

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

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

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

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

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

For the Quarterly Period Ended March 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

-----  
(Exact Name of Registrant as Specified in Its Charter)

Delaware

41-0747868

-----  
(State or Other Jurisdiction of  
Incorporation or Organization)

-----  
(I.R.S. Employer  
Identification Number)

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

77056-4400

-----  
(Address of Principal Executive Offices)

-----  
(Zip Code)

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

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

YES ☒ NO ☐

Number of shares of Registrant's common stock, outstanding as of March 31, 2003  
.....323,203,238

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## EXPLANATORY NOTE

We are filing this Amendment No. 1 to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2003 to respond to certain comments received by us from the Staff of the Securities and Exchange Commission ("SEC") in connection with its review of our Registration Statement on Form S-3 (File No. 333-105536). Our consolidated financial position and consolidated results of operations for the periods presented have not been restated from the consolidated financial position and consolidated results of operations originally reported. Except where otherwise indicated, all share amounts and per share amounts have been adjusted to reflect the effects of the two-for-one stock split for our common stock declared in September 2003.

For convenience and ease of reference we are filing this Quarterly Report in its entirety with the applicable changes. Unless otherwise stated, all information contained in this amendment is as of May 15, 2003, the filing date of our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2003. Accordingly, this Amendment No. 1 to the Quarterly Report on Form 10-Q/A should be read in conjunction with our subsequent filings with the SEC.

## PART I - FINANCIAL INFORMATION

### ITEM 1 - FINANCIAL STATEMENTS

#### APACHE CORPORATION AND SUBSIDIARIES STATEMENT OF CONSOLIDATED OPERATIONS (UNAUDITED)

		FOR THE QUARTER EN ----- 2003 ----- (In thousands, except data)
REVENUES AND OTHER:		
Oil and gas production revenues.....	\$	975,162
Other.....		(8,553)
		----- 966,609 -----
OPERATING EXPENSES:		
Depreciation, depletion and amortization.....		214,349
Asset retirement obligation accretion.....		5,313
International impairments.....		-
Lease operating costs.....		134,135
Gathering and transportation costs.....		11,861
Severance and other taxes.....		24,554

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General and administrative.....	27,831
Financing costs:	
Interest expense.....	37,696
Amortization of deferred loan costs.....	531
Capitalized interest.....	(11,232)
Interest income.....	(1,074)
	-----
	443,964
	-----
PREFERRED INTERESTS OF SUBSIDIARIES.....	3,362
	-----
INCOME BEFORE INCOME TAXES.....	519,283
Provision for income taxes.....	206,986
	-----
INCOME BEFORE CHANGE IN ACCOUNTING PRINCIPLE.....	312,297
Cumulative effect of change in accounting principle, net of income tax.....	26,632
	-----
NET INCOME.....	338,929
Preferred stock dividends.....	1,420
	-----
INCOME ATTRIBUTABLE TO COMMON STOCK.....	\$ 337,509
	=====
BASIC NET INCOME PER COMMON SHARE:	
Before change in accounting principle.....	\$ .98
Cumulative effect of change in accounting principle.....	.08
	-----
	\$ 1.06
	=====
DILUTED NET INCOME PER COMMON SHARE:	
Before change in accounting principle.....	\$ .97
Cumulative effect of change in accounting principle.....	.08
	-----
	\$ 1.05
	=====

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

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

FOR THE QUARTER

2003

(In th

### CASH FLOWS FROM OPERATING ACTIVITIES:

Net income.....	\$ 338,929
Adjustments to reconcile net income to net cash provided by operating	

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activities:	
Depreciation, depletion and amortization.....	214,349
Asset retirement obligation accretion.....	5,313
Provision for deferred income taxes.....	103,427
International impairments.....	-
Cumulative effect of change in accounting principle.....	(26,632)
Other.....	9,368
Changes in operating assets and liabilities:	
(Increase) decrease in receivables.....	(229,087)
(Increase) decrease in advances to oil and gas ventures and other.....	(4,268)
(Increase) decrease in product inventory.....	1,009
(Increase) decrease in deferred charges and other.....	2,368
Increase (decrease) in payables.....	98,551
Increase (decrease) in accrued expenses.....	42,225
Increase (decrease) in advances from gas purchasers.....	(4,304)
Increase (decrease) in deferred credits and noncurrent liabilities.....	(13,207)
Net cash provided by operating activities.....	538,041
CASH FLOWS FROM INVESTING ACTIVITIES:	
Additions to property and equipment.....	(358,881)
Acquisition of BP Gulf of Mexico properties.....	(512,912)
Proceeds from sale of short-term investments.....	-
Other, net.....	(12,226)
Net cash used in investing activities.....	(884,019)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Long-term borrowings.....	64,753
Payments on long-term debt.....	(280,300)
Dividends paid.....	(16,787)
Common stock activity.....	564,324
Treasury stock activity, net.....	2,594
Cost of debt and equity transactions.....	(534)
Net cash provided by financing activities.....	334,050
NET DECREASE IN CASH AND CASH EQUIVALENTS.....	(11,928)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	51,886
CASH AND CASH EQUIVALENTS AT END OF PERIOD.....	\$ 39,958

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

## APACHE CORPORATION AND SUBSIDIARIES CONSOLIDATED BALANCE SHEET (UNAUDITED)

MARCH 31,  
2003

(In thousa

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## ASSETS

### CURRENT ASSETS:

Cash and cash equivalents.....	\$	39,958
Receivables, net of allowance.....		761,342
Inventories.....		113,658
Drilling advances.....		42,824
Prepaid assets and other.....		40,384
		-----
		998,166
		-----

### PROPERTY AND EQUIPMENT:

Oil and gas, on the basis of full cost accounting:		
Proved properties.....		13,914,265
Unproved properties and properties under development, not being amortized.....		817,509
Gas gathering, transmission and processing facilities.....		792,816
Other.....		200,772
		-----
		15,725,362
Less: Accumulated depreciation, depletion and amortization.....		(6,082,411)
		-----
		9,642,951
		-----

