent at that address is The Corporation Trust Company.

THIRD. The nature of the business, or objects or purposes to be transacted, promoted or carried on are: To engage in the leasing as principal, trustee, agent and/or nominee of lands believed to contain petroleum, oils, and gas; the improving, mortgaging, leasing, assigning, and otherwise disposing of the same; the prospecting, drilling, pumping, piping, storing, refining, and selling, both at wholesale and retail, of oils and gas; the buying, otherwise acquiring, selling, and otherwise disposing of any and all real estate and personal property for use in the business of the company; the construction of any and all buildings, pipe lines, pumping stations, and storage tanks, and any and all other buildings required in carrying on the business of the company; the acting as trustee or agent for holders of oil lands in the receiving and disbursement of funds to be used in drilling for the common benefit of the land holders.

To buy, acquire, sell, retain, deal in, or otherwise dispose of absolutely or contingently, petroleum and/or gas properties and interests (whether like or different), and any right, title, or interest therein.

To purchase, sell and own royalties in oil and gas lands and leases; to pay mortgages, notes, taxes, assessments, and other charges that are or may become a lien or charge against any lands or leases in which this company may have a royalty interest.

To engage in the purchasing, leasing or otherwise acquiring, owning, holding, operating, developing, mortgaging, pledging, exchanging, selling, transferring, or otherwise disposing of, and investing, trading or dealing in real and personal property of every kind and description or any interest therein; the acting as trustee or agent for holders of interests in such real and personal property in the receiving and disbursement of funds to be used in connection therewith.

To act as agent for others in purchasing, selling, renting and managing real estate and leasehold or other interests therein; in negotiating loans on real estate and leasehold or other interests therein, in lending money secured by bonds or notes secured by mortgages or trust deeds on such real estate or leasehold or other interest therein, or on the mortgage bonds of industrial or railroad companies or of any public service corporation, or on any state, municipal or quasi-municipal bonds, or in the buying, selling, pledging, mortgaging or otherwise dealing in any such securities, and to act as trustee in connection with any of the foregoing securities.

To carry on the business of a telephone, telegraph, radio, television, electrical light, heat and power, natural gas heat and power, and/or water supply company, and in establishing, working, managing, controlling and regulating exchanges and works for the supply and transmission of telephone, telegraph, radio and television impulses, and for the supply of electric light, heat and power, natural gas heat and power, and/or water for public or private purposes, use and consumption.

To engage in the underwriting, buying, selling and rediscounting of notes, drafts, bills of exchange, stocks, bonds, securities and chooses in action as a broker and dealer in securities.

To acquire, and pay for in cash, stock or bonds of this Corporation or otherwise, the good will, rights, assets and property, and to undertake or assume the whole or any part of the obligations or liabilities of any person, firm, association or corporation.

To acquire, hold, use, sell, assign, lease, grant licenses in respect of, mortgage or otherwise dispose of letters patent of the United States or any foreign country, patent rights, licenses, franchises and privileges, inventions, improvements and processes, copyrights, trademarks and trade names, relating to or useful in connection with any business of this corporation.

To acquire by purchase subscription, participation, or otherwise, and to receive, hold, own, guarantee, sell, assign, exchange, transfer, mortgage, pledge or otherwise dispose of or deal in and with any of the shares of the capital stock, or any voting trust certificates in respect of the shares of capital stock, script, warrants, rights, bonds, debentures, notes, trust receipts, and other securities, obligations, chooses in action and evidences of indebtedness or interest issued or created by any corporations, joint stock companies, partnerships, limited partnerships, syndicates, associations, firms, trusts or persons, public or private, or by the government of the United States of America, or by any foreign government, or by any state,

territory, province, municipality or other political subdivision or by any governmental agency, and as owner thereof to possess and exercise all the rights, powers and privileges of ownership, including the right to execute consents and vote thereon and to do any and all acts and things necessary or advisable for the preservation, protection, improvement and enhancement in value thereof.

To enter into, make and perform contracts of every kind and description with any person, firm, association, corporation, municipality, county, state, body politic or government or colony or dependency thereof.

To borrow or raise monies for any of the purposes of the Corporation and, from time to time to draw, make, accept, endorse, execute and issue promissory notes, drafts, bills of exchange, warrants, bonds, debentures and other negotiable or non-negotiable instruments and evidences of indebtedness, and to secure the payment of any thereof and of the interest thereon by mortgage upon or pledge, conveyance or assignment in trust of the whole or any part of the property of the Corporation, whether at the time owned or thereafter acquired, and to sell, pledge or otherwise dispose of such bonds or other obligations of the Corporation for its corporate purposes.

To purchase, hold, sell and transfer the shares of its own capital stock; provided it shall not use its funds or property for the purchase of its own shares of capital stock when such use would cause any impairment of its capital except as otherwise permitted by law, and provided further that shares of its own capital stock belonging to it shall not be voted upon directly or indirectly.

To have one or more offices, to carry on all or any of its operations and business and to purchase or otherwise acquire, hold, own, mortgage, sell, convey or otherwise dispose of, real and personal property of every class and description in any of the states, districts, territories or colonies of the United States, and in any and all foreign countries, subject to the laws of such state, district, territory, colony or country.

In general, to carry on any other business in connection with the foregoing, and to have and exercise all the powers conferred by the laws of Delaware upon corporations formed under the General Corporation Law of the State of Delaware, and to do any or all things hereinbefore set forth to the same extent as natural persons might or could do.

The objects and purposes specified in the foregoing clauses shall, except where otherwise expressed, be in no wise limited or restricted by reference from, the terms of any other clause in this Certificate of Incorporation, but the objects and purposes specified in each of the foregoing clauses of this article shall be regarded as independent objects and purposes.

FOURTH. The total number of shares of all classes of stock which this corporation shall have authority to issue is 435,000,000 which shall be divided into (a) 430,000,000 shares of common stock having a par value of \$0.625 per share and (b) 5,000,000 shares of no par value preferred stock.

A description of the different classes of stock of the Corporation, a statement of the relative rights of the holders of stock of such classes, and a statement of the voting powers and the designations, preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions thereof, of the various classes of stock are as follows:

A. Shares of the Preferred Stock may be issued by the Board of Directors of the Corporation with such voting powers, full or limited or without voting powers and in such classes and series and with such designations, preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions thereof, as shall be stated and expressed in the resolution or resolutions providing for the issue of such stock adopted by the Board of Directors of the Corporation.

B. A holder of the Common Stock of the Corporation shall be entitled to one vote for each and every share of Common Stock standing in his name at any and all meetings of stockholders of the Corporation.

C. Shares of the voting stock of the Corporation shall not be voted cumulatively.

D. Except as provided in Paragraph A of this Article FOURTH, shares of stock of the Corporation do not carry pre-emptive rights.

E. There shall be set forth on the face or back of each certificate for shares of stock of the Corporation a statement that the Corporation will furnish without charge to each stockholder who so requests, the designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights, provided, however, that there shall be no lien in favor of the Corporation upon the shares represented by any such certificate and there shall be no restriction upon the transfer of shares so represented by virtue of any by-law of the Corporation unless such lien or restriction is stated upon the certificate.

#### SERIES A JUNIOR PARTICIPATING PREFERRED STOCK

1. Designation and Amount. There shall be a series of Preferred Stock, no par value per share, that shall be designated as "Series A Junior Participating Preferred Stock," and the number of whole shares constituting such series shall be 25,000. Such number of shares may be increased or decreased by resolution of the Board of Directors; provided, however, that no decrease shall reduce the number of shares of Series A Junior Participating Preferred Stock to less than the number of shares then issued and outstanding plus the number of shares issuable upon exercise of outstanding rights, options or warrants, or upon conversion of outstanding securities issued by the Corporation.

## 2. Dividends and Distribution.

(A) Subject to the prior and superior rights of the holders of any shares of any series of Preferred Stock ranking prior and superior to the shares of Series A Junior Participating Preferred Stock with respect to dividends, the holders of record of shares of Series A Junior Participating Preferred Stock as of the close of business on the last Business Day of December, March, June and September in each year, in preference to the holders of shares of any class or series of stock of the Corporation ranking junior to the Series A Junior Participating Preferred Stock, shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash on the last Business Day of January, April, July and October in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series A Junior Participating Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (a) \$100 or (b) the Adjustment Number (as defined below) times the aggregate per share amount of all cash dividends, and the Adjustment Number times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the Common Stock, par value \$1.25 per share, of the Corporation (the "Common Stock") since the immediately preceding Quarterly Dividend Payment Date, or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series A Junior Participating Preferred Stock. The "Adjustment Number" shall initially be 10,000. In the event the Corporation shall at any time after January 31, 1995 (the "Effective Date") (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the Adjustment Number in effect immediately prior to such event shall be adjusted by multiplying such Adjustment Number by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) The Corporation shall declare a dividend or distribution on the Series A Junior Participating Preferred Stock as provided in paragraph (A) above immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock).

(C) Dividends shall begin to accrue and be cumulative on outstanding shares of Series A Junior Participating Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares of Series A Junior Participating Preferred Stock, unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend

Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series A Junior Participating Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series A Junior Participating Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series A Junior Participating Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be no more than 60 days prior to the date fixed for the payment thereof.

3. Voting Rights. The holders of shares of Series A Junior Participating Preferred Stock shall have the following voting rights:

(A) Each share of Series A Junior Participating Preferred Stock shall entitle the holder thereof to a number of votes equal to the Adjustment Number on all matters submitted to a vote of the stockholders of the Corporation.

(B) Except as required by law and by Section 10 hereof, holders of Series A Junior Participating Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

4. Certain Restrictions.

(A) Whenever quarterly dividends or other dividends or distributions payable on the Series A Junior Participating Preferred Stock as provided in Section 2 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series A Junior Participating Preferred Stock outstanding shall have been paid in full, the Corporation shall not

(i) declare or pay dividends on, make any other distributions on, or redeem or purchase or otherwise acquire for consideration any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Junior Participating Preferred Stock;

(ii) declare or pay dividends on or make any other distributions on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Junior Participating Preferred Stock, except dividends paid ratably on the Series A Junior Participating

Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled; or

(iii) purchase or otherwise acquire for consideration any shares of Series A Junior Participating Preferred Stock, or any shares of stock ranking on a parity with the Series A Junior Participating Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of Series A Junior Participating Preferred Stock, or to such holders and holders of any such shares ranking on a parity therewith, upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(B) The Corporation shall not permit any subsidiary or other affiliate controlled by the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under paragraph (A) of this Section 4, purchase or otherwise acquire such shares at such time and in such manner.

5. **Reacquired Shares.** Any shares of Series A Junior Participating Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired promptly after the acquisition thereof. All such shares shall upon their retirement become authorized but unissued shares of Preferred Stock and may be reissued as part of a new series of Preferred Stock to be created by resolution or resolutions of the Board of Directors, subject to any conditions and restrictions on issuance set forth herein.

6. **Liquidation, Dissolution or Winding Up.** (A) Upon any liquidation (voluntary or otherwise), dissolution or winding up of the Corporation, no distribution shall be made to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Junior Participating Preferred Stock unless, prior thereto, the holders of shares of Series A Junior Participating Preferred Stock shall have received \$100 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment (the "Series A Liquidation Preference"). Following the payment of the full amount of the Series A Liquidation Preference, no additional distributions shall be made to the holders of shares of Series A Junior Participating Preferred Stock unless, prior thereto, the holders of shares of Common Stock shall have received an amount per share (the "Common Adjustment") equal to the quotient obtained by dividing (i) the Series A Liquidation Preference by (ii) the Adjustment Number. Following the payment of the full amount of the Series A Liquidation Preference and the Common Adjustment in respect of all outstanding shares of (1) Series A Junior Participating Preferred Stock and (2) Common Stock, respectively, (a) holders

of Series A Junior Participating Preferred Stock and (b) holders of shares of Common Stock shall, subject to the prior rights of all other series of Preferred Stock, if any, ranking prior thereto, receive their ratable and proportionate share of the remaining assets to be distributed in the ratio of the Adjustment Number to 1 with respect to (x) the Series A Junior Participating Preferred Stock and (y) the Common Stock, on a per share basis, respectively.

(B) In the event, however, that there are not sufficient assets available to permit payment in full of the Series A Liquidation Preference and the liquidation preferences of all other series of Preferred Stock, if any, that rank on a parity with the Series A Junior Participating Preferred Stock, then such remaining assets shall be distributed ratably to the holders of such parity shares in proportion to their respective liquidation preferences. In the event, however, that there are not sufficient assets available to permit payment in full of the Common Adjustment, then such remaining assets shall be distributed ratably to the holders of Common Stock.

(C) Neither the merger or consolidation of the Corporation into or with another corporation nor the merger or consolidation of any other corporation into or with the Corporation shall be deemed to be a liquidation, dissolution or winding up of the Corporation within the meaning of this Section 6.

7. Consolidation, Merger, Etc. In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case each share of Series A Junior Participating Preferred Stock shall at the same time be similarly exchanged or changed in an amount per share equal to the Adjustment Number times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged.

8. No Redemption. Shares of Series A Junior Participating Preferred Stock shall not be subject to redemption by the Company.

9. Ranking. The Series A Junior Participating Preferred Stock shall rank junior to all other series of the Corporation's Preferred Stock as to the payment of dividends and the distribution of assets, unless the terms of any such series shall provide otherwise, and shall rank senior to the Common Stock as to such matters.

10. Amendment. At any time that any shares of Series A Junior Participating Preferred Stock are outstanding, the Restated Certificate of Incorporation of the Corporation shall not be amended in any manner which would materially alter or change the powers, preferences or special rights of the Series A Junior Participating Preferred Stock so as to affect them adversely

without the affirmative vote of the holders of two-thirds of the outstanding shares of Series A Junior Participating Preferred Stock, voting separately as a class.

11. Fractional Shares. Series A Junior Participating Preferred Stock may be issued in fractions of a share that shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series A Junior Participating Preferred Stock.

#### 5.68% CUMULATIVE PREFERRED STOCK, SERIES B

1. Number of Shares and Designation. One hundred thousand (100,000) shares of the five million (5,000,000) authorized shares of no par value preferred stock of the Corporation are hereby constituted as a series of preferred stock, no par value per share, designated as "5.68% Cumulative Preferred Stock, Series B" (hereinafter called the "Series B Preferred Stock").

2. Ranking. The Series B Preferred Stock shall rank prior and superior to all of the Common Stock of the Corporation now or hereafter outstanding, and the Series A Junior Participating Preferred Stock of the Corporation as to payment of dividends and distribution of assets upon dissolution, liquidation or winding up of the Corporation.

#### 3. Dividends.

(i) General. Cumulative cash dividends shall be payable on each share of Series B Preferred Stock when, as and if declared by the Board of Directors of the Corporation or a duly authorized committee thereof, out of the assets of the Corporation legally available therefor.

The initial dividend for the dividend period commencing on August 25, 1998, to but excluding October 30, 1998, will be \$10.26 per share and shall be payable on October 30, 1998. Thereafter, dividends on the Series B Preferred Stock shall be payable quarterly, when, as and if declared by the Board of Directors of the Corporation or a duly authorized committee thereof on the last business day of January, April, July and October of each year (each a "Dividend Payment Date") at the annual rate of 5.68% or \$56.80 per share. The amount of dividends payable on each share of Series B Preferred Stock for each full quarterly period shall be computed by dividing the annual dividend rate by four. The amount of dividends payable for any other period that is shorter or longer than a full quarterly dividend period will be computed on the basis of a 360-day year consisting of twelve 30-day months.