### OTHER ASSETS:

Goodwill, net.....		189,252
Deferred charges and other.....		41,913
		-----
	\$	10,872,282
		=====

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

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## APACHE CORPORATION AND SUBSIDIARIES CONSOLIDATED BALANCE SHEET (UNAUDITED)

MARCH 31,  
2003

(In thousands)

## LIABILITIES AND SHAREHOLDERS' EQUITY

### CURRENT LIABILITIES:

Accounts payable.....	\$	315,453
Accrued operating expense.....		46,505
Accrued exploration and development.....		180,110
Accrued compensation and benefits.....		12,988
Accrued interest.....		42,260
Accrued income taxes.....		85,909
Other.....		45,380

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	728,605
LONG-TERM DEBT.....	1,943,364
DEFERRED CREDITS AND OTHER NONCURRENT LIABILITIES:	
Income taxes.....	1,227,178
Advances from gas purchasers.....	121,149
Asset retirement obligation.....	450,040
Oil and gas derivative instruments.....	7,884
Other.....	153,874
	1,960,125
PREFERRED INTERESTS OF SUBSIDIARIES.....	437,088
SHAREHOLDERS' EQUITY:	
Preferred stock, no par value, 5,000,000 shares authorized - Series B, 5.68% Cumulative Preferred Stock, 100,000 shares issued and outstanding.....	98,387
Common stock, \$0.625 par, 430,000,000 shares authorized, 331,465,150 and 310,929,080 shares issued, respectively.....	207,166
Paid-in capital.....	4,009,703
Retained earnings.....	1,722,086
Treasury stock, at cost, 8,261,912 and 8,422,656 shares, respectively.....	(108,447)
Accumulated other comprehensive loss.....	(125,795)
	5,803,100
	\$ 10,872,282

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

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

(In thousands)	COMPREHENSIVE INCOME	SERIES B PREFERRED STOCK	SERIES C PREFERRED STOCK	COMMON STOCK	
BALANCE AT DECEMBER 31, 2001.....		\$ 98,387	\$ 208,207	\$ 185,288	\$
Comprehensive income (loss):					
Net income.....	\$ 80,672	-	-	-	-
Currency translation adjustments.....	(1,115)	-	-	-	-
Commodity hedges, net of income tax benefit of \$3,069.....	(4,020)	-	-	-	-
Marketable securities, net of income tax benefit of \$67.....	(125)	-	-	-	-

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Comprehensive income.....	\$ 75,412			
Dividends:				
Preferred.....	-	-	-	
Common (\$.05 per share).....	-	-	-	
Common shares issued.....	-	(36)	344	
Treasury shares issued, net.....	-	-	-	
Other.....	-	-	-	
BALANCE AT MARCH 31, 2002.....	\$ 98,387	\$ 208,171	\$ 185,632	\$
BALANCE AT DECEMBER 31, 2002.....	\$ 98,387	\$ -	\$ 194,331	\$
Comprehensive income (loss):				
Net income.....	\$ 338,929	-	-	-
Commodity hedges, net of income tax benefit of \$7,625.....	(12,859)	-	-	-
Comprehensive income.....	\$ 326,070			
Dividends:				
Preferred.....	-	-	-	
Common (\$.05 per share).....	-	-	-	
Five percent common stock dividend.....	-	-	607	
Common shares issued.....	-	-	12,228	
Treasury shares issued, net.....	-	-	-	
Other.....	-	-	-	
BALANCE AT MARCH 31, 2003.....	\$ 98,387	\$ -	\$ 207,166	\$

(In thousands)	RETAINED EARNINGS	TREASURY STOCK	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL SHAREHOLDE EQUITY
BALANCE AT DECEMBER 31, 2001.....	\$ 1,336,478	\$ (111,885)	\$ (101,817)	\$ 4,418,
Comprehensive income (loss):				
Net income.....	80,672	-	-	80,
Currency translation adjustments.....	-	-	(1,115)	(1,
Commodity hedges, net of income tax benefit of \$3,069.....	-	-	(4,020)	(4,
Marketable securities, net of income tax benefit of \$67.....	-	-	(125)	(
Comprehensive income.....				
Dividends:				
Preferred.....	(4,908)	-	-	(4,
Common (\$.05 per share).....	(13,356)	-	-	(13,
Common shares issued.....	-	-	-	10,
Treasury shares issued, net.....	-	1,149	-	1,
Other.....	-	-	-	(
BALANCE AT MARCH 31, 2002.....	\$ 1,398,886	\$ (110,736)	\$ (107,077)	\$ 4,487,
BALANCE AT DECEMBER 31, 2002.....	\$ 1,427,607	\$ (110,559)	\$ (112,936)	\$ 4,924,
Comprehensive income (loss):				
Net income.....	338,929	-	-	338,
Commodity hedges, net of income tax				

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benefit of \$7,625.....	-	-	(12,859)	(12,
Comprehensive income.....				
Dividends:				
Preferred.....	(1,420)	-	-	(1,
Common (\$.05 per share).....	(17,116)	-	-	(17,
Five percent common stock dividend.....	(25,914)	-	-	
Common shares issued.....	-	-	-	568,
Treasury shares issued, net.....	-	2,112	-	2,
Other.....	-	-	-	
	-----	-----	-----	-----
BALANCE AT MARCH 31, 2003.....	\$ 1,722,086	\$ (108,447)	\$ (125,795)	\$ 5,803,
	=====	=====	=====	=====

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

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

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

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

### Reclassifications

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

### 1. ACQUISITIONS

On January 13, 2003, Apache announced that it had entered into agreements to purchase producing properties in the North Sea and Gulf of Mexico from subsidiaries of BP p.l.c. (referred to collectively as "BP") for \$1.3 billion, with \$670 million allocated to the Gulf of Mexico properties and the remaining \$630 million allocated to properties in the North Sea. The properties included estimated proved reserves of 233.2 million barrels of oil equivalent



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(MMboe), 147.6 MMboe located in the North Sea with the balance in the Gulf of Mexico. The Gulf of Mexico properties were subject to normal closing adjustments and preferential rights by third parties. 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. The purchase price for both BP transactions was paid in cash funded by the sale of Apache common stock and borrowings under existing lines of credit and commercial paper. The offering of Apache's common stock provided net proceeds of approximately \$554 million.