If a Dividend Payment Date is not a business day, dividends (if declared) on the Series B Preferred Stock shall be paid on the next business day, without interest. As used herein, the term "business day" means any day other than a Saturday or Sunday or any other day on which banks in The City of

New York are authorized or required by law or executive order to close. A dividend period with respect to a Dividend Payment Date is the period commencing on the preceding Dividend Payment Date and ending on the day immediately prior to the next Dividend Payment Date. Dividends payable, if declared, on a Dividend Payment Date shall be payable to holders of record as they appear on the stock books of the Corporation on the record date, which shall be the fifteenth day of the calendar month in which the applicable Dividend Payment Date falls (each, a "Dividend Record Date").

Dividends on the Series B Preferred Stock shall be cumulative if the Corporation fails to declare one or more dividends on the Series B Preferred Stock in any amount, whether or not the earnings or financial condition of the Corporation were sufficient to pay such dividends in whole or in part.

Holders of shares of Series B Preferred Stock shall not be entitled to any dividend, whether payable in cash, property or stock, in excess of full dividends (including accrued dividends, if any) on shares of Series B Preferred Stock. No interest or sum of money in lieu of interest shall be payable in respect of any dividend or payment which may be in arrears.

Dividends in arrears on the Series B Preferred Stock payable, if declared, but not declared for payment or paid on any Dividend Payment Date may be declared by the Board of Directors of the Corporation or a duly authorized committee thereof and paid on any date fixed by the Board of Directors of the Corporation or a duly authorized committee thereof, whether or not a Dividend Payment Date, to the holders of record of the shares of Series B Preferred Stock, as they appear on the stock register of the Corporation on such record date, which shall be not less than ten nor more than 30 days prior to the payment date therefor, as shall be fixed by the Board of Directors of the Corporation or a duly authorized committee thereof.

(ii) Changes in the Dividends Received Percentage. If, prior to 18 months after the date of the original issuance of the Series B Preferred Stock, one or more amendments to the U. S. Internal Revenue Code of 1986, as amended (the "Code"), are enacted which change the percentage of the dividends received deduction as specified in Section 243(a)(1) of the Code or any successor provision (the "Dividends Received Percentage"), the amount of each dividend on each share of the Series B Preferred Stock for dividend payments made on or after the date of enactment of such change shall be adjusted by multiplying the amount of the dividend payable determined as described above (before adjustment) by a factor, which shall be the number determined in accordance with the following formula (the "DRD Formula"), and rounding the result to the nearest cent (with one-half cent and above rounded up):

$$\frac{1 - [.35 (1 - .70)]}{1 - [.35 (1 - \text{DRP})]}$$

For the purposes of the DRD Formula, "DRP" means the Dividends Received Percentage applicable to the dividend in question; provided however, that if the Dividends Received Percentage applicable to the dividend in question shall be less than 50%, then the DRP shall equal .50. No amendment to the Code, other than a change in the percentage of the dividends received deduction set forth in Section 243(a)(1) of the Code or any successor provision, shall give rise to such an adjustment. Notwithstanding the foregoing provisions, in the event that, with respect to any such amendment, the Corporation receives either an unqualified opinion from a nationally recognized independent tax counsel selected by the Corporation or a private letter ruling or similar form of authorization from the U.S. Internal Revenue Service ("IRS") to the effect that such an amendment does not apply to dividends payable on the Series B Preferred Stock, then any such amendment shall not result in the adjustment provided for pursuant to the DRD Formula. The opinion referenced in the previous sentence shall be based upon a specific exception in the legislation amending the DRP or upon a published pronouncement of the IRS addressing such legislation. Unless the context otherwise requires, references to dividends herein shall mean dividends as adjusted by the DRD Formula. The Corporation's calculation of the dividends payable as so adjusted, and as certified accurate as to calculation and reasonable as to method by the independent certified public accountants then regularly engaged by the Corporation, shall be final and not subject to review.

If any amendment to the Code which reduces the Dividends Received Percentage is enacted after a Dividend Record Date and before the next Dividend Payment Date, the amount of dividend payable on such Dividend Payment Date shall not be increased; but instead, an amount equal to the excess of (x) the product of the dividends paid by the Corporation on such Dividend Payment Date and the DRD Formula (where the DRP used in the DRD Formula would be equal to the greater of the Dividends Received Percentage applicable to the dividend in question and .50) over (y) the dividends paid by the Corporation on such Dividend Payment Date, shall be payable (if declared) to holders of record on the next succeeding Dividend Payment Date in addition to any other amounts payable on such date.

In addition, if any such amendment to the Code is enacted that reduces the Dividends Received Percentage and such reduction retroactively applies to a Dividend Payment Date as to which the Corporation previously paid dividends on the Series B Preferred Stock (each an "Affected Dividend Payment Date"), the Corporation shall pay (if declared) additional dividends (the "Additional Dividends") on the next succeeding Dividend Payment Date (or if such amendment is enacted after the dividend payable on such Dividend Payment Date has been declared, on the second succeeding Dividend Payment Date following the date of enactment) to holders of record on such succeeding Dividend Payment Date in an amount equal to the excess of (x) the product of the dividends paid by the Corporation on each Affected Dividend Payment Date and the DRD Formula (where the DRP used in the DRD Formula would be equal to the greater of the Dividends Received Percentage and .50

applied to each Affected Dividend Payment Date) over (y) the dividends paid by the Corporation on each Affected Dividend Payment Date.

Notwithstanding the foregoing, Additional Dividends shall not be paid as a result of the enactment of any amendment to the Code 18 months or more after the date of original issuance of the Series B Preferred Stock which retroactively reduces the Dividends Received Percentage, or if such amendment would not result in an adjustment due to the Corporation having received either an opinion of counsel or tax ruling referred to in the third preceding paragraph. The Corporation shall make only one payment of Additional Dividends.

In the event that the amount of dividend payable per share of the Series B Preferred Stock shall be adjusted pursuant to the DRD Formula and/or Additional Dividends are to be paid, the Corporation will cause notice of each adjustment and, if applicable, any Additional Dividends, to be sent to the holders of the Series B Preferred Stock with the payment of dividends on the next Dividend Payment Date after the date of such adjustment.

In the event that, prior to 18 months after the date of the original issuance of the Series B Preferred Stock, the Dividends Received Percentage is reduced to 50% or less, the Corporation may, at its option, redeem the Series B Preferred Stock in whole, but not in part, as described below.

(iii) Payment Restrictions. The Corporation may not declare or pay any dividend or make any distribution of assets (other than dividends paid or other distributions made in stock of the Corporation ranking junior to the Series B Preferred Stock as to the payment of dividends and the distribution of assets upon liquidation, dissolution or winding up) on, or redeem, purchase or otherwise acquire (except upon conversion or exchange for stock of the Corporation ranking junior to the Series B Preferred Stock as to the payment of dividends and the distribution of assets upon liquidation, dissolution or winding up), shares of Common Stock, of Series A Preferred Stock or of any other stock of the Corporation ranking junior to the Series B Preferred Stock as to the payment of dividends or the distribution of assets upon liquidation, dissolution or winding up, unless all accrued and unpaid dividends on the Series B Preferred Stock for all prior dividend periods have been or contemporaneously are declared and paid and the full quarterly dividend on the Series B Preferred Stock for the current dividend period has been or contemporaneously is declared and set apart for payment.

Whenever all accrued dividends on the Series B Preferred Stock are not paid in full, the Corporation may not declare or pay dividends or make any distribution of assets (other than dividends paid or other distributions made in stock of the Corporation ranking junior to the Series B Preferred Stock as to the payment of dividends and the distribution of assets upon liquidation, dissolution or winding up) on any other stock of the Corporation ranking on a parity with the Series B Preferred Stock as to the payment of dividends unless

(i) all accrued and unpaid dividends on the Series B Preferred Stock for all prior dividend periods are contemporaneously declared and paid or (ii) all dividends declared and paid or set apart for payment or other distributions made on the Series B Preferred Stock and any other stock of the Corporation ranking on a parity with the Series B Preferred Stock as to the payment of dividends are declared and paid or set apart for payment or made pro rata so that the amount of dividends declared and paid or set apart for payment or other distributions made per share on the Series B Preferred Stock and such other stock of the Corporation will bear the same ratio that accrued and unpaid dividends per share on the Series B Preferred Stock and such other stock of the Corporation bear to each other.

Whenever all accrued dividends on the Series B Preferred Stock are not paid in full, the Corporation may not redeem, purchase or otherwise acquire (except upon conversion or exchange for stock of the Corporation ranking junior to the Series B Preferred Stock as to the payment of dividends and the distribution of assets upon liquidation, dissolution or winding up) other stock of the Corporation ranking on a parity with the Series B Preferred Stock as to the payment of dividends or the distribution of assets upon liquidation, dissolution or winding up unless (i) all outstanding shares of the Series B Preferred Stock are contemporaneously redeemed or (ii) a pro rata redemption is made of shares of Series B Preferred Stock and such other stock of the Corporation, with the amount allocable to each series of such stock determined on the basis of the aggregate liquidation preference of the outstanding shares of each series and the shares of each series being redeemed only on a pro rata basis.

4. Liquidation Preference. In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, the holders of shares of Series B Preferred Stock shall be entitled to receive out of the assets of the Corporation available for distribution to stockholders, before any distribution of assets is made on the Common Stock of the Corporation or any other class or series of stock of the Corporation ranking junior to the Series B Preferred Stock, upon liquidation, a liquidating distribution in the amount of \$1,000 per share, plus an amount equal to the sum of all accrued and unpaid dividends including any increase in dividends payable due to changes in the Dividends Received Percentage and Additional Dividends (whether or not earned or declared) for the then-current dividend period and all dividend periods prior thereto.

Neither the sale of all or substantially all of the property or business of the Corporation, nor the merger, conversion or consolidation of the Corporation into or with any other corporation, nor the merger, conversion or consolidation of any other corporation into or with the Corporation shall constitute a liquidation, dissolution or winding up, voluntary or involuntary, for the purposes of the foregoing paragraph. After the payment to the holders of the shares of Series B Preferred Stock of the full preferential amounts provided

for above, the holders of the shares of Series B Preferred Stock as such shall have no right or claim to any of the remaining assets of the Corporation.

In the event the assets of the Corporation available for distribution to the holders of the shares of Series B Preferred Stock upon any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, shall be insufficient to pay in full all amounts to which such holders are entitled as provided above, no such distribution shall be made on account of any other stock of the Corporation ranking on a parity with the Preferred Stock as to the distribution of assets upon such liquidation, dissolution or winding up unless a pro rata distribution is made on the Series B Preferred Stock and such other stock of the Corporation, with the amount allocable to each series of such stock determined on the basis of the aggregate liquidation preference of the outstanding shares of each series and distributions to the shares of each series being made on a pro rata basis.

#### 5. Voting Rights.

(i) The holders of shares of Series B Preferred Stock will not be entitled to vote, except as set forth below or as expressly required by applicable law. In exercising any such vote, each outstanding share of Series B Preferred Stock shall be entitled to one vote.

(ii) If the equivalent of six quarterly dividends payable on the Series B Preferred Stock or any other class or series of preferred stock ranking on a parity with the Series B Preferred Stock as to the payment of dividends have not been paid, the Corporation has resolved to increase the number of directors of the Corporation by two (without duplication of any increase made pursuant to the terms of any other series of preferred stock of the Corporation), and the holders of the Series B Preferred Stock, voting as a single class with the holders of shares of any other class of the preferred stock of the Corporation ranking on a parity with the Series B Preferred Stock either as to dividends or distribution of assets and upon which like voting rights have been conferred and are exercisable, will be entitled to elect two directors at any meeting of stockholders of the Corporation at which directors are to be elected held during the period such dividends remain in arrears. Each class or series of preferred stock entitled to vote for the additional directors shall have a number of votes proportionate to the aggregate liquidation preference of its outstanding shares. Such voting right shall continue until full cumulative dividends for all past dividend periods on all such preferred stock of the Corporation, including any shares of the Series B Preferred Stock, have been paid or declared and set apart for payment. Any such elected directors shall serve until the Corporation's next annual meeting of stockholders (notwithstanding that prior to the end of such term the right to elect directors shall cease to exist) or until their respective successors shall be elected and qualify.

(iii) Whenever such right shall vest, it may be exercised initially either at a special meeting of holders of Series B Preferred Stock or at any annual stockholders' meeting, but thereafter it shall be exercised only at annual stockholders' meetings. Any director who shall have been elected by the holders of Series B Preferred Stock as a class pursuant to this subparagraph (iii) may be removed at any time, either for or without cause by, and only by, the affirmative votes of the holders of record of a majority of the outstanding shares of Series B Preferred Stock given at a special meeting of such stockholders called for such purpose, and any vacancy created by such removal may also be filled at such meeting. Any vacancy caused by the death or resignation of a director who shall have been elected by the holders of Series B Preferred Stock as a class pursuant to this subparagraph (iii) may be filled only by the holders of all outstanding Series B Preferred Stock at a meeting called for such purpose.

Any meeting of the holders of all outstanding Series B Preferred Stock entitled to vote as a class for the election or removal of directors shall be held at the place at which the last annual meeting of stockholders was held. At such meeting, the presence in person or by proxy of the holders of a majority of the outstanding shares of all outstanding Series B Preferred Stock shall be required to constitute a quorum; in the absence of a quorum, a majority of the holders present in person or by proxy shall have the power to adjourn the meeting from time to time without notice, other than announcement at the meeting, until a quorum shall be present.

(iv) So long as any Series B Preferred Stock is outstanding, the affirmative vote or consent of the holders of at least 80% of the outstanding shares of the Series B Preferred Stock will be required for any amendment of the Restated Certificate of Incorporation of the Corporation (or any certificate supplemental thereto) which will adversely affect the powers, preferences, privileges or rights of the Series B Preferred Stock. The affirmative vote or consent of the holders of at least 80% of the outstanding shares of the Series B Preferred Stock and any other series of the preferred stock of the Corporation ranking on a parity with the Series B Preferred Stock either as to dividends or upon liquidation, voting as a single class without regard to series, will be required to issue, authorize or increase the authorized amount of, or issue or authorize any obligation or security convertible into or evidencing a right to purchase, any additional class or series of stock ranking prior to the Series B Preferred Stock as to dividends or upon liquidation, or to reclassify any authorized stock of the Corporation into such prior shares, but such vote will not be required for the Corporation to take any such actions with respect to any stock ranking on a parity with or junior to the Series B Preferred Stock.

The affirmative vote or consent of the holders of a majority of all the outstanding shares of Series B Preferred Stock, voting or consenting separately as a class, shall be required to approve any merger, conversion, consolidation or compulsory share exchange to which the Corporation is a party, unless (i) the terms of such merger, conversion, consolidation or

compulsory share exchange do not provide for a change in the terms of the Series B Preferred Stock and (ii) the Series B Preferred Stock is on a parity with or prior to (in respect of the payment of dividends and the distribution of assets upon liquidation, dissolution or winding up) any other class or series of capital stock authorized by the surviving corporation, other than any class or series of stock of the Corporation ranking senior as to the Series B Preferred Stock either as to the payment of dividends or the distribution of assets upon liquidation, dissolution or winding up of the Corporation and previously authorized with the consent of holders of Series B Preferred Stock as described herein (or other than any capital stock into which such prior stock is converted as a result of such merger, consolidation or compulsory share exchange).

In addition, if the holders of the shares of the Series B Preferred Stock are entitled to vote upon or consent to a merger, consolidation, conversion or compulsory share exchange of the Corporation, and if the Corporation offers to purchase all of the outstanding shares of the Series B Preferred Stock (the "Offer"), then each holder of the Series B Preferred Stock who does not sell its shares of Series B Preferred Stock pursuant to the Offer shall be deemed irrevocably to have voted or consented all shares of Series B Preferred Stock owned by such holder in favor of the merger or consolidation of the Corporation without any further action by the holder. The Offer shall be at a price of \$1,000 per share, together with accrued and unpaid dividends (whether or not declared) to the date fixed for repurchase including any increase in dividends payable due to changes in the Dividends Received Percentage and Additional Dividends. The Offer shall remain open for acceptance for a period of at least 30 days.

6. Redemption. Prior to August 25, 2008, the Series B Preferred Stock is not redeemable, except as set forth herein. On or after such date, each share of Series B Preferred Stock shall be redeemable, in whole or in part, at the option of the Corporation, at any time and from time to time, out of funds legally available therefor, at a redemption price of \$1,000 per share, plus accrued and unpaid dividends (whether or not declared) to the date fixed for redemption, including any increase in dividends payable due to changes in the Dividends Received Percentage and Additional Dividends. If fewer than all the outstanding shares of Series B Preferred Stock are to be redeemed, the Corporation will select those to be redeemed by lot or pro rata or by any other method as may be determined by the Board of Directors to be equitable.

If, prior to 18 months after the date of the original issuance of the Series B Preferred Stock, one or more amendments to the Code are enacted which result in a reduction of the Dividend Received Percentage to 50% or less, the Corporation, at its option may redeem all, but not less than all, of the outstanding shares of Series B Preferred Stock provided that, within 60 days of the date on which an amendment to the Code is enacted which changes the Dividend Received Percentage to 50% or less, the Corporation sends notice to holders of the Series B Preferred Stock of such redemption. Any redemption of the Series B Preferred Stock pursuant to this paragraph will take place on the

date specified in the notice, which date shall not be less than 30 or more than 60 days from the date such notice is sent to holders of the Series B Preferred Stock. Any redemption of the Series B Preferred Stock in accordance with this paragraph shall be at a redemption price equal to the greater of (i) \$1,000 per share of the Series B Preferred Stock (the "Liquidation Value") to be redeemed or (ii) the sum of the present values of the Remaining Scheduled Dividends prior to August 25, 2028 and the Liquidation Value assuming payment on August 25, 2028, discounted to the redemption date on a quarterly basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Yield plus zero basis points, excluding any increase in dividends payable due to changes in the Dividend Received Deduction Percentage, if any, plus in the case of (i) or (ii) accrued and unpaid dividends (whether or not declared) to the date fixed for redemption.

"Treasury Yield" means, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Rate for such redemption date.

"Comparable Treasury Issue" means the United States Treasury security selected by an Independent Investment Banker as having a maturity of August 25, 2028 that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities maturing on or about August 25, 2028. "Independent Investment Banker" means Smith Barney Inc. or, if such firm is unwilling or unable to select the Comparable Treasury Issue, an independent investment banking institution of national standing appointed by the Corporation.

"Comparable Treasury Rate" means, as of any date of determination, the yield to maturity implied by (i) the yields reported, as of 10:00 A.M. (New York City time) on the second business day preceding such date of determination on the display designated as "Page 678" on the Telerate Access Service (or such other display as may replace Page 678 on Telerate Access Service) for actively traded U.S. Treasury securities having a 30-year maturity as of such date of determination, or (ii) if such yields are not reported as of such time or the yields reported as of such time are not ascertainable, the Treasury Constant Maturity Series Yields reported, for the latest day for which such yields have been so reported as of the second business day preceding the date of determination in Federal Reserve Statistical Release H.15 (519) (or any comparable successor publication) for actively traded U.S. Treasury securities having a 30-year constant maturity as of such date of determination.

"Remaining Scheduled Dividends" means cumulative cash dividends at a rate of 5.68% of the Liquidation Value per share of Series B Preferred Stock equivalent to \$56.80 per annum per share of Series B Preferred Stock from the date specified in the notice until August 25, 2028.

Not more than 60 nor less than 30 days prior to the redemption date, notice by first class mail, postage prepaid, shall be given to the holders of record of the Series B Preferred Stock to be redeemed, addressed to such stockholders at their last addresses as shown on the books of the Corporation. Each such notice of redemption shall specify the date fixed for redemption, the redemption price, the place or places of payment, that payment will be made upon presentation and surrender of the shares of Series B Preferred Stock and that on and after the redemption date, dividends will cease to accumulate on such shares.

Any notice which is mailed as herein provided shall be conclusively presumed to have been duly given, whether or not the holder of Series B Preferred Stock receives such notice; and failure to give such notice by mail, or any defect in such notice, to the holders of any shares designated for redemption shall not affect the validity of the proceedings for the redemption any other shares of Series B Preferred Stock. On or after the date fixed for redemption as stated in such notice, each holder of the shares called for redemption shall surrender the certificate evidencing such shares to the Corporation at the place designated in such notice and shall thereupon be entitled to receive payment of the redemption price. If less than all the shares represented by any such surrendered certificate are redeemed, a new certificate shall be issued representing the unredeemed shares. If, on the date fixed for redemption, funds necessary for the redemption shall be available therefor and shall have been irrevocably deposited or set aside, then, notwithstanding that the certificates evidencing any shares so called for redemption shall not have been surrendered, the dividends with respect to the shares so called shall cease to accumulate after the date fixed for redemption, the shares shall no longer be deemed outstanding, the holders thereof shall cease to be stockholders with respect to such shares, and all rights whatsoever with respect to the shares so called for redemption (except the right of the holders to receive the redemption price without interest upon surrender of their certificates therefor) shall terminate.

The Series B Preferred Stock is not subject to any mandatory redemption, sinking fund or other similar provisions.

7. Outstanding Shares. For purposes of this Certificate of Designations, all shares of Series B Preferred Stock shall be deemed outstanding, except (i) from the date fixed for redemption pursuant to Section 6 hereof, all shares of Series B Preferred Stock that have been so called for redemption under Section 6; and (ii) from the date of registration of transfer, all shares of Series B Preferred Stock held of record by the Corporation or any subsidiary of the Corporation.

8. Preemptive Rights. The Series B Preferred Stock is not entitled to any preemptive or subscription rights in respect of any securities of the Corporation.

9. Severability of Provisions. Whenever possible, each provision hereof shall be interpreted in a manner as to be effective and valid under applicable law, but if any provision hereof is held to be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating or otherwise adversely affecting the remaining provisions hereof. If a court of competent jurisdiction should determine that a provision hereof would be valid or enforceable if a period of time were extended or shortened or a particular percentage were increased or decreased, then such court may make such change as shall be necessary to render the provision in question effective and valid under applicable law.

10. Fractional Shares. The Series B Preferred Stock may be issued in fractions of a share which shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and have the benefit of all other rights of holders of Series B Preferred Stock.

11. Reversion to Corporation. Subject to applicable escheat laws, any monies set aside by the Corporation in respect of any payment with respect to shares of the Series B Preferred Stock, or dividends thereon, and unclaimed at the end of two years from the date upon which such payment is due and payable shall revert to the general funds of the Corporation, after which reversion the holders of such shares shall look only to the general funds of the Company for the payment thereof. Any interest accrued on funds so deposited shall be paid to the Corporation from time to time.

FIFTH. The minimum amount of capital with which the Corporation will commence business is One thousand Dollars (\$1,000.00).

SIXTH. The names and places of residence of the original incorporators were as follows:

NAMES	RESIDENCES
H. K. Webb	Wilmington, Delaware
H. C. Broadt	Wilmington, Delaware
A. D. Atwell	Townsend, Delaware

SEVENTH. The Corporation is to have perpetual existence.

EIGHTH. The private property of the stockholders shall not be subject to the payment of corporate debts to any extent whatever.

NINTH. The number of directors shall be fixed from time to time exclusively by the Board of Directors pursuant to a resolution adopted by a majority of the directors then in office.

At each annual meeting of shareholders commencing in 1986, the terms of office for which candidates are nominated and elected shall be divided so that as nearly as numerically possible the terms of office of one-third of the total number of directors elected and serving upon completion of such election will expire at the annual meeting of shareholders next following the date of such election, and one-third each at each of the two next ensuing annual meetings of shareholders.

A majority of the directors then in office, in their sole discretion and whether or not constituting less than a quorum, may elect a replacement director to serve during the unexpired term of any director previously elected whose office is vacant as a result of death, resignation, retirement, disqualification, removal or otherwise, and may elect directors to fill any newly created directorships created by the Board. At any election of directors by the Board of Directors to fill any vacancy caused by an increase in the number of directors, the terms of office for which candidates are nominated and elected shall be divided as set forth in the immediately preceding paragraph.

Each director shall be elected and serve until his successor shall have been duly elected and qualified unless he shall have resigned, become disqualified, deceased or disabled, or shall otherwise have been removed from office.

In furtherance and not in limitations of the powers conferred by statute, the Board of Directors is expressly authorized:

To make, alter or repeal the by-laws of the Corporation.

To authorize and cause to be executed mortgages and liens upon the real and personal property of the Corporation.

To set apart out of any of the funds of the Corporation available for dividends, a reserve or reserves for any proper purpose and to abolish any such reserve in the manner in which it was created.

By resolution passed by a majority of the whole Board, to designate one or more committees, each committee to consist of two or more of the directors of the Corporation, which, to the extent provided in the resolution or in the by-laws of the Corporation, shall have and may exercise the powers of the Board of Directors in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it. Such committee or committees shall have such name or names as may be stated in the by-laws of the Corporation or as may be determined from time to time by resolution adopted by the Board of Directors.

When and as authorized by the affirmative vote of the holders of a majority of the stock issued and outstanding having voting power given at a stockholders' meeting duly called for that purpose, to sell, lease or exchange all of the property and assets of the Corporation,

including its good will and its corporate franchises, upon such terms and conditions and for such consideration which may be in whole or in part shares of stock in, and/or other securities of, any other corporation or corporations, as its Board of Directors shall deem expedient and for the best interest of the Corporation.

Notwithstanding anything contained in this Certificate of Incorporation to the contrary, the affirmative vote of the holders of four-fifths of all classes of stock of the Corporation entitled to vote in the election of directors, considered as one class, shall be required to alter, amend, or adopt any provision inconsistent with or repeal this Article NINTH.

In the absence of fraud no contract or other transaction between this Corporation and any other corporation shall be affected by the fact that any director of this Corporation is interested in, or is a director or officer of, such other corporation, and any director, individually or jointly, may be a party to, or may be interested in, any contract or transaction of this Corporation or in which this Corporation is interested; and no contract, or other transaction of this Corporation with any person, firm, or corporation, shall be affected by the fact that any director of this Corporation is a party to, or is interested in, such contract, act, or transaction, or in any way connected with such person, firm, or corporation, and every person who may become a director of this Corporation is hereby relieved from any liability that might otherwise exist from contracting with the Corporation for the benefit of himself or any firm, association, or corporation in which he may be in any way interested.

TENTH. Whenever a compromise or arrangement is proposed between this Corporation and its creditors or any class of them and/or between this Corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of this Corporation or of any creditor or stockholder thereof, or on the application of any receiver or receivers appointed for this Corporation under the provisions of Section 291 of Title 8 of the Delaware Code, or on the application of trustees in dissolution or of any receiver or receivers appointed for this Corporation under the provisions of Section 279 of Title 8 of the Delaware Code, order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this Corporation, as the case may be, to be summoned in such manner as the said court directs. If a majority in number representing three-fourths in value of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this Corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of this Corporation as consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which the said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders, of this Corporation, as the case may be, and also on this Corporation.

ELEVENTH. Meetings of stockholders may be held outside the state of Delaware, if the by-laws so provide. The books of the Corporation may be kept (subject to any provision contained in the statutes) outside of the state of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the by-laws of the Corporation. Election of directors need not be by ballot unless the by-laws of the Corporation shall so provide.

TWELFTH. A. Except as set forth in this article, the affirmative vote or consent of the holders of four-fifths of all classes of stock of the Corporation entitled to vote in elections of directors, considered for the purposes of this article as one class, shall be required (a) for the adoption of any agreement for the merger or consolidation of the Corporation with or into any other corporation, or (b) to authorize any sale or lease of all or any substantial part of the assets of the Corporation to, or any sale or lease to the Corporation or any subsidiary thereof in exchange for securities of the Corporation of any assets (except assets having an aggregate fair market value of less than \$5,000,000) of, any other corporation, person or other entity if, in either case, as of the record date for the determination of stockholders entitled to vote thereon or consent thereto, such other corporation, person or entity is the beneficial owner, directly or indirectly, of more than 5% of the outstanding shares of stock of the Corporation entitled to vote in elections of directors considered for the purposes of this article as one class. Such affirmative vote or consent shall be in addition to the vote or consent of the holders of the stock of the Corporation otherwise required by law or any agreement between the Corporation and any national securities exchange.

B. For the purpose of this article, (a) any corporation, person or other entity shall be deemed to be the beneficial owner of any shares of stock of the Corporation (i) which it has the right to acquire pursuant to any agreement or upon exercise of conversion rights, warrants or options or otherwise, or (ii) which are beneficially owned directly or indirectly (including shares deemed owned through application of clause (i) above), by any other corporation, person or entity with which it or its "affiliate" or "associate" (as defined below) has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of stock of the Corporation or which is its "affiliate" or "associate" as those terms are defined in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934 as in effect at the date of adoption of this article by the shareholders of the Corporation, and (b) the outstanding shares of any class of stock of the Corporation shall include shares deemed owned through application of clauses (i) and (ii) above but shall not include any other shares which may be issuable pursuant to any agreement, or upon exercise of conversion rights, warrants or options or otherwise.

C. The Board of Directors shall have the power and duty to determine for the purposes of this article, on the basis of information known to the Corporation, whether (a) such other corporation, person or entity beneficially owns more than 5% of the outstanding shares of stock of the Corporation entitled to vote in elections of directors, (b) a corporation, person or entity is an "affiliate" or "associate" (as defined above) of another, (c) the assets being acquired by the Corporation or any subsidiary thereof have the aggregate fair market value of less than \$5,000,000, and (d) the memorandum of understanding referred to below is substantially consistent with the transaction covered thereby. Any such determination shall be conclusive and binding for all purposes of this article.

D. The provisions of this article shall not be applicable to (a) any merger or consolidation of the Corporation with or into any other corporation, or any sale or lease of all or any substantial part of the assets of the Corporation or any subsidiary thereof in exchange for securities of the Corporation or of any assets of, any corporation, if the Board of Directors of the Corporation shall by resolution have approved a memorandum of understanding with such other corporation with respect to and substantially consistent with such transaction prior to the time that such other corporation shall have become a holder of more than 5% of the

outstanding shares of stock of the Corporation entitled to vote in elections of directors; (b) any merger or consolidation of the Corporation with, or any sale or lease to the Corporation or any subsidiary thereof of any of the assets of, any corporation of which a majority of the outstanding shares of all classes of stock entitled to vote in elections of the directors is owned of record or beneficially by the Corporation and its subsidiaries.

E. No amendment to the Certificate of Incorporation of the Corporation shall amend, alter, change or repeal any of the provisions of this article, unless the amendment effecting such amendment, alteration, change or repeal shall receive the affirmative vote or consent of the holders of four-fifths of all classes of stock of the Corporation entitled to vote in elections of directors, considered for the purposes of this article as one class.

THIRTEENTH. The Corporation reserves the right, except as herein provided, to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

FOURTEENTH. A. Any resolution adopted by the Board of Directors in connection with a Second Tier Transaction shall include provisions assuring that each holder of Common Stock (other than a Related Person) shall have the right (which right may be an alternative to other options offered to such holder) to receive not less than the highest price paid by, and to receive terms not less favorable than the most favorable terms granted by, any Related Person in connection with the acquisition of Common Stock pursuant to a Tender Offer.