Apache and BP closed the transaction for the Gulf of Mexico properties on March 13, 2003, which included BP's interest in 56 producing fields, including 104 blocks. Upon closing, Apache paid a purchase price, adjusted for normal closing and preferential rights exercised by third parties, of \$509 million. The Gulf of Mexico purchase price and reserves were reduced by \$73 million and 9.6 MMboe, respectively, primarily for the exercise of preferential rights by third parties. As of January 1, 2003, the Gulf of Mexico properties acquired from BP had estimated proved reserves of 76 MMboe.

The acquisition of the U.K. North Sea properties closed on April 2, 2003, at which time Apache paid a purchase price, adjusted for normal closing and working capital adjustments, of \$630 million. As of January 1, 2003, the North Sea properties acquired from BP had estimated proved reserves of 147.6 MMboe. 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 our senior unsecured debt is lowered by both Moody's and Standard and Poor's from the Company's current ratings of A- and A3, respectively. Should this occur, the initial letter of credit amount would be 175 million British pounds. Apache has agreed to sell all of the North Sea production from those properties over the next two years to BP at a combination of fixed and market sensitive prices pursuant to a contract entered into in connection with the North Sea purchase agreement.

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Presented below is a breakdown of the cash consideration given for the BP transactions:

IN THOUSANDS	U.S. - GULF OF MEXICO	U.K. - NORTH SEA	TOTAL*
-----	-----	-----	-----
Proved Property	\$ 520,110	\$ 854,835	\$ 1,374,945
Unproved Property	57,500	65,000	122,500
Working Capital acquired, net	-	10,957	10,957
Asset Retirement Obligation	(69,000)	(250,887)	(319,887)
Deferred Tax Liability	-	(50,381)	(50,381)
	-----	-----	-----
Cash consideration	\$ 508,610	\$ 629,524	\$ 1,138,134
	=====	=====	=====

\* Property balance includes \$12 million of transaction costs (U.S. - \$4

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million; North Sea - \$8 million).

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

	FOR THE THREE MONTHS ENDED MARCH 31, 2003		FOR THE THREE MONTHS ENDED MARCH 31, 2002
	AS REPORTED	PRO FORMA	AS REPORTED
(In thousands, except per common share)			
Revenues.....	\$ 966,609	\$ 1,070,734	\$ 527,996
Net income.....	338,929	367,607	80,672
Preferred stock dividends.....	1,420	1,420	4,908
Income attributable to common stock.....	337,509	366,187	75,764
Net income per common share:			
Basic.....	\$ 1.06	\$ 1.13	\$ 0.26
Diluted.....	1.05	1.13	0.26
Average common shares outstanding (1).....	318,509	322,910	288,318

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

### 2. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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

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During the first quarter of 2003, in conjunction with the BP acquisitions and during the fourth quarter of 2002, in conjunction with the South Louisiana properties acquisition, Apache entered into, and designated as cash flow hedges, natural gas and crude oil fixed-price swaps and natural gas option collars. These positions were entered into in accordance with the Company's hedging policy and involved several counterparties which are rated A+ or better. As of March 31, 2003, the outstanding positions of our cash flow hedges were as follows:

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PRODUCTION PERIOD	INSTRUMENT TYPE	TOTAL VOLUMES (MMBTU/BBL)	WEIGHTED AVERAGE FLOOR/CEILING	FAIR VALUE ASSET/ LIABILITY
(In thousands)				
2003	Collars	13,750,000	\$ 3.50 / 6.09	\$ (3,142)
	Gas Fixed-Price Swap	55,000,000	5.18	2,010
	Oil Fixed-Price Swap	13,750,000	26.59	(12,903)
2004	Collars	18,300,000	3.25 / 5.81	(4,330)
	Gas Fixed-Price Swap	51,240,000	4.52	(5,444)
	Oil Fixed-Price Swap	1,550,000	26.59	1,319
2005	Collars	9,050,000	3.25 / 5.20	(2,407)

In addition to the fixed-price swaps and options, Apache entered into a separate crude oil physical sales contract with BP. The sales contract qualifies for the normal purchase and sale exemption of SFAS No. 133 and, therefore, the Company has designated and accounted for the contract under the accrual method. As of March 31, 2003, the outstanding terms of the contract were as follows:

CRUDE OIL FIXED-PRICE PHYSICAL SALES CONTRACT (BRENT)

PRODUCTION PERIOD	TOTAL VOLUMES (BARRELS)	AVERAGE FIXED PRICE
2003	6,875,000	\$ 25.32
2004	14,175,000	22.24

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

	GROSS	AFTER-TAX
Unrealized loss on derivatives at December 31, 2002.....	\$ (7,141)	\$ (4,186)
Net losses realized into earnings.....	40,445	25,221
Net change in derivative fair value.....	(60,929)	(38,080)
Unrealized loss on derivatives at March 31, 2003.....	\$ (27,625)	\$ (17,045)
	=====	=====

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The unrealized loss in other comprehensive income of \$27.6 million is expected to be realized in future earnings contemporaneously with the related sales of natural gas and crude oil production applicable to specific hedges. Losses of \$19.7 million (\$12.1 million after tax) are expected to be realized over the next twelve months; however, these amounts could vary materially as a result of changes in market conditions. The contracts designated as hedges qualified and continue to qualify for hedge accounting in accordance with SFAS 133, as amended.