B. The term "Related Person" means any corporation, person or other entity that has Beneficial Ownership, directly or indirectly, of more than 5% of the outstanding Voting Stock. In determining the outstanding Voting Stock, there shall be included Voting Stock as to which a Related Person has Beneficial Ownership, but there shall not be included any other Voting Stock which may be issuable pursuant to any agreement, or upon exercise of conversion rights, warrants or options or otherwise. The Board of Directors shall have the power and duty to determine for the purposes of this article, on the basis of information known to the Corporation, whether (a) such other corporation, person or entity has Beneficial Ownership of more than 5% of the outstanding Voting Stock, or (b) a corporation, person or entity is an "affiliate" or "associate" (as defined below) of another for purposes of determining Beneficial Ownership. Any such determination shall be conclusive and binding for all purposes of this article.

The term "Beneficial Ownership" shall include without limitation: (i) all Voting Stock directly or indirectly owned by a person or entity, by an "affiliate" or "associate" of a person or entity, (as those terms are defined in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended, as in effect at the date of adoption of this article); (ii) all Voting Stock which such person or entity, affiliate or associate has the right to acquire (a) through the exercise of any option, warrant or right (whether or not currently exercisable), (b) through the conversion of a security, (c) pursuant to the power to revoke a trust, discretionary account, or similar arrangement; and (iii) all Voting Stock as to which such person or entity, affiliate or associate, directly or indirectly, through any contract, arrangement, understanding, relationship, or otherwise (including without limitation any written or unwritten agreement to act in concert) has or shares voting power (which includes the power to vote or

to direct the voting of such Voting Stock) or investment power (which includes the power to dispose or to direct the disposition of such Voting Stock) or both.

The term "Second Tier Transaction" means, at such time that there is a Related Person which has acquired Voting Stock by means of a Tender Offer, (a) the adoption, or submission to the shareholders of the Corporation for approval, or any agreement or plan for the merger, consolidation or reorganization of the Corporation with or into any other corporation or entity, or (b) the authorization of any sale or lease of all or substantially all of the assets of the Corporation or (c) the issuance or sale by the Corporation of any equity security (as that term is defined in the Securities Exchange Act of 1934, as amended) to a Related Person or any affiliate or associate of a Related Person under circumstances that holders of Voting Stock do not have the opportunity to purchase such equity on a pro rata basis.

The term "Tender Offer" means any tender offer for, or request or invitation for tenders of, Voting Stock, within the meaning of Section 14(d)(1) of the Securities Exchange Act of 1934, as amended, and any purchase or series of purchases of Voting Stock at or above then prevailing market prices for such Voting Stock pursuant to which more than 5% of the outstanding Voting Stock is acquired in any two-year period.

The term "Voting Stock" means securities of the Corporation entitled under ordinary circumstances to vote in elections of directors, considered for the purposes of this article as one class.

C. No amendment to the Certificate of Incorporation shall amend, alter, change or repeal any of the provisions of this article, unless the amendment effecting such amendment, alteration, change or repeal shall receive the affirmative vote or consent of the holders of four-fifths of the Voting Stock and shall receive the affirmative vote or consent of a majority of all Voting Stock other than Voting Stock of which a Related Person has Beneficial Ownership.

FIFTEENTH. A. Subject to Paragraph B below, the Corporation shall not acquire, directly or indirectly, any Voting Stock, by purchase, exchange or otherwise from any Related Person.

B. This article shall not be applicable to any acquisition of Voting Stock (1) pursuant to a Tender Offer made to all holders of any class of Voting Stock on the same price, terms and conditions and, if for less than all of the Voting Stock, subject to pro rata acceptance (except as to holders of fewer than 100 shares), (2) in compliance with Rule 10b-18 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended, as in effect at the date of adoption of this article, or (3) for a total consideration per share, including payment for legal fees, investment banking fees, brokerage fees and related costs and expenses of the holder in acquiring such Voting Stock, not in excess of the Market Value Per Share.

C. The term "Related Person" means any corporation, person or entity that has Beneficial Ownership, directly or indirectly, of more than 5% of the outstanding Voting Stock. In determining the outstanding Voting Stock of the Corporation, there shall be included Voting Stock as to which a Related Person has Beneficial Ownership, but there shall not be included any other Voting Stock which may be issuable pursuant to any agreement, or upon exercise

of conversion rights, warrants or options or otherwise. The Board of Directors shall have the power and duty to determine for the purposes of this article, on the basis of information known to the Corporation, whether (a) such other corporation, person or entity has Beneficial Ownership of more than 5% of the outstanding Voting Stock, or (b) a corporation, person or entity is an "affiliate" or "associate" (as defined below) of another for purposes of determining Beneficial Ownership. Any such determination shall be conclusive and binding for all purposes of this article.

The term "Beneficial Ownership" shall include without limitation: (i) all Voting Stock directly or indirectly owned by a person or entity, by an "affiliate" or "associate" of a person or entity, (as those terms are defined in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act, as amended, as in effect at the date of adoption of this article); (ii) all Voting Stock which such person or entity, affiliate or associate has the right to acquire (a) through the exercise of any option, warrant or right (whether or not currently exercisable), (b) through the conversion of a security, (c) pursuant to the power to revoke a trust, discretionary account, or similar arrangement; and (iii) all Voting Stock as to which such person or entity, affiliate or associate, directly or indirectly, through any contract, arrangement, understanding, relationship, or otherwise (including without limitation any written or unwritten agreement to act in concert) has or shares voting power (which includes the power to vote or to direct the voting of such Voting Stock) or investment power (which includes the power to dispose or to direct the disposition of such Voting Stock) or both.

The term "Market Value Per Share" means for the 30-day period immediately preceding the date on which Voting Stock is acquired (i) the average closing price on the Composite Tape for New York Stock Exchange Issues, (ii) if the Voting Stock is not quoted on the Composite Tape or is not listed on such Exchange, the average closing price on the principal United States securities exchange registered under the Securities Exchange Act of 1934, on which such stock is listed, (iii) if such stock is not listed on any such exchange, the average closing bid quotation on the National Association of Securities Dealers, Inc., Automated Quotations System or any comparable system then in use, or (iv) if no such quotations are available, the fair market value as determined by the Board of Directors in its discretion.

The term "Voting Stock" means securities of the Corporation entitled under ordinary circumstances to vote in elections of directors, considered for the purposes of this article as one class.

SIXTEENTH. Except as otherwise expressly provided in this Certificate of Incorporation, any action required or permitted to be taken by the shareholders of the Corporation must be effected at a duly called annual or special meeting of the shareholders and may not be effected by any consent in writing by shareholders, and the affirmative vote of the holders of four-fifths of all classes of stock of the Corporation entitled to vote in elections of directors, considered as one class, shall be required to alter, amend, or adopt any provision inconsistent with, or to repeal, this Article SIXTEENTH.

SEVENTEENTH. No director shall be personally liable to the Corporation or any stockholder for monetary damages for breach of fiduciary duty as a director, except for any matter in respect to which such director shall be liable under Section 174 of Title 8 of the

Delaware Code (relating to the Delaware General Corporation Law) or any amendment thereto or successor provision thereto or shall be liable by reason that, in addition to any and all other requirements for such liability, he (i) shall have breached his duty of loyalty to the Corporation or its stockholders, (ii) shall not have acted in good faith, or in failing to act, shall not have acted in good faith, (iii) shall have acted in a manner involving intentional misconduct or a knowing violation of law or, in failing to act, shall have acted in a manner involving intentional misconduct or a knowing violation of law or (iv) shall have derived an improper personal benefit. Neither the amendment nor repeal of this Article SEVENTEENTH, nor the adoption of any provision of the Certificate of Incorporation inconsistent with this Article SEVENTEENTH, shall eliminate or reduce the effect of this Article SEVENTEENTH, in respect to any matter occurring, or any cause of action, suit or claim that, but for this Article SEVENTEENTH would accrue or arise, prior to such amendment, repeal or adoption of an inconsistent provision.

4. This Restated Certificate of Incorporation was duly adopted by the Board of Directors in accordance with Section 245 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, said Apache Corporation has caused this Restated Certificate of Incorporation to be signed by Cheri L. Peper, its Corporate Secretary, and attested by Jeffrey B. King, its Assistant Secretary, this 11th day of February 2004.

APACHE CORPORATION

By: /s/ Cheri L. Peper  
-----  
Cheri L. Peper  
Corporate Secretary

ATTEST:

By: /s/ Jeffrey B. King  
-----  
Jeffrey B. King  
Assistant Secretary

BYLAWS OF  
APACHE CORPORATION  
(AS AMENDED FEBRUARY 5, 2004)

ARTICLE I.

NAME OF CORPORATION

The name of the corporation is Apache Corporation.

ARTICLE II.

OFFICES

SECTION 1. The principal office of the corporation shall be in the City of Wilmington, County of New Castle, State of Delaware, and the name of its resident agent in charge thereof is The Corporation Trust Company.

SECTION 2. The corporation may have such other offices either within or without the State of Delaware as the board of directors may designate or as the business of the corporation may from time to time require.

ARTICLE III.

SEAL

The corporate seal shall have inscribed upon it the name of the corporation and other designations as the board of directors from time to time determine. There may be alternate seals of the corporation.

ARTICLE IV.

MEETINGS OF STOCKHOLDERS

SECTION 1. PLACE OF MEETINGS. All meetings of the stockholders of the corporation shall be held at the office of the corporation in the City of Houston, Texas, or at any other place within or without the State of Delaware that shall be stated in the notice of the meeting.

SECTION 2. ANNUAL MEETINGS. The annual meeting of stockholders of the corporation shall be held at the place and time within or without the State of Delaware that may be designated by the board of directors, on the last Thursday in April in each year or on such other date as may be designated by the board of directors, if not a legal holiday, and if a legal holiday, then at the same time on the next succeeding business day for the purpose of electing directors and for the transaction of any other business that may properly come before the meeting.

SECTION 3. SPECIAL MEETINGS OF THE STOCKHOLDERS. Special meetings of the stockholders of the corporation, for any purpose or purposes, unless otherwise prescribed by statute, may be called by the chairman of the board or the chief executive officer and shall be called by the chairman of the board, chief executive officer, or secretary at the request in writing of a majority of the board of directors. The request shall state the purpose or purposes of the proposed meeting.

SECTION 4. NOTICE OF MEETING. Written or printed notice stating the place, day and hour of the meeting and in the case of special meeting, the purpose or purposes for which the meeting is called, shall be delivered not less than ten nor more than 50 days before the date of the meeting either personally, by mail or other lawful means by or at the direction of the chairman of the board, the chief executive officer, or the secretary to each stockholder of record entitled to vote at the meetings. If mailed, the notice shall be deemed to be delivered when deposited in the United States Postal Service, addressed to the stockholder at his address as it appears on the stock transfer books of the corporation with postage thereon prepaid.

SECTION 5. CLOSING OF TRANSFER BOOKS FOR FIXING OF RECORD DATE. For the purpose of determining stockholders entitled to notice of or to vote at any meeting of stockholders or adjournment thereof, the board of directors may close the stock transfer books of the corporation for a period not exceeding 50 days preceding the date of any meeting of stockholders. In lieu of closing the stock transfer books, the board of directors may fix in advance a date, not exceeding 50 days preceding the date of any meeting of stockholders, as a record date for the determination of the stockholders entitled to notice of and to vote at the meeting and any adjournment thereof, and only the stockholders as shall be stockholders of record on the date so fixed shall be entitled to the notice of and to vote at the meeting and any adjournment thereof.

SECTION 6. VOTING LISTS. The officer or agent having charge of the stock transfer books for shares of the corporation shall prepare and make, at least ten days before every meeting of the stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. The list shall be open to the examination of any stockholder during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city where the election is to be held and which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held, and the list shall be produced and kept at the time and place of the meeting during the whole time thereof,

and subject to the inspection of any stockholder who may be present. Upon the willful neglect or refusal of the board of directors of the corporation to produce a list at any meeting of the stockholders at which an election is to be held in accordance with this Section 6, they shall be ineligible to hold any office at such election.

SECTION 7. VOTING RIGHTS. At each meeting of the stockholders of the corporation, every stockholder having the right to vote thereat shall be entitled to vote in person or by proxy, but no proxy shall be voted after three years from its date unless the proxy provides for a longer period. Except as otherwise provided by law or the Certificate of Incorporation, each stockholder shall have one vote for each share of stock having voting power registered in his name. The vote at an election for directors, and upon the demand of any stockholder, the vote upon any question before a meeting of the stockholders, shall be by written ballot. All elections shall be had and all questions decided by a plurality vote except where by statute, by provision in the Certificate of Incorporation or these bylaws it is otherwise provided.

Prior to any meeting, but subsequent to the date fixed by the board of directors pursuant to Section 5 of Article IV of these bylaws, any proxy may submit his proxy to the secretary for examination. The certificate of the secretary as to the regularity of the proxy and as to the number of shares held by the persons who severally and respectively executed such proxies shall be received as prima facie evidence of the number of shares represented by the holder of the proxy for the purpose of establishing the presence of a quorum at the meeting and of organizing the same.

SECTION 8. QUORUM. The holders of a majority of the stock issued and outstanding and entitled to vote thereat, initially present in person or represented by proxy, shall be requisite, and shall constitute a quorum of all meetings of the stockholders for the transaction of business except as otherwise provided by law, by the Certificate of Incorporation, or by these bylaws. If, however, a majority shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person or by proxy, shall have power to adjourn the meeting from time to time, without notice, other than announcement at the meeting, until the requisite amount of voting stock shall be present. At the adjourned meeting at which the requisite amount of voting stock shall be represented, any business may be transacted which might have been transacted at the meeting as originally notified.

SECTION 9. INSPECTORS. At each meeting of the stockholders, the polls shall be opened and closed. The proxies and the ballots shall be received and taken in charge and all questions touching the qualifications of voters and the validity of proxies and the acceptance or rejection of votes shall be decided by three inspectors. The inspectors shall be appointed by the board of directors before or at the meeting, or if no appointment shall have been made, then by the presiding officer at the meeting. If, for any reason any of the inspectors previously appointed shall fail to attend or refuse or be unable to serve, inspectors in place of any so failing to attend or refusing or unable to serve shall be appointed in like manner.

SECTION 10. WAIVER OF NOTICE. Whenever any notice whatever is required to be given pursuant to the provisions of a statute, the Certificate of Incorporation or these bylaws of the corporation, a waiver thereof in writing signed by the person or persons entitled to the notice, whether before or after the time stated therein, shall be deemed equivalent thereto.

SECTION 11. STOCKHOLDER ACTION. Any action required or permitted to be taken by the stockholders must be effected at a duly called annual or special meeting of stockholders and may not be effected by any consent in writing by stockholders.

SECTION 12. NOTICE OF STOCKHOLDER BUSINESS. At an annual meeting of the stockholders, only business shall be conducted that has been properly brought before the meeting. To be properly brought before an annual meeting, business must be (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the board of directors, (b) otherwise properly brought before the meeting by or at the direction of the board of directors, or (c) otherwise properly brought before the meeting by a stockholder, which stockholder must have given timely notice thereof in writing to the secretary of the corporation. To be timely, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the corporation not less than 120 days prior to the meeting. A stockholders' notice to the secretary shall set forth as to each matter the stockholder proposes to bring before the annual meeting (w) a brief description of the business desired to be brought before the annual meeting, (x) the name and address, as they appear on the corporation's books, of the stockholder proposing the business, (y) the class and number of shares of the corporation which are beneficially owned by the stockholder, and (z) any material interest of the stockholder in the business. Notwithstanding anything in these bylaws to the contrary, no business shall be conducted at an annual meeting except in accordance with the procedures set forth in this Section 12. The chairman of an annual meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the provisions of this Section 12, and if he should so determine, he shall so declare to the meeting and any business not properly brought before the meeting shall not be transacted. This section sets forth only the procedure by which business may be properly brought before an annual meeting of stockholders and does not in any way grant additional rights to stockholders beyond those currently afforded them by law.

SECTION 13. NOTICE OF STOCKHOLDER NOMINEES. Only persons who are nominated in accordance with the procedures set forth in this Section 13 shall be eligible for election as directors. Nominations of persons for election to the board of directors of the corporation may be made at a meeting of stockholders, by or at the direction of the board of directors or by any stockholder of the corporation entitled to vote for the election of directors at the meeting who complies with the notice procedures set forth in this Section 13. Any nominations, other than those made by or at the direction of the board of directors, shall be made pursuant to timely notice in writing to the secretary of the corporation. To be timely, a stockholder's notice shall be delivered to or mailed and received at the principal executive offices of the corporation

not less than 120 days prior to the meeting. The stockholder's notice shall set forth (a) as to each person whom the stockholder proposes to nominate for election or reelection as a director (i) the name, age, business address and residence address of the person, (ii) the principal occupation or employment of the person, (iii) the class and number of shares of the corporation which are beneficially owned by the person, and (iv) any other information relating to the person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (including without limitation the person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); and (b) as to the stockholder giving the notice (i) the name and address, as they appear on the corporation's books, of the stockholder and (ii) the class and number of shares of the corporation which are beneficially owned by the stockholder. At the request of the board of directors, any person nominated by the board of directors for election as a director shall furnish to the secretary of the corporation that information required to be set forth in a stockholder's notice of nomination which pertains to the nominee. No person shall be eligible for election as a director of the corporation unless nominated in accordance with the procedures set forth in this Section 13. The chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the procedures prescribed by these bylaws, and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded. This section sets forth only the procedure by which nominations for directors may be made and does not in any way grant additional rights to stockholders beyond those currently afforded them by law.

#### ARTICLE V.

#### DIRECTORS

SECTION 1. GENERAL POWERS. The property, business and affairs of the corporation shall be managed by its board of directors which may exercise all powers of the corporation and do all lawful acts and things as are not by statute or by the Certificate of Incorporation or by these bylaws directed or required to be exercised or done by the stockholders.

SECTION 2. NUMBER, TENURE AND QUALIFICATIONS. The directors shall be elected in the manner set forth in Article Ninth of the Certification of Incorporation of the corporation; however, if the corporation has outstanding any shares of one or more series of stock with conditional rights to elect a set number of directors, and if the conditions precedent to the exercise of any such rights arise, the number of directors of the corporation shall be automatically increased to permit the exercise of the voting rights of each such series of stock. The term of office of directors shall be three years except as provided in Article Ninth of the Certificate of Incorporation of the corporation. Directors need not be stockholders or residents of the State of Delaware. A majority of the directors shall be "independent" under the criteria set by any applicable law, regulation and/or listing standard.

SECTION 3. VACANCIES AND NEWLY CREATED DIRECTORSHIPS. Any vacancies on the board of directors or any newly created directorships shall be filled by the board of directors in the manner set forth in Article Ninth of the Certificate of Incorporation of the corporation. If the directors then in office shall constitute less than a majority of the whole board (as constituted immediately prior to any increase therein), then upon application, any stockholder or stockholders holding at least ten percent of the total number of shares of the capital stock of the corporation at the time outstanding having the right to vote for directors may require the board of directors to call a special meeting of the stockholders for the purpose of electing directors to fill the vacancy or vacancies or newly created directorships or to replace the director or directors chosen by the directors then in office as aforesaid. The person or persons elected at a special meeting of the stockholders shall serve as director or as directors until the next annual meeting of stockholders and until their successors are duly elected and qualified and shall displace any person or persons who may theretofore have been appointed by the directors then in office as aforesaid.

SECTION 4. CATASTROPHE. During any emergency period following a national catastrophe due to enemy attack, or act of God, a majority of the surviving members of the board who have not been rendered incapable of acting due to physical or mental incapacity or due to the difficulty of transportation to the place of the meeting shall constitute a quorum for the purpose of filling vacancies on the board of directors and among the elected and appointed officers of the corporation.

SECTION 5. PLACE OF MEETINGS. The directors of the corporation may hold their meetings, both regular and special, at a place or places within or without the State of Delaware that the board of directors may from time to time determine.

SECTION 6. FIRST MEETING. The first meeting of the board of directors following the annual meeting of stockholders shall be held at the time and place that shall be fixed by the chairman of the board or the chief executive officer and shall be called in the same manner as a special meeting.

SECTION 7. REGULAR MEETINGS. Regular meetings of the board of directors may be held without notice at the time and place that shall from time to time be determined by the board of directors.

SECTION 8. SPECIAL MEETINGS. Special meetings of the board of directors may be called by the chairman of the board or the chief executive officer on three days notice to each director, either personally or by mail, by telegram, or by facsimile or other lawful means; special meetings of the board of directors shall be called by the chairman of the board, chief executive officer, or secretary in like manner and upon like notice upon the written request of two directors.

SECTION 9. QUORUM. At all meetings of the board of directors, a majority of the directors shall be necessary and sufficient to constitute a quorum for the transaction of

business, and the act of a majority of the directors present at any meeting, at which there is a quorum present, shall be the act of the board of directors, except as may be otherwise specifically provided by statute, the Certificate of Incorporation or by these bylaws. If at any meeting of the board of directors there shall be less than a quorum present, a majority of those present may adjourn the meeting from time to time without notice, other than by announcement at the meeting, until a sufficient number of directors to constitute a quorum shall attend. At any adjourned meeting at which a quorum shall be present, any business may be transacted which might have been transacted at the original meeting as originally notified.

SECTION 10. BUSINESS TO BE CONDUCTED. Unless otherwise indicated in the notice, any and all business may be transacted at a regular or special meeting of the board of directors. In the event a special meeting of the board of directors is held without notice, any and all business may be transacted at the meeting provided all directors are present.

SECTION 11. ORDER OF BUSINESS. At all meetings of the board of directors, business shall be transacted in the order that from time to time the board may determine by resolution. At all meetings of the board of directors the chairman of the board or in his absence the vice chairman, or in their absence the chief executive officer shall preside. In the absence of the chairman and vice chairman of the board and the chief executive officer, the directors present shall elect any director as chairman of the meeting.

SECTION 12. COMPENSATION OF DIRECTORS. Directors of the corporation shall receive the compensation for their services that the board of directors may from time to time determine and all directors shall be reimbursed for their expenses of attendance at each regular or special meeting of the board or any committee thereof.

SECTION 13. COMMITTEES. The board of directors may by resolution passed by a majority of the board, in addition to the executive committee, designate one or more committees. Each such committee shall consist of one or more of the directors of the corporation, such number to be set by resolution of the board of directors, or as otherwise provided in Section 14 below. Any committee, to the extent provided in the resolution, shall have and may exercise the powers of the board of directors in the management of the business and affairs of the corporation, and may authorize the seal of the corporation to be affixed to all papers which may require it. Any committee or committees shall have the name or names that may be determined from time to time by resolution adopted by the board of directors. Other than for a committee of one director, the chairman of the board and the chief executive officer shall be ex officio members of any board committee except the audit committee, the management development and compensation committee, and the stock option plan committee.

SECTION 14. EXECUTIVE COMMITTEE.

A. MEMBERS. The executive committee shall consist of such number of directors as set by resolution of the board of directors, with a minimum of four members, and shall

include the chairman and vice chairman of the board and the chief executive officer as ex officio members, together with the other members of the board of directors, as may be the case, designated by the board of directors.

B. TERM OF OFFICE. Each of the elected members of the executive committee shall be elected for a one year term and shall serve until his successor shall have been duly elected and qualified.

C. ELECTION. The election of members of the executive committee shall be held each year at the first meeting of the board of directors following the annual meeting of stockholders. Should a member of the executive committee for any reason be unable to serve for the term to which he was elected, the vacancy shall be filled by the board of directors at its next meeting following the occurrence of such vacancy.

D. COMPENSATION. Each member of the executive committee shall receive the compensation that the board of directors shall from time to time determine and shall be reimbursed for their expenses of attendance at regular or special meetings.

E. CHAIRMAN AND SECRETARY OF THE EXECUTIVE COMMITTEE. The chairman and secretary of the executive committee shall be elected by members of the executive committee.

F. MEETINGS. Regular meetings of the executive committee may be held without call or notice of the time and place that the executive committee determines. Special meetings of the executive committee may be called by any member, either personally or by mail, by telegram, by facsimile or other lawful means forwarded not later than 48 hours prior to the date and time set forth for the meeting. Upon request of any member, the secretary of the corporation shall give the required notice calling the meeting.

G. QUORUM. At any meeting of the executive committee, a majority of the committee members shall constitute a quorum. Any action of the executive committee to be effective must be authorized by the affirmative votes of a majority of committee members.

H. RULES. The executive committee shall fix its own rules of procedure, provided the same do not contravene the provisions of the law, the Certificate of Incorporation or these bylaws.

I. AUTHORITY AND RESPONSIBILITY.

(a) The executive committee is vested with the authority to exercise the full power of the board of directors, within the policies established by the board of directors to govern the conduct of the business of the corporation, in the intervals between meetings of the board of directors.

(b) The executive committee, in addition to the general authority vested in it, may be vested with other specific powers and authority by resolution of the board of directors.

J. REPORTS. All action by the executive committee shall be reported to the board of directors at its meeting next succeeding the action, and shall be subject to revision or alteration by the board of directors; provided, however, that no rights or acts of third parties shall be affected by any such revision or alteration.

#### SECTION 15. AUDIT COMMITTEE.

A. The Audit Committee shall be governed by the Audit Committee Charter, as adopted, amended, modified or supplemented from time to time by the board of directors, which shall set forth the membership, authority and responsibilities of the Audit Committee. The Audit Committee Charter shall be issued, modified, amended, supplemented or repealed only by a majority vote of the full board of directors.

#### SECTION 16. MANAGEMENT DEVELOPMENT AND COMPENSATION COMMITTEE

A. The Management Development and Compensation ("MD&C") Committee shall be governed by the MD&C Committee Charter, as adopted, amended, modified or supplemented from time to time by the board of directors, which shall set forth the membership, authority and responsibilities of the MD&C Committee. The MD&C Committee Charter shall be issued, modified, amended, supplemented or repealed only by a majority vote of the full board of directors.

#### SECTION 17. STOCK OPTION PLAN COMMITTEE

A. MEMBERS. The stock option plan committee shall include only directors of the corporation who qualify as "outside directors" pursuant to Section 162(m) or any successor section(s) of the Internal Revenue Code of 1986, as amended, and the rules and regulations promulgated thereunder.

B. TERM OF OFFICE. Each of the elected members of the stock option plan committee shall be elected for a one year term and shall serve until a successor shall have been duly elected and qualified.

C. ELECTION. The election of members of the stock option plan committee shall be held each year at the first meeting of the board of directors following the annual meeting of stockholders. Should a member of the stock option plan committee for any reason be unable to serve for the term to which he was elected, the vacancy shall be filled by the board of directors at its next meeting.

D. COMPENSATION. Each member of the stock option plan committee shall receive the compensation the board of directors determines and shall be reimbursed for their expenses for attendance at regular or special meetings.

E. CHAIRMAN AND SECRETARY OF THE STOCK OPTION PLAN COMMITTEE. The chairman and secretary of the stock option plan committee shall be elected by the members of the stock option plan committee.

F. MEETINGS. Regular meetings of the stock option plan committee may be held without call or notice of the time and place that the stock option plan committee determines. Special meetings of the stock option plan committee may be called by any member, either personally or by mail, by telegram, by facsimile or other lawful means forwarded not later than 48 hours prior to the date and time set forth for the meeting. Upon request of any member, the secretary of the corporation shall give the required notice calling the meeting.

G. QUORUM. At any meeting of the stock option plan committee, a majority of committee members shall constitute a quorum, provided that such quorum shall not be less than two members. Any action of the stock option plan committee to be effective must be authorized by the affirmative votes of a majority of committee members.

H. RULES. The stock option plan committee shall determine its own rules of procedure, provided the rules do not contravene the provisions of the law, the Certificate of Incorporation or these bylaws.

I. AUTHORITY AND RESPONSIBILITY. The stock option plan committee has two principal responsibilities:

(a) to monitor and report on the corporation's stock option plans; and

(b) to establish any performance goals under which compensation in the form of stock option grants is paid to employees of the corporation, and to make such grants of stock options, in the discretion of the stock option plan committee, on the terms and conditions set forth in the option plans or otherwise established by the stock option plan committee.

J. REPORTS. All action by the stock option plan committee shall be reported to the board of directors at its next meeting, and is subject to ratification by the board of directors.

#### SECTION 18. CORPORATE GOVERNANCE AND NOMINATING COMMITTEE.

A. The Corporate Governance and Nominating Committee shall be governed by the Corporate Governance and Nominating Committee Charter, as adopted, amended, modified or supplemented from time to time by the board of directors, which shall set forth the membership, authority and responsibilities of the Corporate Governance and

Nominating Committee. The Corporate Governance and Nominating Committee Charter shall be issued, modified, amended, supplemented or repealed only by a majority vote of the full board of directors.

SECTION 19. ELECTION OF OFFICERS. At the first meeting of the board of directors in each year, at which a quorum shall be present, following the annual meeting of the stockholders of the corporation, the board of directors shall proceed to the election of the officers of the corporation, except regional or staff officers who are subject to appointment in accordance with Section 20 of Article VI of these bylaws.

SECTION 20. ACTION WITHOUT MEETING. Any action required or permitted to be taken at any meeting of the board of directors or of any committee thereof may be taken without a meeting, if prior to the action a written consent thereto is signed by all members of the board of directors or of the committee, as the case may be, and such written consent is filed with the minutes of the proceedings of the board of directors or committee.

SECTION 21. WAIVER OF NOTICE. Whenever any notice whatever is required to be given pursuant to the provisions of a statute, the Certificate of Incorporation or these bylaws of the corporation, a waiver thereof in writing signed by the person or persons entitled to the notice, whether before or after the time stated therein, shall be deemed equivalent thereto.

#### ARTICLE VI.

##### OFFICERS

SECTION 1. OFFICERS. The officers of the corporation shall be a chairman of the board, vice chairman of the board, chief executive officer, president, one or more executive vice presidents, one or more senior vice presidents, one or more vice presidents, secretary, treasurer, controller and such assistant vice presidents, assistant secretaries, assistant treasurers and assistant controllers as the board of directors may provide for and elect. The chairman of the board and the vice chairman of the board shall be members of the board of directors. Any two or more offices may be held by the same person. The board of directors may appoint such other officers as they shall deem necessary, who shall have the authority and shall perform the duties that from time to time may be prescribed by the board of directors. In its discretion, the board of directors by a vote of a majority thereof may leave unfilled for any period that it may fix by resolution any office except those of president, treasurer and secretary.

SECTION 2. ELECTION. The board of directors at their first meeting after each annual meeting of the stockholders or at any regular or special meeting shall elect, as may be required, a chairman of the board, vice chairman of the board, chief executive officer, president, and one or more executive vice presidents, senior vice presidents, vice presidents, a secretary, treasurer, controller, and assistant vice presidents, assistant secretaries, assistant treasurers, and assistant controllers.

SECTION 3. TENURE. The officers of the corporation elected by the board of directors shall hold office for one year and until their successors are chosen and qualify in their stead. Any officer elected or appointed by the board of directors may be removed at any time by the affirmative vote of a majority of the board of directors.

SECTION 4. SALARIES. The salaries of the officers of the corporation shall be recommended by the management development and compensation committee and approved by the board of directors.

SECTION 5. VACANCIES. If the office of any officer of the corporation becomes vacant by reason of death, resignation, disqualification or otherwise, the directors by a majority vote, may choose his successor or successors.