### 3. CAPITAL STOCK

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

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### 4. NET INCOME PER COMMON SHARE

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

	FOR THE QUARTER ENDED MARCH 31,					
	2003			2002		
	INCOME	SHARES	PER SHARE	INCOME	SHARES	P
	(In thousands, except per share amounts)					
<b>BASIC:</b>						
Income attributable to common stock..	\$337,509	318,509	\$ 1.06	\$ 75,764	288,318	\$
			=====			=
<b>EFFECT OF DILUTIVE SECURITIES:</b>						
Stock options and other.....	-	2,650		-	3,217	
Series C Preferred Stock (1).....	-	-		-	-	
	-----	-----		-----	-----	
<b>DILUTED:</b>						
Income attributable to common stock, including assumed conversions.....	\$337,509	321,159	\$ 1.05	\$ 75,764	291,535	\$
	=====	=====	=====	=====	=====	=

- (1) The effect of the Series C Preferred Stock in 2002 was not included in the computation of diluted net income per share, because to do so would have been anti-dilutive.

### 5. STOCK-BASED COMPENSATION

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At March 31, 2003, the Company had several stock-based employee compensation plans. The Company accounts for those plans under the recognition and measurement principles of Accounting Principals Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Under this method, the Company records no compensation expense for stock options granted when the exercise price of those options is equal to or greater than the market price of the Company's common stock on the date of grant, unless the awards are subsequently modified. The following table illustrates the effect on income attributable to common stock and earnings per share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," as amended, to stock-based employee compensation for the Company's option and performance plans.

	FOR THE QUARTER ENDED MARCH 31,	
	2003	2002
	(In thousands)	
Income attributable to Common Stock, as reported...	\$ 337,509	\$ 75,764
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects.....	356	520
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects.....	(4,501)	(4,863)
Pro forma Income Attributable to Common Stock.....	\$ 333,364	\$ 71,421
Net Income per Common Share:		
Basic:		
As reported.....	\$ 1.06	\$ 0.26
Pro forma.....	1.05	0.25
Diluted:		
As reported.....	1.05	0.26
Pro forma.....	1.03	0.25

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.

On May 1, 2003, the Company issued stock appreciation rights to certain employees in lieu of stock options. In future periods, the Company will record compensation expense in respect to those stock appreciation rights as the price of the Company's common stock fluctuates.

## 6. SUPPLEMENTAL CASH FLOW INFORMATION

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The following table provides supplemental disclosure of cash flow information:

	FOR THE QUARTER ENDED MARCH 31,	
	2003	2002
	(In thousands)	
Cash paid during the period for:		
Interest (net of amounts capitalized).....	\$ 12,017	\$ 13,683
Income taxes (net of refunds).....	61,948	32,656

## 7. BUSINESS SEGMENT INFORMATION

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

	UNITED STATES	CANADA	EGYPT	AUSTRALIA	I
	-----	-----	-----	-----	-----
	(IN THOUSANDS)				
FOR THE QUARTER ENDED MARCH 31, 2003					
Oil and Gas Production Revenues.....	\$ 472,153	\$ 223,403	\$ 175,363	\$ 102,274	\$
	=====	=====	=====	=====	=====
Operating Income (1).....	\$ 277,941	\$ 136,575	\$ 113,706	\$ 56,059	\$
	=====	=====	=====	=====	=====
Other Income (Expense):					
Other revenues (losses).....					
General and administrative.....					
Preferred interests of subsidiaries..					
Financing costs, net.....					
Income Before Income Taxes.....					
Total Assets.....	\$ 5,345,524	\$ 2,652,260	\$ 1,749,675	\$ 950,629	\$
	=====	=====	=====	=====	=====
FOR THE QUARTER ENDED MARCH 31, 2002					
Oil and Gas Production Revenues.....	\$ 223,326	\$ 112,410	\$ 117,777	\$ 74,446	\$
	=====	=====	=====	=====	=====
Operating Income (Loss) (1).....	\$ 52,604	\$ 35,947	\$ 60,870	\$ 33,635	\$

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## Other Income (Expense):

Other revenues (losses).....  
 General and administrative.....  
 Preferred interests of subsidiaries..  
 Financing costs, net.....

Income Before Income Taxes.....

Total Assets.....	\$	4,089,657	\$	2,213,727	\$	1,597,582	\$	896,415	\$
		=====		=====		=====		=====	

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

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## 8. NEW ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2003, the Company adopted SFAS No. 143, "Accounting for Asset Retirement Obligations," which resulted in an increase to net oil and gas properties of \$410 million and additional liabilities related to asset retirement obligations of \$369 million. These entries reflect the asset retirement obligation of Apache had the provisions of SFAS No. 143 been applied since inception. This resulted in a non-cash cumulative-effect increase to earnings of \$27 million (\$41 million pretax).

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

Asset retirement obligation upon adoption on January 1, 2003.....	\$	368,537
Liabilities incurred.....		74,030
Liabilities settled.....		(4,337)
Accretion expense.....		5,313
Revisions and foreign currency fluctuation.....		6,497
		-----
Asset retirement obligation at March 31, 2003.....	\$	450,040
		=====

Liabilities incurred during the period primarily relate to obligations assumed in connection with the BP Gulf of Mexico property acquisition. Liabilities settled during the period primarily relate to individually immaterial properties plugged and abandoned or sold during the period. Prior to adoption of this statement, such obligations were accrued ratably over the productive lives of the assets through its depreciation, depletion and amortization for oil and gas properties; therefore, had SFAS No. 143 not been adopted, net income during the current period would not have been materially different. In addition, the net income impact of applying SFAS No. 143 on the

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comparable period in 2002 would not have resulted in a material difference, however, the liability as of January 1, 2002 would have been approximately \$334 million.

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

### 9. RECENT ACCOUNTING DEVELOPMENTS

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

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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



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combinations and major asset purchases after June 30, 2001 that would be classified as "intangible undeveloped mineral interest" was \$127 million as of March 31, 2003. The amounts related to business combinations and major asset purchases after June 30, 2001 that would be classified as "intangible developed mineral interest" was \$729 million as of March 31, 2003. Intangible developed mineral interest amounts are presented net of accumulated depletion, depreciation and amortization (DD&A). Accumulated DD&A was estimated using historical depletion rates applied proportionately to the costs of the acquisitions to be classified as "intangible developed mineral interest". The amounts noted above only include mineral rights acquired in business combinations or major asset purchases, and exclude those acquired individually or in groups as we have not historically tracked these in this manner. The Company has also not historically tracked the amount of mineral rights in the proved property balances related to producing leases or relinquished leases. We are currently identifying a methodology to do so for transactions subsequent to June 30, 2001.