SECTION 6. RESIGNATION. Any officer may resign his office at any time, such resignation to be made in writing and take effect at the time of receipt by the corporation, unless some time be fixed in the resignation and then from that time. The acceptance of a resignation shall not be required to make it effective.

SECTION 7. DELEGATION OF DUTIES. Duties of officers may be delegated in case of the absence of any officer of the corporation or for any reason that the board of directors may deem sufficient. The board of directors may delegate the powers or duties of the officer to any other officer or to any director, except as otherwise provided by statute, for the time being, provided a majority of the entire board of directors concurs therein.

SECTION 8. CHAIRMAN OF THE BOARD. The chairman of the board shall participate in the management of the corporation's business and affairs and shall also see that all the policies and resolutions of the board of directors are carried into effect, subject, however, to the right of the board of directors to delegate any specific powers, and shall perform such duties as shall be specifically assigned from time to time by the board of directors, except such as may be by statute exclusively conferred to any other officer or officers of the corporation. He shall preside at all meetings of stockholders and the board of directors at which he may be present.

SECTION 9. VICE CHAIRMAN OF THE BOARD. The vice chairman shall preside at all meetings of the board of directors and stockholders at which he may be present and from which the chairman of the board may be absent, and shall perform such other duties as shall be specifically assigned from time to time by the board of directors or the chairman of the board, except such as may be by statute exclusively conferred to any other officer or officers of the corporation.

SECTION 10. CHIEF EXECUTIVE OFFICER. The chief executive officer shall be the chief executive officer of the corporation and shall have, subject to the direction of the board of directors, general control and management of the corporation's business and affairs and shall also see that all the policies and resolutions of the board of directors are carried into effect, subject, however, to the right of the board of directors to delegate any specific powers, except such as may be by statute exclusively conferred on the president or to any other officer or officers of the corporation. He shall preside at all meetings of stockholders and the board of directors at which he may be present and from which the chairman and vice chairman of the board may be absent.

SECTION 11. PRESIDENT. The president shall be the chief operating officer and shall perform those duties that shall be specifically assigned to him from time to time by the board of directors. In the absence of the chief executive officer or in the event of his death, inability or refusal to act, the president shall perform the duties of the chief executive officer, and when so acting shall have the powers of and be subject to all the restrictions upon the chief executive officer.

SECTION 12. EXECUTIVE VICE PRESIDENTS, SENIOR VICE PRESIDENTS, AND VICE PRESIDENTS. In the absence of the president or in the event of his death, inability or refusal to act, the senior executive vice president present shall perform the duties of the president, and when so acting, shall have all the powers of and be subject to all the restrictions upon the president. In the absence of the president and all executive or senior vice presidents, or in the event of their deaths, inability or refusal to act, a vice president designated by the board of directors, or in case the board of directors has failed to act, designated by the chief executive officer, shall perform the duties of the president and when so acting shall have all the powers of and be subject to all the restrictions upon the president. The executive vice presidents, the senior vice presidents, and all other vice presidents shall perform those duties consistent with these bylaws and that may be specifically designated by the president or by the board of directors.

SECTION 13. ASSISTANT VICE PRESIDENTS. The assistant vice presidents shall perform those duties, not inconsistent with these bylaws, the Certificate of Incorporation or statute that may be specifically designated by the board of directors or the president. In the absence of the executive vice presidents, senior vice presidents, or vice presidents, an assistant vice president (or in the event there be more than one assistant vice president, the assistant vice presidents in the order designated at the time of their election, or in the absence of any designation, then in the order of their election) shall perform the duties of the executive vice presidents, senior vice presidents or vice presidents, and when so acting, shall have all the powers of and be subject to all restrictions upon the executive vice presidents, the senior vice presidents, and vice presidents.

SECTION 14. SECRETARY. The secretary shall attend and keep all the minutes of all meetings of the board of directors and all meetings of the stockholders and, when requested by the board of directors, of any committees of the board of directors. He shall give, or cause to be given, notice of all meetings of the stockholders and board of

directors and when so ordered by the board of directors, shall affix the seal of the corporation thereto; he shall have charge of all of those books and records that the board of directors may direct, all of which shall, at all reasonable times, be open to the examination of any director at the office of the corporation during business hours; he shall, in general, perform all of the duties incident to the office of secretary subject to the control of the board of directors or of the president, under whose supervision he shall be, and shall do and perform any other duties that may from time to time be assigned to him by the board of directors.

SECTION 15. ASSISTANT SECRETARIES. In the absence of the secretary or in the event of his death, inability or refusal to act, the assistant secretary (or in the event there be more than one assistant secretary, the assistant secretaries in the order designated at the time of their election, or in the absence of any designation, then in the order of their election) shall perform the duties of the secretary, and when so acting shall have all the powers of and be subject to all the restrictions upon the secretary and shall perform any other duties that may from time to time be assigned to him by the board of directors, the president or the secretary.

SECTION 16. TREASURER. The treasurer shall have custody of and be responsible for all funds and securities of the corporation, receive and give receipts for money due and payable to the corporation from any source whatsoever, and deposit all such moneys in the name of the corporation in those banks or depositories that shall be selected and designated by the board of directors and shall in general perform all of the duties incident to the office of treasurer and any other duties that may be assigned to him by the president or by the board of directors. If required by the board of directors, the treasurer shall give bond for the faithful discharge of his duties in the sum and with the surety or sureties as the board of directors shall determine.

SECTION 17. ASSISTANT TREASURERS. In the absence of the treasurer or in the event of his death, inability or refusal to act, the assistant treasurer (or in the event there be more than one assistant treasurer, the assistant treasurers in the order designated at the time of their election, or in the absence of any designation, then in the order of their election) shall perform the duties of the treasurer and when so acting shall have all the powers and be subject to all the restrictions upon the treasurer, and shall perform any other duties that from time to time may be assigned to him by the president, treasurer or the board of directors. The assistant treasurers shall, if required by the board of directors, give bonds for the faithful discharge of their duties in the sums and with the surety or sureties that the board of directors shall determine.

SECTION 18. CONTROLLER. The controller shall maintain adequate records of all assets, liabilities and transactions of the corporation; see that adequate audits thereof are currently and regularly made; and, in conjunction with other officers and department heads, initiate and enforce measures and procedures whereby the business of the corporation shall be conducted with the maximum safety, efficiency and economy. Except as otherwise determined by the board of directors, or lacking a determination by the board of directors, then by the president, his duties and powers shall extend to all subsidiary corporations and, so far as may be practicable, to all affiliate corporations. He shall have any other powers and perform other duties that may be assigned to him by the president or by the board of directors. If required by the board of directors, the controller shall give bond for the faithful discharge of his duties in the sum and with the surety or sureties as the board of directors shall determine.

SECTION 19. ASSISTANT CONTROLLERS. In the absence of the controller or in the event of his death, inability or refusal to act, the assistant controller (or in the event there be more than one assistant controller, the assistant controllers, in the order designated at the time of their election, or in the absence of any designation, then in the order of their election) shall perform the duties of the controller and when so acting shall have all the powers and be subject to all the restrictions upon the controller, and shall perform any other duties that from time to time may be assigned to him by the president, controller or the board of directors. The assistant controllers shall, if required by the board of directors, give bonds for the faithful discharge of their duties in the sums and with the surety or sureties that the board of directors shall determine.

SECTION 20. REGIONAL OR STAFF VICE PRESIDENTS.

A. ELECTION. One or more regional or staff vice presidents may be appointed by the chief executive officer, or the authority for such appointments may be delegated by the chief executive officer to the president of the corporation.

B. TENURE. The regional or staff vice presidents appointed by the chief executive officer or the president of the corporation shall hold office for one year and until their successors are chosen and qualify in their stead. Any regional or staff vice president so appointed may be removed at any time by the chief executive officer or the president of the corporation.

C. DUTIES. The regional or staff vice presidents shall do and perform those duties that shall from time to time be specifically designated or assigned by the chief executive officer or the president of the corporation; however, the regional or staff vice presidents shall not perform "policy-making functions" as defined pursuant to Section 16 or any successor section(s) of the Securities Exchange Act of 1934, as amended, and shall be deemed not to be subject to such Section 16 and the rules and regulations promulgated thereunder.

ARTICLE VII.

INDEMNIFICATION OF OFFICERS, DIRECTORS,  
EMPLOYEES AND AGENTS

SECTION 1. The board of directors shall cause the corporation to indemnify any person (and that person's heirs and personal representatives) who was or is a party or is threatened or expected to be made a party to any threatened, pending or completed action, suit, arbitration or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that he is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee, partner or agent of another corporation, partnership (including a partnership in which the corporation is a partner), joint venture, trust or other enterprise, against expenses (including, but not limited to, attorneys' fees, expert fees, bonds, prospective or retroactive insurance premiums or costs, litigation, appeal and court costs and out-of-pocket expenses of such person during any investigation hearing, arbitration, trial, or appeal of any such action, suit or proceeding, including any interest payable thereon), judgments, damages, arbitration awards, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit, arbitration or proceeding, including any interest payable thereon, if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

SECTION 2. The board of directors shall indemnify any person (and that person's heirs and personal representatives) who was or is a party or is threatened or expected to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that he is or was a director, officer, employee or agent of the corporation or is or was serving at the request of the corporation as a director, officer, employee, partner or agent of another corporation, partnership (including a partnership in which the corporation is a partner), joint venture, trust or other enterprise against expenses (including, but not limited to, attorneys' fees, expert fees, bonds, prospective or retroactive insurance premiums or costs, litigation, appeal and court costs, and out-of-pocket expenses of such person during any investigation, hearing, trial or appeal of any such action or suit, including any interest payable thereon), actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable for negligence or misconduct in

the performance of his duty to the corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

SECTION 3. To the extent that a present or past director, officer, employee or agent of the corporation has been successful on the merits or otherwise in defense of any action, suit, arbitration or proceeding referred to in Sections 1 and 2, or in defense of claim, issue or matter therein, he shall be indemnified against expenses (including, but not limited to, attorneys' fees, expert fees, bonds, prospective or retroactive insurance premiums or costs, litigation, appeal, and court costs, and out-of-pocket expenses of such person during any investigation, hearing, arbitration, trial or appeal of any such action, suit or proceeding) actually and reasonably incurred by him in connection therewith, including any interest payable thereon.

SECTION 4. The board of directors shall cause the corporation to advance to any person covered by Sections 1 or 2 the expenses (including, but not limited to, attorneys' fees, expert fees, bonds, prospective or retroactive insurance premiums or costs, litigation, appeal, and court costs and out-of-pocket expenses, of such person during any investigation, hearing, arbitration, trial or appeal of any such action, suit, arbitration or proceeding) incurred by that person in defending a threatened, pending, or completed civil, criminal, administrative, or investigative action suit, arbitration, or proceeding, including any interest payable thereon, in advance of the final disposition of such action, suit or proceeding.

SECTION 5. Any advance by the board of directors under Section 4 above to any employee or agent who is not a present or past director or officer of the corporation shall be conditional upon evidence of compliance with the terms and conditions, if any, deemed appropriate and specified by the board of directors for such advance if such employee or agent is determined ultimately to be not legally entitled to indemnification from the corporation.

SECTION 6. Any advance authorized by the board of directors under Section 4 above to a present or past officer or director shall be conditional upon prior receipt by the corporation of a written undertaking from that officer or director to repay such advance if he is determined ultimately to be not legally entitled to indemnification from the corporation. Such undertaking shall be in the form of a simple agreement by the officer or director to repay advances made to him in the event that it is determined ultimately that he is not legally entitled to indemnification by the corporation. Such undertaking shall specifically state that no bond, collateral or other security shall be required by the officer or director to insure its performance and that no interest on any amount advanced shall be required to be paid to the corporation if the officer or director is determined ultimately to be not legally entitled to indemnification from the corporation.

SECTION 7. The board of directors, in its sole discretion, may establish and may fund in advance and from time to time, in whole or in part, a separate provision or provisions, which may be in the form of a trust fund, periodic or advance retainers to counsel, or otherwise as the board of directors may determine in each instance, to be used as payment and/or advances of indemnification obligations under this Article VII to officers, directors, employees and agents of the corporation; provided, however, that any amount which is contributed to such fund shall not in any way be construed to be a limitation on the amount of indemnification and/or advances of the corporation.

SECTION 8. The board of directors shall cause the corporation to pay to any director, officer, employee or agent all expenses (including, but not limited to, attorneys' fees, expert fees, bonds, prospective or retroactive insurance premiums or costs, litigation, appeal, and court costs, and out-of-pocket expenses of such person during any investigation, hearing, arbitration, trial or appeal of any such action, suit, arbitration or proceeding, including any interest payable thereon), which may be incurred by such director, officer, employee or agent in enforcing his rights to indemnification (as set forth herein in Sections 1, 2 and 3) and/or advances (as set forth herein in Section 4) whether or not such director, officer, employee or agent is successful in enforcing such rights and whether or not suit or other proceedings are commenced.

SECTION 9. Any amendment to this Article VII shall only apply prospectively and shall in no way affect the corporation's obligations to indemnify and make advances to officers, directors, employees and agents as set forth in this Article VII for actions or events which occurred before any such amendment, and provided that any amendment to this Article VII shall require affirmative vote of four-fifths of the entire board of directors.

SECTION 10. Any indemnification granted under the provisions of Sections 1, 2, 3 and 8 above shall be subject to the provisions of subsections (d), (e), (f) and (g) of Section 145 of the General Corporation Law of the State of Delaware.

#### ARTICLE VIII.

##### CONTRACTS, LOANS, CHECKS AND DEPOSITS

SECTION 1. CONTRACTS. The board of directors may authorize any officer or officers, agent or agents to enter into any contract or execute and deliver any instrument in the name of and on behalf of the corporation. Such authority may be general or confined to specific instances.

SECTION 2. LOANS. No loan shall be contracted on behalf of the corporation and no evidences of indebtedness shall be issued in its name, unless authorized by resolution of the board of directors. Such authority may be general or confined to specific instances.

SECTION 3. CHECKS, DRAFTS, ETC. All checks, drafts or other order or other orders for the payment of money, notes or other evidences of indebtedness issued in the

name of the corporation shall be signed by such officer or officers, agent or agents and in such manner that shall from time to time be determined by resolution of the board of directors.

SECTION 4. DEPOSITS. All funds of the corporation not otherwise employed shall be deposited from time to time to the credit of the corporation in the bank or banks or other depositories that the board of directors may elect.

#### ARTICLE IX.

##### VOTING OF STOCK OF OTHER CORPORATIONS

Unless otherwise ordered by the board of directors, the chief executive officer shall have full power and authority on behalf of the corporation to act and vote at any meeting of stockholders of any corporation in which the corporation may hold stock, and at any such meeting, shall possess, and may exercise, any and all of the rights and powers incident to the ownership of the stock, which, as the owner thereof, the corporation might have possessed and exercised if present. The board of directors by resolution from time to time, may confer like powers upon any other person or persons.

ARTICLE X.

NOTICES

SECTION 1. FORM OF NOTICE. Whenever under the provisions of the statutes, the Certificate of Incorporation, or these bylaws, notice is required to be given to any director or stockholder, it shall not be construed to mean personal notice, but the notice may be given in writing by mail, which shall mean depositing same in a United States Postal Service post office or letter box, in a postage paid, sealed envelope, addressed to the stockholder or director at the address that appears on the books of the corporation or, in default of other address, to such director or stockholder at the United States Postal Service general post office in the City of Wilmington, Delaware, and the notice shall be deemed to be given at the time when the same shall be thus mailed or by any other means expressly provided for in these bylaws.

SECTION 2. WAIVER OF NOTICE. Whenever any notice is required to be given under the provision of the statutes, the Certificate of Incorporation or these bylaws, a waiver thereof in writing signed by the person or persons entitled to the notice whether before or after the time stated therein shall be deemed equivalent thereto.

ARTICLE XI.

STOCK CERTIFICATES

SECTION 1. CERTIFICATED AND UNCERTIFICATED SHARES. Shares of the capital stock of the corporation may be certificated or uncertificated, as provided by the laws of the State of Delaware. The certificates for shares of the capital stock of the corporation shall be in the form, not inconsistent with the Certificate of Incorporation, that shall be approved by the board of directors. The certificate shall be signed by the chairman of the board, chief executive officer, president or a vice president, and either the treasurer or an assistant treasurer, or the secretary or an assistant secretary, but where the certificate is signed by a transfer agent or an assistant transfer agent and a registrar, the signatures of the chairman of the board, chief executive officer, president, vice president, treasurer, assistant treasurer, secretary or assistant secretary may be facsimiles. All certificates shall be consecutively numbered, and the name of the person owning the shares represented thereby, with the number of shares and the date of issue shall be entered in the corporation's books. No certificate shall be valid unless it is signed by the chairman of the board, chief executive officer, president, or a vice president, and either the treasurer or an assistant treasurer, or the secretary or an assistant secretary, but where the certificate is signed by a transfer agent or an assistant transfer agent and a registrar, the signatures of the chairman of the board, chief executive officer, president, vice president, treasurer, assistant treasurer, secretary or assistant secretary may be facsimiles. All certificates surrendered to the corporation shall be canceled, and no new certificates shall be issued until the former certificate for the same number of shares of the same class shall have been surrendered and canceled.

SECTION 2. TRANSFER OF SHARES. Shares of the capital stock of the corporation shall be transferred only on the books of the corporation by the holder thereof in person or by his attorney and, in the case of certificated shares, upon surrender and cancellation of certificates for the same number of shares.

SECTION 3. REGULATIONS. The board of directors shall have authority to make any rules and regulations that they may deem expedient concerning the issue, transfer and registration of certificates for shares of the capital stock of the corporation. The board of directors may appoint one or more transfer agents or assistant transfer agents and one or more registrars of transfers and may require all certificates to bear the signature of the transfer agent or assistant transfer agent and a registrar of transfers. The board of directors may at any time terminate the appointment of any transfer agent or any assistant transfer agent or any registrar of transfers by the vote of a majority of the board of directors.

SECTION 4. FIXING DATE FOR DETERMINATION OF STOCKHOLDERS' RIGHTS. The board of directors may close the stock transfer books of the corporation for a period not exceeding 50 days preceding the date of any meeting of stockholders, or the date for payment of any dividend, or the date for the allotment of rights, or the date when any change or conversion or exchange of capital stock shall go into effect, or for a period not exceeding 50 days in connection with obtaining the consent of stockholders for any purpose. In lieu of closing the stock transfer books as aforesaid, the board of directors may fix a date not exceeding 50 days preceding the date of any meeting of stockholders, or the date for the payment of any dividend, or the date for the allotment of rights, or the date when any change or conversion or exchange of capital stock shall go into effect, or a date in connection with obtaining such consent, as a record date for the determination of the stockholders entitled to notice of, and to vote at, any meeting and any adjournment thereof, or entitled to receive payment of any dividend, or to any allotment of rights, or to exercise the rights in respect of any change, conversion or exchange of capital stock, or to give such consent, and in such case the stockholders and only the stockholders that shall be stockholders of record on the date so fixed shall be entitled to the notice or to receive payment of the dividend, or to receive the allotment of rights, or to exercise the rights or to give such consent, as the case may be, notwithstanding any transfer of any stock on the books of the corporation after any record date fixed as aforesaid.

SECTION 5. REGISTERED STOCKHOLDERS. The corporation shall be entitled to treat the holder of record of any share or shares of stock as the holder in fact thereof and accordingly shall not be bound to recognize any equitable or other claim to or interest in the share or shares on the part of any other person whether or not it shall have express or other notice thereof except as otherwise provided by the laws of the State of Delaware.

SECTION 6. LOST CERTIFICATES. The board of directors may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the corporation alleged to have been lost or destroyed, upon the making of an affidavit of that fact with the person claiming the certificate of stock to be lost or destroyed. When authorizing the issue of a new certificate or certificates, the board of directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of the lost or destroyed certificate or certificates, or his legal representative, to advertise the same in a manner that it shall require for each share of stock having voting power registered in his name and to give the corporation a bond in the sum that it may direct as indemnity against any claim that may be made against the corporation with respect to the certificate alleged to have been lost or destroyed.

SECTION 7. DIVIDENDS. The board of directors may from time to time declare, and the corporation may pay, dividends on its outstanding shares in the manner and upon the terms and conditions provided by law and the Certificate of Incorporation.

SECTION 8. RESERVE FUNDS. Before payment of any dividend there may be set aside out of any funds of the corporation available for dividends the sum or sums that the board of directors may from time to time in their absolute discretion think proper as a reserve fund to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the corporation, or for any other purpose that the directors shall think conducive to the interest of the corporation and the board of directors may modify or abolish the reserve in the manner in which it was created.

## ARTICLE XII.

### GENERAL PROVISIONS

SECTION 1. FISCAL YEAR. The fiscal year of the corporation shall begin on the first day of January in each year.

SECTION 2. INSPECTION OF BOOKS. The board of directors shall determine from time to time whether, and if allowed, when and under what conditions and regulations, the accounts and books of the corporation (except as may be by statute specifically open to inspection) or any of them, shall be open to the inspection of the stockholders, and a stockholder's rights in this respect are, and shall be, restricted and limited accordingly.

SECTION 3. GENDER. The use of the masculine gender in these bylaws shall be deemed to include the feminine gender.

ARTICLE XIII.

AMENDMENTS TO AND SUSPENSION OF BYLAWS

SECTION 1. AMENDMENTS. Subject to the provisions of Section 12 of Article IV, these bylaws may be altered or repealed at any regular meeting of the stockholders or at any special meeting of the stockholders at which a quorum is present or represented, provided notice of the proposed alteration or repeal be contained in the notice of the special meeting, by the affirmative vote of a majority of the stockholders entitled to vote at the meeting and present or represented thereat, or by the affirmative vote of a majority of the board of directors at any regular meeting of the board of directors or at any special meeting of the board of directors, if notice of the proposed alteration or repeal be contained in the notice of the special meeting.

SECTION 2. SUSPENSION. Any provision of these bylaws may be suspended by vote of two-thirds of the votes cast upon the motion to suspend except that the suspension of the bylaw provision might be in contravention of any provision of any statute or of the Certificate of Incorporation.

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APACHE CORPORATION  
EQUITY COMPENSATION PLAN FOR NON-EMPLOYEE DIRECTORS  
AS AMENDED AND RESTATED FEBRUARY 5, 2004

Apache Corporation, a Delaware corporation (the "Company"), established the Apache Corporation Equity Compensation Plan for Non-Employee Directors (the "Plan"), effective as of February 9, 1994, for those directors of the Company who are neither officers nor employees of the Company (the "Directors") and authorized a maximum of 115,500 shares of the Company's common stock, par value \$1.25 per share (the "Common Stock") for issuance thereunder during the term of the Plan, which shares consist entirely of treasury stock.

1. Each Director shall receive automatic and non-discretionary grants of restricted stock ("Restricted Stock Awards") on the terms and conditions set forth under the Plan. Each Director receiving a Restricted Stock Award shall enter into an agreement (a "Restricted Stock Agreement") in such form as the Board of Directors of the Company (the "Board") or a duly authorized committee of the Board (the "Committee") shall determine to be consistent with the provisions of the Plan and which may contain additional terms and conditions relating to the Restricted Stock Awards. In the event of any inconsistency between the provisions of the Plan and any Restricted Stock Agreement, the provisions of the Plan shall govern.

2. The Committee shall be responsible for the administration of the Plan. However, the Committee shall have no authority, discretion or power to (i) select the Directors who will receive Restricted Stock Awards, (ii) determine the terms of the Restricted Stock Awards to be granted pursuant to the Plan, the number of shares of Common Stock to be issued thereunder or the time at which such Restricted Stock Awards are to be granted, (iii) establish the duration and nature of Restricted Stock Awards, or (iv) alter any other terms or conditions specified in the Plan, except to administer the Plan in accordance with its terms or to comport with changes in the Internal Revenue Code, the Employment Retirement Income Security Act, or the rules and regulations promulgated thereunder. Subject to the foregoing limitations, the Committee is authorized to (A) interpret the Plan, (B) prescribe, amend and rescind rules and regulations relating to the Plan, (C) provide for conditions and assurances deemed necessary or advisable to protect the interests of the Company, and (D) make all other determinations necessary or advisable for the administration of the Plan, but only to the extent not contrary to the express provisions of the Plan. The Committee's authority shall include, but not be limited to, the right to make equitable adjustments in the number or kind of shares subject to outstanding Restricted Stock Awards, or which have been reserved for issuance pursuant to the Plan but are not then subject to Restricted Stock Awards, to reflect changes in the number or kind of outstanding shares of Common Stock due to any merger, recapitalization or other extraordinary or unusual event.

3. If the Company shall at any time increase or decrease the number of its outstanding shares of Common Stock or change in any way the rights and privileges of such shares by means of the payment of a stock dividend or any other distribution upon such shares payable in Common Stock, or through a stock split, subdivision, consolidation, combination, reclassification or recapitalization involving the Common Stock, then in relation to the Common Stock that is affected by one or more of the above events, the numbers, rights and privileges of the following shall be increased, decreased or changed in like manner as if they had been issued and outstanding, fully paid and nonassessable at the time of such occurrence: (i) the shares of Common Stock which have been reserved for issuance pursuant to the Plan but are not then subject to Restricted Stock Awards, and (ii) the shares of Common Stock subject to outstanding Restricted Stock Awards granted hereunder.

4. Beginning on July 1, 1994, and on July 1 of each fifth year thereafter through and including July 1, 2000, each Director shall receive a Restricted Stock Award of 1,000 shares of Common Stock. Such Restricted Stock Awards shall vest at the rate of 20 percent per year on each of the first through the fifth anniversaries of the date of the Restricted Stock Award. No further grants will be made pursuant to this Section 4 after May 3, 2001.

5. Beginning on July 1, 2001, and on July 1 of each third year thereafter through and including July 1, 2003, each Director shall receive a Restricted Stock Award of 1,000 shares of Common Stock. Such Restricted Stock Awards shall vest at the rate of one-third (1/3) per year on each of the first through the third anniversaries of the date of the Restricted Stock Award. No further grants will be made pursuant to this Section 5 after July 1, 2003.

6. Beginning on July 1, 2004, and on July 1 of each third year thereafter through and including July 1, 2009, each Director shall receive a Restricted Stock Award of 2,310 shares of Common Stock. Such Restricted Stock Awards shall vest at the rate of one-third (1/3) per year on each of the first through the third anniversaries of the date of the Restricted Stock Award. Any Director elected to the Board of Directors subsequent to July 1, 2004 shall receive a Restricted Stock Award of 2,310 shares of Common Stock on the next July 1 following the date of such election, regardless of whether such date would normally have been an award date, which shall vest on the same schedule and the same percentage as set forth in the second sentence hereof.

7. (a) No Restricted Stock Awards shall be granted to any Director subsequent to July 1, 2009. Restricted Stock Awards, whether vested or unvested, may not be sold, assigned, pledged, hypothecated, transferred or otherwise disposed of as long as a Director is serving as a member of the Board.

(b) All restrictions on Restricted Stock Awards shall lapse on the first business day following the date on which a Director ceases to be a member of the Board; provided, however, that the unvested portion of any Restricted Stock Award shall be automatically forfeited at such time. Notwithstanding the foregoing, effective as of May 1, 2000, the unvested portion of any Restricted Stock Award shall be automatically vested upon a Director's retirement from the Board or upon a Director's death while still serving as a member of the Board; provided, however, that the Director (i) is at least 60

years of age and has completed at least ten years of service as a Director at the time of retirement, or (ii) has completed at least ten years of service as a Director at the time of death.

8. Certificates issued pursuant to Restricted Stock Awards shall be registered in the name of the recipient Director and shall bear an appropriate restrictive legend referring to the terms, conditions and restrictions applicable to such Restricted Stock Award. Certificates issued pursuant to Restricted Stock Awards shall be held by the Corporate Secretary of the Company until the award, or portion thereof, has vested and all applicable restrictions thereon shall have lapsed. As a condition of any Restricted Stock Award, each Director shall have delivered to the Corporate Secretary of the Company a stock power, endorsed in blank, relating to the Common Stock issued pursuant to a Restricted Stock Award. A Director shall have all voting, dividend, liquidation and other rights of a stockholder of the Company with respect to the shares of Common Stock issued pursuant to any Restricted Stock Award, notwithstanding that all or a portion of such award shall be unvested, subject to the restrictions described in the preceding paragraph.

9. In the event of a "change of control" of the Company, as defined in the Company's Income Continuation Plan (without regard to whether such Income Continuation Plan remains in effect or is subsequently amended), any unvested portion of any Restricted Stock Award shall be vested automatically, without further action by the Board or the Committee, effective as of the date of such change of control.

10. The Board may at any time terminate, and from time to time may amend or modify the Plan; provided, however, that no amendment or modification may become effective without approval of such amendment or modification by the stockholders of the Company, if stockholder approval is required to enable the Plan to satisfy any applicable statutory or regulatory requirements, or if the Company, on the advice of counsel, determines that stockholder approval is otherwise necessary or desirable. The Plan is expressly intended to comport with Rule 16b-3(c)(2)(ii) (or any successor provision) as promulgated under the Securities Exchange Act of 1934, as amended, and any ambiguities in the construction of the Plan or any Restricted Stock Agreement shall be resolved so as to effectuate such intent.

Dated: February 5, 2004

APACHE CORPORATION

ATTEST:

By: /s/ Cheri L. Peper  
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Cheri L. Peper  
Corporate Secretary

By: /s/ Jeffrey M. Bender  
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Jeffrey M. Bender  
Vice President, Human Resources

APACHE CORPORATION  
STATEMENT OF COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES  
AND COMBINED FIXED CHARGES, PREFERRED STOCK DIVIDENDS  
AND PREFERRED INTERESTS OF SUBSIDIARIES  
(IN THOUSANDS, EXCEPT RATIO DATA)

(UNAUDITED)	2003	2002	2001	2000	1999
	-----	-----	-----	-----	-----
<b>EARNINGS</b>					
Pretax income from continuing operations before preferred interests of subsidiaries.....	\$1,930,925	\$ 915,194	\$1,206,863	\$1,203,681	\$ 344,573
Add: Fixed charges excluding capitalized interest and preferred interests requirements of consolidated subsidiaries.....	132,820	128,730	134,484	116,190	90,398
Adjusted Earnings.....	<u>\$2,063,745</u>	<u>\$1,043,924</u>	<u>\$1,341,347</u>	<u>\$1,319,871</u>	<u>\$ 434,971</u>
<b>FIXED CHARGES AND PREFERRED STOCK DIVIDENDS</b>					
Interest expense including capitalized interest (1)..	\$ 173,045	\$ 155,667	\$ 178,915	\$ 168,121	\$ 132,986
Amortization of debt expense.....	2,163	1,859	2,460	2,726	4,854
Interest component of lease rental expenditures (2)..	14,458	11,895	9,858	7,343	5,789
Preferred interest requirements of consolidated subsidiaries (3).....	11,805	19,581	8,608	-	-
Fixed charges.....	<u>201,471</u>	<u>189,002</u>	<u>199,841</u>	<u>178,190</u>	<u>143,629</u>
Preferred stock dividend requirements (4).....	9,968	17,540	32,495	33,386	24,788
Combined Fixed Charges and Preferred Stock Dividends.....	<u>\$ 211,439</u>	<u>\$ 206,542</u>	<u>\$ 232,336</u>	<u>\$ 211,576</u>	<u>\$ 168,417</u>
Ratio of Earnings to Fixed Charges.....	<u>10.24</u>	<u>5.52</u>	<u>6.71</u>	<u>7.41</u>	<u>3.03</u>
Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends.....	<u>9.76</u>	<u>5.05</u>	<u>5.77</u>	<u>6.24</u>	<u>2.58</u>

(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. This amount represents the pre-tax earnings that would be required to cover preferred interests requirements of consolidated subsidiaries. In September 2003, the Company retired its preferred interests of subsidiaries.