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

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

### 10. SUPPLEMENTAL GUARANTOR INFORMATION

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

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

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## APACHE CORPORATION AND SUBSIDIARIES CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS FOR THE QUARTER ENDED MARCH 31, 2003

	APACHE CORPORATION	APACHE NORTH AMERICA	APACHE FINANCE AUSTRALIA	APACHE FINANCE CANADA
	-----	-----	-----	-----
	(IN THOUSANDS)			
REVENUES AND OTHER:				
Oil and gas production revenues.....	\$ 376,167	\$ -	\$ -	\$ -
Equity in net income (loss) of affiliates..	179,358	8,947	11,925	2,764
Other.....	(3,616)	-	-	-
	-----	-----	-----	-----
	551,909	8,947	11,925	2,764
	-----	-----	-----	-----
OPERATING EXPENSES:				
Depreciation, depletion and amortization...	67,618	-	-	-
Asset retirement obligation accretion.....	2,764	-	-	-
Lease operating costs.....	58,767	-	-	-
Gathering and transportation costs.....	4,485	-	-	-
Severance and other taxes.....	14,357	-	-	-
General and administrative.....	23,703	-	-	-
Financing costs, net.....	21,099	-	4,512	1,420
	-----	-----	-----	-----
	192,793	-	4,512	1,420
	-----	-----	-----	-----
PREFERRED INTERESTS OF SUBSIDIARIES.....	-	-	-	-
	-----	-----	-----	-----
INCOME (LOSS) BEFORE INCOME TAXES.....	359,116	8,947	7,413	1,420
Provision (benefit) for income taxes.....	39,944	-	(1,534)	(1,420)
	-----	-----	-----	-----
INCOME (LOSS) BEFORE CHANGE IN ACCOUNTING PRINCIPLE.....	319,172	8,947	8,947	2,764
Cumulative effect of change in accounting principle, net of income tax.....	19,757	-	-	-
	-----	-----	-----	-----
NET INCOME.....	338,929	8,947	8,947	2,764
Preferred stock dividends.....	1,420	-	-	-
	-----	-----	-----	-----
INCOME ATTRIBUTABLE TO COMMON STOCK.....	\$ 337,509	\$ 8,947	\$ 8,947	\$ 2,764

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	ALL OTHER SUBSIDIARIES OF APACHE CORPORATION	RECLASSIFICATIONS & ELIMINATIONS	CONSOLIDATED
		(IN THOUSANDS)	
REVENUES AND OTHER:			
Oil and gas production revenues.....	\$ 654,267	\$ (55,272)	\$ 975,162
Equity in net income (loss) of affiliates..	(9,077)	(219,348)	-
Other.....	(4,937)	-	(8,553)
	640,253	(274,620)	966,609
OPERATING EXPENSES:			
Depreciation, depletion and amortization...	146,731	-	214,349
Asset retirement obligation accretion.....	2,549	-	5,313
Lease operating costs.....	130,640	(55,272)	134,135
Gathering and transportation costs.....	7,376	-	11,861
Severance and other taxes.....	10,155	-	24,554
General and administrative.....	4,128	-	27,831
Financing costs, net.....	(9,859)	-	25,921
	291,720	(55,272)	443,964
PREFERRED INTERESTS OF SUBSIDIARIES.....	3,362	-	3,362
INCOME (LOSS) BEFORE INCOME TAXES.....	345,171	(219,348)	519,283
Provision (benefit) for income taxes.....	172,688	-	206,986
INCOME (LOSS) BEFORE CHANGE IN ACCOUNTING PRINCIPLE.....	172,483	(219,348)	312,297
Cumulative effect of change in accounting principle, net of income tax.....	6,875	-	26,632
NET INCOME.....	179,358	(219,348)	338,929
Preferred stock dividends.....	-	-	1,420
INCOME ATTRIBUTABLE TO COMMON STOCK.....	\$ 179,358	\$ (219,348)	\$ 337,509

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	APACHE CORPORATION	APACHE NORTH AMERICA	APACHE FINANCE AUSTRALIA	APACHE FINANCE CANADA
	-----	-----	-----	-----
	(IN THOUSANDS)			
REVENUES AND OTHER:				
Oil and gas production revenues.....	\$ 161,869	\$ -	\$ -	\$ -
Equity in net income (loss) of affiliates..	68,616	4,502	7,480	1
Other.....	185	-	-	-
	-----	-----	-----	-----
	230,670	4,502	7,480	1
	-----	-----	-----	-----
OPERATING EXPENSES:				
Depreciation, depletion and amortization...	53,704	-	-	-
International impairments.....	-	-	-	-
Lease operating costs.....	50,967	-	-	-
Gathering and transportation costs.....	2,941	-	-	-
Severance and other taxes.....	6,632	-	-	-
General and administrative.....	21,475	-	-	-
Financing costs, net.....	15,683	-	4,512	1
	-----	-----	-----	-----
	151,402	-	4,512	1
	-----	-----	-----	-----
PREFERRED INTERESTS OF SUBSIDIARIES.....	-	-	-	-
	-----	-----	-----	-----
INCOME (LOSS) BEFORE INCOME TAXES.....	79,268	4,502	2,968	-
Provision (benefit) for income taxes.....	(1,404)	-	(1,534)	(1)
	-----	-----	-----	-----
NET INCOME.....	80,672	4,502	4,502	-
Preferred stock dividends.....	4,908	-	-	-
	-----	-----	-----	-----
INCOME ATTRIBUTABLE TO COMMON STOCK.....	\$ 75,764	\$ 4,502	\$ 4,502	\$ -
	=====	=====	=====	=====
	ALL OTHER SUBSIDIARIES OF APACHE CORPORATION	RECLASSIFICATIONS & ELIMINATIONS	CONSOLIDATED	
	-----	-----	-----	
	(IN THOUSANDS)			
REVENUES AND OTHER:				
Oil and gas production revenues.....	\$ 407,541	\$ (40,021)	\$ 529,389	
Equity in net income (loss) of affiliates..	(8,752)	(86,284)	-	
Other.....	(1,578)	-	(1,393)	
	-----	-----	-----	
	397,211	(126,305)	527,996	
	-----	-----	-----	
OPERATING EXPENSES:				
Depreciation, depletion and amortization...	157,335	-	211,039	
International impairments.....	4,600	-	4,600	
Lease operating costs.....	101,358	(40,021)	112,304	
Gathering and transportation costs.....	5,292	-	8,233	
Severance and other taxes.....	7,558	-	14,199	
General and administrative.....	3,877	-	25,352	

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Financing costs, net.....	(4,399)	-	26,025
	-----	-----	-----
	275,621	(40,021)	401,752
	-----	-----	-----
PREFERRED INTERESTS OF SUBSIDIARIES.....	3,533	-	3,533
	-----	-----	-----
INCOME (LOSS) BEFORE INCOME TAXES.....	118,057	(86,284)	122,711
Provision (benefit) for income taxes.....	49,441	-	42,039
	-----	-----	-----
NET INCOME.....	68,616	(86,284)	80,672
Preferred stock dividends.....	-	-	4,908
	-----	-----	-----
INCOME ATTRIBUTABLE TO COMMON STOCK.....	\$ 68,616	\$ (86,284)	\$ 75,764
	=====	=====	=====

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## APACHE CORPORATION AND SUBSIDIARIES CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS FOR THE QUARTER ENDED MARCH 31, 2003

	APACHE CORPORATION	APACHE NORTH AMERICA	APACHE FINANCIAL AUSTRALIA
	-----	-----	-----
	(IN THOUSANDS)		
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES.....	\$ (620,860)	\$ -	\$ (3,500)
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to property and equipment.....	(102,386)	-	-
Acquisitions.....	(512,912)	-	-
Investment in subsidiaries, net.....	113,844	(3,500)	-
Other, net.....	(3,953)	-	-
	-----	-----	-----
NET CASH USED IN INVESTING ACTIVITIES.....	(505,407)	(3,500)	-
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Long-term borrowings.....	859,508	-	-
Payments on long-term debt.....	(280,300)	-	-
Dividends paid.....	(16,787)	-	-
Common stock activity.....	564,324	3,500	3,500
Treasury stock activity, net.....	2,594	-	-
Cost of debt and equity transactions.....	(534)	-	-
	-----	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES.....	1,128,805	3,500	3,500
	-----	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....	2,538	-	-

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CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	224	-	
	-----	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD.....	\$ 2,762	\$ -	\$
	=====	=====	=====
	ALL OTHER SUBSIDIARIES OF APACHE CORPORATION	RECLASSIFICATIONS & ELIMINATIONS	C
	-----	-----	-----
		IN THOUSANDS	
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES.....	\$ 1,166,734	\$ -	\$
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to property and equipment.....	(256,495)	-	
Acquisitions.....	-	-	
Investment in subsidiaries, net.....	(846,747)	736,403	
Other, net.....	(8,273)	-	
	-----	-----	-----
NET CASH USED IN INVESTING ACTIVITIES.....	(1,111,515)	736,403	
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Long-term borrowings.....	(90,957)	(703,732)	
Payments on long-term debt.....	-	-	
Dividends paid.....	-	-	
Common stock activity.....	21,308	(32,671)	
Treasury stock activity, net.....	-	-	
Cost of debt and equity transactions.....	-	-	
	-----	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES.....	(69,649)	(736,403)	
	-----	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....	(14,430)	-	
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	51,533	-	
	-----	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD.....	\$ 37,103	\$ -	\$
	=====	=====	=====

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	APACHE CORPORATION	APACHE NORTH AMERICA	APACHE FINANCIAL AUSTRIA
	-----	-----	-----
	(IN THOUSANDS)		
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES.....	\$ (524,773)	\$ -	\$ -
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to property and equipment.....	(69,337)	-	-
Proceeds from sales of oil and gas properties.....	650	-	-
Proceeds from sale of U.S. Government Agency Notes..	-	-	-
Investment in subsidiaries, net.....	(69,435)	(3,500)	-
Other, net.....	(846)	-	-
	-----	-----	-----
NET CASH USED IN INVESTING ACTIVITIES.....	(138,968)	(3,500)	-
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Long-term borrowings.....	730,467	-	-
Payments on long-term debt.....	(62,805)	-	-
Dividends paid.....	(18,256)	-	-
Common stock activity.....	9,390	3,500	-
Treasury stock activity, net.....	(856)	-	-
Cost of debt and equity transactions.....	(18)	-	-
	-----	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES.....	657,922	3,500	-
	-----	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....	(5,819)	-	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	6,383	-	-
	-----	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD.....	\$ 564	\$ -	\$ -
	=====	=====	=====
	ALL OTHER SUBSIDIARIES OF APACHE CORPORATION	RECLASSIFICATIONS & ELIMINATIONS	
	-----	-----	
	IN THOUSANDS		
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES.....	\$ 734,059	\$ -	-
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to property and equipment.....	(175,747)	-	-
Proceeds from sales of oil and gas properties.....	146	-	-
Proceeds from sale of U.S. Government Agency Notes..	17,006	-	-
Investment in subsidiaries, net.....	(506,056)	578,991	-
Other, net.....	(3,108)	-	-

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NET CASH USED IN INVESTING ACTIVITIES.....	(667,759)	578,991
CASH FLOWS FROM FINANCING ACTIVITIES:		
Long-term borrowings.....	192,265	(545,314)
Payments on long-term debt.....	(281,526)	-
Dividends paid.....	-	-
Common stock activity.....	26,677	(33,677)
Treasury stock activity, net.....	-	-
Cost of debt and equity transactions.....	-	-
NET CASH PROVIDED BY FINANCING ACTIVITIES.....	(62,584)	(578,991)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....	3,716	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	29,240	-
CASH AND CASH EQUIVALENTS AT END OF PERIOD.....	\$ 32,956	\$ -