(4) The Company does not receive a tax benefit for its preferred stock dividends. This amount represents the pre-tax earnings that would be required to cover its preferred stock dividends.

## CODE OF BUSINESS CONDUCT

Apache Corporation is committed to conducting its business in accordance with the highest ethical standards. It is the policy of Apache Corporation and each of its subsidiaries (collectively and severally, herein referred to as "Apache" or "the Company") to conduct its business fairly, ethically, and in a fashion that complies with applicable laws, regulations, and government requirements. All conduct inconsistent with this policy is prohibited. This Code of Business Conduct requires not only the avoidance of misconduct, but also the avoidance of acts or omissions that give the appearance of misconduct. Apache directors, officers, employees, and representatives shall not enter into any activity or incur any expense or liability which would compromise our commitment to these high standards. Failure to comply with this Code of Business Conduct by an officer or employee will subject the officer or employee to disciplinary action, up to and including termination of employment. Any failure by a director to comply with this Code of Business Conduct shall be reported to the Corporate Governance and Nominating ("CG&N") Committee of the board of directors for review, and the committee shall make a recommendation to the board of directors on appropriate action, which may include removal from the board of directors.

This Code of Business Conduct is designed to deter wrong-doing and to promote:

1. honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
2. fair, full, accurate, timely and understandable disclosure in reports and documents that a registrant files with, or submits to, the Securities and Exchange Commission and in other public communications made by the registrant;
3. compliance with applicable governmental laws, rules and regulations;
4. the prompt internal reporting to an appropriate person or persons identified in the Code of violations of the Code; and
5. accountability for adherence to the Code.

It is not possible to enumerate all of the situations which could result in an actual or apparent violation of this policy. However, the following areas are of particular concern to Apache with respect to the ethical conduct of the Company's business. These principles must be interpreted using good judgment and common sense. Employees and officers are encouraged to discuss questions or concerns relating to this Code of Business Conduct with their supervisors or other members of management, while directors should direct their questions and concerns to the CG&N Committee.

**CONFLICTS OF INTEREST.** Any direct or indirect conflict of interest between a director, officer, or employee and the Company is prohibited, unless specifically consented to by the Company. A director, officer, or employee has a conflict of interest if, in the course of his or her duties for the Company, his or her judgment and discretion is or may be influenced by considerations of personal gain or benefit, or gain or benefit to a third party other than the Company. All business decisions for Apache should be based upon what a director, officer, or employee honestly believes to be in the best interests of the Company

and in the long term interest of its stockholders. Potential conflicts of interest should be immediately reported by directors notifying the CG&N Committee and by officers and employees notifying their supervisors of the potential conflict so that an appropriate determination can be made as to whether or not a conflict exists and what remedial action, if any, should be taken.

**PROTECTION OF CORPORATE OPPORTUNITIES.** Directors, officers, and employees are prohibited from (a) taking for themselves personally opportunities that are discovered through the use of corporate property, information, or position; (b) using corporate property, information, or position for personal gain; and (c) competing with the Company; unless such opportunity has been rejected by the Company and the person would not be prohibited from taking advantage of the opportunity by any other Company policy.

**CONFIDENTIAL INFORMATION.** During and after employment by or service with Apache, directors, officers, and employees shall not divulge to third parties, or appropriate to their own use, or to the use of others, any confidential information obtained during employment or service for Apache. The term "confidential information" as used in this policy includes but is not limited to trade secrets, technical materials and information, geological and geophysical information, reserve data, prospect data, maps, logs, bid data, transaction information, processes, technology, compilations of information, engineering information, financial information, or specifications that are used in the operation of Apache's business or that may eventually be used in the operation of Apache's business, and other information relating to the Company's business that is not public knowledge.

**FAIR DEALING.** Apache is committed to conducting its business fairly and in accordance with the highest ethical standards. No director, officer, or employee is authorized to use unfair techniques, such as misrepresentation of material facts or improper concealment of business information to gain a business advantage. Additionally, no director, officer, or employee or representative of the Company shall offer or accept a bribe, kickback, or improper favor in order to secure a business advantage.

**PROTECTION OF AND PROPER USE OF COMPANY ASSETS.** Use or access to Company property for any unlawful or improper purpose is strictly prohibited. This prohibition includes any use that is unlawful or improper under applicable law or ethical standards, regardless of the practices of other companies or individuals. As part of this obligation, officers and employees shall follow Company procedures to ensure that business transactions are consistently executed, recorded, and reported in such a manner as to allow the Company to accurately compile and report its financial statements. Additionally, all transaction records shall be preserved for the appropriate amount of time in accordance with Company policy.

**COMPLIANCE WITH LAWS, RULES, AND REGULATIONS.** It is Apache's policy to conduct its business in accordance with all applicable laws, rules, regulations, and government requirements. Each director, officer, and employee of the Company is responsible for

familiarizing himself or herself with the laws, rules, regulations, and government requirements applicable to his responsibilities within the Company.

**REPORTING OF ILLEGAL OR UNETHICAL BEHAVIOR.** It is the direct responsibility of each officer or employee of the Company to report promptly any actual, attempted, or apparent violation of laws, rules, regulations, or this Code of Business Conduct. In the event that a violation is observed by, responsibly reported to, or is indicated by records or other information of which the officer or employee becomes aware, the person should report the event to his immediate supervisor, the human resources department, internal audit, or any member of management with whom the person is comfortable discussing the matter. Any concerns regarding accounting, internal accounting controls, or auditing matters may be reported to the Audit Committee of the board of directors through the Company's procedures for such reporting. Officers and employees should always keep in mind that the Company supports the good faith reporting and investigation of potential violations of this Code of Business Conduct.

In no event will the Company take or threaten any action against an officer or employee for making a complaint or disclosing information in good faith. Retaliation or retribution against any officer or employee who in good faith reports a violation pursuant to this Code of Business Conduct is cause for disciplinary action, up to and including termination of employment.

**ENFORCEMENT.** Each responsible manager will be responsible for enforcement of the Code of Business Conduct, in coordination with the Company's General Counsel and Human Resources Department. Disciplinary actions with regard to officers and employees of the Company will be implemented by the Human Resources Department in accordance with the Company's disciplinary procedures. Under certain circumstances, violation of this Code of Business Conduct may also result in referral for civil action or criminal prosecution.

**WAIVERS.** The Company does not approve of the types of conduct prohibited by this Code of Business Conduct and would rarely grant exceptions to its application. Any waiver of this Code of Business Conduct for a director or executive officer of the Company must be approved by the CG&N Committee and the full board, with a majority of the members of the CG&N Committee voting to approve the waiver being directors who are disinterested, as defined by applicable law, with respect to the matter giving rise to the need for a waiver. Any waiver of the Code of Business Conduct approved for a director or executive officer will be promptly disclosed to the Company's stockholders in a form 8-K within five days of the waiver and in any other appropriate manner, as provided for by applicable law, regulations or listing standards. Any waiver of the Code of Business Conduct for an employee who is not an executive officer may be approved by the CEO, his designee, or pursuant to policies and procedures approved by the CEO.

02/05/2004

APACHE CORPORATION (A DELAWARE CORPORATION)  
LISTING OF SUBSIDIARIES AS OF FEBRUARY 29, 2004

EXACT NAME OF SUBSIDIARY AND NAME UNDER WHICH SUBSIDIARY DOES BUSINESS -----	JURISDICTION OF INCORPORATION OR ORGANIZATION -----
Apache Corporation (New Jersey)	New Jersey
Apache Ajax Corporation LDC	Cayman Islands
Apache BD Corporation LDC	Cayman Islands
Apache Aviation, Inc.	Delaware
Apache Delaware LLC	Delaware
Apache Finance Louisiana Corporation	Delaware
Apache Foundation	Minnesota
Apache Gathering Company	Delaware
Apache Gungurru Corporation LDC	Cayman Islands
Apache Holdings, Inc.	Delaware
Apache International, Inc.	Delaware
Apache North America, Inc.	Delaware
Apache Finance Australia Pty Limited	Australian Capital Territory
Apache Finance Pty Limited	Australian Capital Territory
Apache Australia Management Pty Limited	Victoria, Australia
Apache Australia Holdings Pty Limited	Western Australia
Apache Qarun Corporation LDC	Cayman Islands
Apache Kultar Corporation LDC	Cayman Islands
Apache Louisiana Holdings, LLC	Delaware
Apache Louisiana Minerals, Inc.	Delaware
Apache Overseas, Inc.	Delaware
Apache Abu Gharadig Corporation LDC	Cayman Islands
Apache Argentina Corporation LDC	Cayman Islands
Apache Petrolera Argentina S.A. (formerly RME Argentina S.A.)	Argentina
Apache Asyout Corporation LDC	Cayman Islands
Apache Bohai Corporation LDC	Cayman Islands
Apache China Management LDC	Cayman Islands
Apache China Holdings LDC	Cayman Islands
Apache Darag Corporation LDC	Cayman Islands
Apache East Bahariya Corporation LDC	Cayman Islands
Apache El Diyur Corporation LDC	Cayman Islands
Apache Enterprises LDC	Cayman Islands
Apache Faiyum Corporation LDC	Cayman Islands
Apache FC Argentina Company LDC	Cayman Islands
Apache Madera Corporation LDC	Cayman Islands
Apache North Sea Holdings LDC	Cayman Islands
Apache North Sea Management LDC	Cayman Islands
Apache International Holdings LLC	Delaware
Apache China Corporation LDC	Cayman Islands
Apache International Finance S.a r.l.	Luxembourg
Apache International Holdings II LLC	Delaware
Apache North Sea Investment	England and Wales
Apache Matruh Corporation LDC	Cayman Islands
Apache Mediterranean Corporation LDC	Cayman Islands
Apache North Sea Limited	England and Wales
Apache Poland Holding Company	Delaware
Apache Eastern Europe B.V.	Netherlands
Apache Poland Sp. z o.o.	Poland

APACHE CORPORATION (A DELAWARE CORPORATION)  
LISTING OF SUBSIDIARIES AS OF FEBRUARY 29, 2004

EXACT NAME OF SUBSIDIARY AND NAME UNDER WHICH SUBSIDIARY DOES BUSINESS	JURISDICTION OF INCORPORATION OR ORGANIZATION
Apache South Umbarka Corporation LDC	Cayman Islands
Apache Umbarka Corporation LDC	Cayman Islands
Apache Oil Corporation	Texas
Apache Ravensworth Corporation LDC	Cayman Islands
Burns Manufacturing Company	Minnesota
Apache Energy Limited	Western Australia
Apache Northwest Pty Ltd.	Western Australia
Apache Carnarvon Pty Ltd.	Western Australia
Apache Dampier Pty Ltd.	Western Australia
Apache East Spar Pty Limited	Western Australia
Apache Harriet Pty Limited	Victoria, Australia
Apache Kersail Pty Ltd	Victoria, Australia
Apache Miladin Pty Ltd	Victoria, Australia
Apache Nasmah Pty Ltd	Victoria, Australia
Apache Oil Australia Pty Limited	New South Wales, Australia
Apache Airlie Pty Limited	New South Wales, Australia
Apache Varanus Pty Limited	Queensland, Australia
Apache Pipeline Pty Ltd	Western Australia
Apache West Australia Holdings Limited	Island of Guernsey
Apache UK Limited	England and Wales
Apache Lowendal Pty Limited	Victoria, Australia
Apache Transfer Company	Delaware
Clear Creek Hunting Preserve, Inc.	Wyoming
DEK Energy Company	Delaware
DEK Energy Texas, Inc.	Delaware
DEK Exploration Inc.	Delaware
Apache Finance Canada Corporation	Nova Scotia, Canada
Apache Canada Management Ltd	Alberta, Canada
Apache Canada Holdings Ltd	Alberta, Canada
Apache Canada Management II Ltd	Alberta, Canada
Apache Finance Canada II Corporation	Nova Scotia, Canada
DEK Petroleum Corporation	Illinois
Apache Canada Ltd.	Alberta, Canada
Apache Canada Properties Ltd.	Alberta, Canada
Apache FC Capital Canada Inc.	Alberta, Canada
Apache FC Canada Enterprises Inc.	Alberta, Canada
DEPCO, Inc.	Texas
Heinold Holdings, Inc.	Delaware
GOM Shelf, LLC	Delaware
Phoenix Exploration Resources, Ltd.	Delaware
TEI Arctic Petroleum (1984) Ltd.	Alberta, Canada
Texas International Company	Delaware
Apache Khalda Corporation LDC	Cayman Islands
Apache Qarun Exploration Company LDC	Cayman Islands
Nagasco, Inc.	Delaware
Apache Marketing, Inc.	Delaware
Apache Transmission Corporation - Texas	Texas
Apache Crude Oil Marketing, Inc.	Delaware
Nagasco Marketing, Inc.	Delaware
Nile Weavers, Inc	Delaware

CONSENT OF ERNST & YOUNG LLP

We consent to the incorporation by reference in Registration Statements (Form S-3 Nos. 33-53129, 33-57785, 33-75633, 33-32580, and 33-105536 and Form S-4 No. 333-107934 and Form S-8 Nos. 33-31407, 33-37402, 33-53442, 33-59721, 33-59723, 33-63817, 333-04059, 333-25201, 333-26255, 333-32557, 333-36131, 333-53961, 333-31092, 333-48758, 333-97403, 333-102330, 333-103758, 333-105871, and 333-106213) of Apache Corporation of our report dated March 11, 2004 with respect to the consolidated financial statements of Apache Corporation included in this Annual Report (Form 10-K) for the year ended December 31, 2003.

/s/ Ernst & Young LLP

ERNST & YOUNG LLP

Houston, Texas  
March 11, 2004

Consent of Ryder Scott Company, L.P.

As independent petroleum engineers, we hereby consent to the incorporation by reference in this Form 10-K of Apache Corporation to our Firm's name and our Firm's review of the proved oil and gas reserve quantities of Apache Corporation as of January 1, 2004, and to the incorporation by reference of our Firm's name and review into Apache Corporation's previously filed Registration Statements on Form S-3 (Nos. 33-53129, 333-57785, 333-75633, 333-32580, and 333-105536), on Form S-4 (No. 333-107934), and on Form S-8 (Nos. 33-31407, 33-37402, 33-53442, 33-59721, 33-59723, 33-63817, 333-04059, 333-25201, 333-26255, 333-32557, 333-36131, 333-53961, 333-31092, 333-48758, 333-97403, 333-102330, 333-103758, 333-105871, and 333-106213).

/s/ Ryder Scott Company, L.P.

Ryder Scott Company, L.P.

Houston, Texas  
March 10, 2004

## CERTIFICATIONS

I, G. Steven Farris, certify that:

1. I have reviewed this annual report on Form 10-K of Apache Corporation;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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: March 11, 2004

## CERTIFICATIONS

I, Roger B. Plank, certify that:

1. I have reviewed this annual report on Form 10-K of Apache Corporation;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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: March 11, 2004

APACHE CORPORATION

CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
AND CHIEF FINANCIAL OFFICER

I, G. Steven Farris, certify that the Annual Report of Apache Corporation on Form 10-K for the year ended December 31, 2003, 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 Annual Report of Apache Corporation on Form 10-K for the year ending December 31, 2003, 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