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

	APACHE CORPORATION	APACHE NORTH AMERICA	APACHE FINANCIAL AUSTRALIA
			(IN THOUSANDS)
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents.....	\$ 2,762	\$ -	\$ -
Receivables, net of allowance.....	273,704	-	-
Inventories.....	13,585	-	-
Drilling advances and others.....	16,468	-	-
	306,519	-	-
PROPERTY AND EQUIPMENT, NET.....	4,247,546	-	-
OTHER ASSETS:			
Intercompany receivable, net.....	931,026	-	-
Goodwill, net.....	-	-	-



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Equity in affiliates.....	3,199,874	154,693	414,
Deferred charges and other.....	34,558	-	
	-----	-----	-----
	\$ 8,719,523	\$ 154,693	\$ 413,
	=====	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable.....	\$ 168,576	\$ -	\$
Other accrued expenses.....	165,101	-	1,
	-----	-----	-----
	333,677	-	1,
	-----	-----	-----
LONG-TERM DEBT.....	1,294,926	-	268,
	-----	-----	-----
DEFERRED CREDITS AND OTHER			
NONCURRENT LIABILITIES:			
Income taxes.....	767,866	-	(11,
Advances from gas purchasers.....	121,149	-	
Asset retirement obligation.....	261,667	-	
Other.....	137,138	-	
	-----	-----	-----
	1,287,820	-	(11,
	-----	-----	-----
PREFERRED INTERESTS OF SUBSIDIARIES.....	-	-	
	-----	-----	-----
COMMITMENTS AND CONTINGENCIES			
SHAREHOLDERS' EQUITY.....	5,803,100	154,693	154,
	-----	-----	-----
	\$ 8,719,523	\$ 154,693	\$ 413,
	=====	=====	=====
	ALL OTHER SUBSIDIARIES OF APACHE CORPORATION	RECLASSIFICATIONS & ELIMINATIONS	CONS
	-----	-----	-----
		(IN THOUSANDS)	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents.....	\$ 37,103	\$ -	\$
Receivables, net of allowance.....	487,638	-	
Inventories.....	100,073	-	
Drilling advances and others.....	66,740	-	
	-----	-----	-----
	691,554	-	
	-----	-----	-----
PROPERTY AND EQUIPMENT, NET.....	5,395,405	-	9,
	-----	-----	-----
OTHER ASSETS:			
Intercompany receivable, net.....	(676,579)	-	
Goodwill, net.....	189,252	-	
Equity in affiliates.....	(813,479)	(3,958,508)	
Deferred charges and other.....	4,905	-	

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	----- \$ 4,791,058 =====	----- \$ (3,958,508) =====	----- \$10, =====
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable.....	\$ 146,877	\$ -	\$ -
Other accrued expenses.....	239,402	-	-
	----- 386,279	----- -	----- -
LONG-TERM DEBT.....	82,569	-	1,
	-----	-----	-----
DEFERRED CREDITS AND OTHER			
NONCURRENT LIABILITIES:			
Income taxes.....	472,255	-	1,
Advances from gas purchasers.....	-	-	-
Asset retirement obligation.....	188,373	-	-
Other.....	24,620	-	-
	----- 685,248	----- -	----- 1,
	-----	-----	-----
PREFERRED INTERESTS OF SUBSIDIARIES.....	437,088	-	-
	-----	-----	-----
COMMITMENTS AND CONTINGENCIES			
SHAREHOLDERS' EQUITY.....	3,199,874	(3,958,508)	5,
	----- \$ 4,791,058 =====	----- \$ (3,958,508) =====	----- \$10, =====

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

	APACHE CORPORATION	APACHE NORTH AMERICA	APACHE FINANCIAL AUSTRALIA
	-----	-----	-----
		(IN THOUSANDS)	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents.....	\$ 224	\$ -	\$ -
Receivables, net of allowance.....	121,410	-	-
Inventories.....	15,509	-	-
Drilling advances and others.....	19,468	-	-
	----- 156,611	----- -	----- -
	-----	-----	-----

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PROPERTY AND EQUIPMENT, NET.....	3,403,716	-	
	-----	-----	-----
OTHER ASSETS:			
Intercompany receivable, net.....	1,146,086	-	(
Goodwill, net.....	-	-	
Equity in affiliates.....	2,994,954	142,422	402,
Deferred charges and other.....	31,804	-	
	-----	-----	-----
	\$ 7,733,171	\$ 142,422	\$ 401,
	=====	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable.....	\$ 124,152	\$ -	\$
Other accrued expenses.....	134,191	-	2,
	-----	-----	-----
	258,343	-	2,
	-----	-----	-----
LONG-TERM DEBT.....	1,550,645	-	268,
	-----	-----	-----
DEFERRED CREDITS AND OTHER			
NONCURRENT LIABILITIES:			
Income taxes.....	736,661	-	(11,
Advances from gas purchasers.....	125,453	-	
Oil and gas derivative instruments.....	3,507	-	
Other.....	134,282	-	
	-----	-----	-----
	999,903	-	(11,
	-----	-----	-----
PREFERRED INTERESTS OF SUBSIDIARIES.....	-	-	
	-----	-----	-----
COMMITMENTS AND CONTINGENCIES			
SHAREHOLDERS' EQUITY.....	4,924,280	142,422	142,
	-----	-----	-----
	\$ 7,733,171	\$ 142,422	\$ 401,
	=====	=====	=====

ALL OTHER  
SUBSIDIARIES  
OF APACHE  
CORPORATION

RECLASSIFICATIONS  
& ELIMINATIONS

CON

(IN THOUSANDS)

ASSETS

CURRENT ASSETS:			
Cash and cash equivalents.....	\$ 51,533	\$ -	\$
Receivables, net of allowance.....	406,277	-	
Inventories.....	93,695	-	
Drilling advances and others.....	58,536	-	
	-----	-----	-----
	610,041	-	
	-----	-----	-----

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PROPERTY AND EQUIPMENT, NET.....	5,061,869	-	8
	-----	-----	---
OTHER ASSETS:			
Intercompany receivable, net.....	(891,573)	-	
Goodwill, net.....	189,252	-	
Equity in affiliates.....	(808,503)	(3,689,851)	
Deferred charges and other.....	3,957	-	
	-----	-----	---
	\$ 4,165,043	\$ (3,689,851)	\$ 9
	=====	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable.....	\$ 90,136	\$ -	\$
Other accrued expenses.....	180,264	-	
	-----	-----	---
	270,400	-	
	-----	-----	---
LONG-TERM DEBT.....	42,356	-	2
	-----	-----	---
DEFERRED CREDITS AND OTHER			
NONCURRENT LIABILITIES:			
Income taxes.....	396,663	-	1
Advances from gas purchasers.....	-	-	
Oil and gas derivative instruments.....	-	-	
Other.....	24,044	-	
	-----	-----	---
	420,707	-	1
	-----	-----	---
PREFERRED INTERESTS OF SUBSIDIARIES.....	436,626	-	
	-----	-----	---
COMMITMENTS AND CONTINGENCIES			
SHAREHOLDERS' EQUITY.....	2,994,954	(3,689,851)	4
	-----	-----	---
	\$ 4,165,043	\$ (3,689,851)	\$ 9
	=====	=====	=====

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

### OVERVIEW

Apache reported record financial results for the quarter. Led by solid production and high commodity prices, we reported record first-quarter income attributable to common stock of \$338 million, including the \$27 million cumulative effect of a change in accounting principle regarding asset retirement obligations (see Footnote 8). We also reported record net cash provided by operating activities of \$538 million for the quarter.

Following are additional highlights for the first three months of 2003:

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- Oil and gas production revenues increased 84 percent over the prior-year first quarter to a record \$975 million.
- First-quarter production remained steady with 55 percent of our equivalent production coming from outside the U.S., continuing a multi-year trend to broaden geographic diversification.
- On January 13, 2003, we announced the acquisition of \$1.3 billion (subject to normal closing adjustments and exercise of preferential rights by third parties) in properties from BP (see Footnote 1), Apache's largest acquisition to date. We closed the Gulf of Mexico portion of the transaction on March 13, 2003 and the U.K. North Sea (Forties Field) portion on April 2, 2003. The North Sea assets provide Apache with a new core area.
- On January 22, 2003, in conjunction with the BP transaction, we completed a public offering of 19.8 million shares of common stock, adjusted for the five percent common stock dividend and two-for-one common stock split, raising net proceeds of \$554 million.
- After announcing the BP transaction, Moody's, Standard and Poor's, and Fitch rating agencies reaffirmed Apache's single-A credit ratings on senior unsecured long-term debt.

We are encouraged by the outlook for the remainder of the year. While we have seen some pullback in commodity prices since quarter-end, the overall outlook remains relatively strong. With additional production from the BP acquisition and first production expected during the third quarter from the Zhao Dong development in China, we should see production growth in 2003.

The conditions that generated our first-quarter record results, coupled with our equity offering, have enabled us to maintain the financial flexibility necessary to act when opportunities arise. We are positioned to take advantage of an acquisition environment that appears favorable, as major integrated companies shed non-core assets. While the first quarter proved to be an active one for the Company, the balance of the year holds a multitude of challenges and opportunities.

### CRITICAL ACCOUNTING POLICY

The Company has taken note of a July 2003 inquiry to the Financial Accounting Standards Board regarding whether or not contract-based oil and gas mineral rights held by lease or contract ("mineral rights") should be recorded or disclosed as intangible assets. The inquiry presents a view that these mineral rights are intangible assets as defined in SFAS No. 141, "Business Combinations," and, therefore, should be classified separately on the balance sheet as intangible assets. SFAS No. 141, and SFAS No. 142, "Goodwill and Other Intangible Assets," became effective for transactions subsequent to June 30, 2001 with the disclosure requirements of SFAS No. 142 required as of January 1, 2002. SFAS No. 141 requires that all business combinations initiated after June

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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

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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 \$127 million as of March 31, 2003. The amounts related to business combinations and major asset purchases after June 30, 2001 that would be classified as "intangible developed mineral interest" was \$729 million as of March 31, 2003. Intangible developed mineral interest amounts are presented net of accumulated depletion, depreciation and amortization (DD&A). Accumulated DD&A was estimated using historical depletion rates applied proportionately to the costs of the acquisitions to be classified as "intangible developed mineral interest". The amounts noted above only include mineral rights acquired in business combinations or major asset purchases, and exclude those acquired individually or in groups as we have not historically tracked these in this manner. The Company has also not historically tracked the amount of mineral rights in the proved property balances related to producing leases or relinquished leases. We are currently identifying a methodology to do so for transactions subsequent to June 30, 2001.

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

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

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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.

### RESULTS OF OPERATIONS

#### Revenues

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

	OIL REVENUES FOR THE QUARTER ENDED MARCH 31,		GAS REVENUES FOR THE QUARTER ENDED MARCH 31,	
	2003	2002	2003	2002
United States.....	34%	35%	59%	51%
Canada.....	16%	15%	29%	29%
	---	---	---	---
North America.....	50%	50%	88%	80%
Egypt.....	29%	29%	10%	14%
Australia.....	21%	21%	2%	6%
Other International.....	-	-	-	-
	---	---	---	---
Total.....	100%	100%	100%	100%
	===	===	===	===

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#### Crude Oil Contribution

Each segment's contribution to first quarter 2003 consolidated oil revenues were relatively flat compared to their contribution in the first quarter 2002.

#### Natural Gas Contribution

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In the first quarter of 2003, 88 percent of Apache's natural gas revenues came from the North American market, 59 percent from the U.S. and 29 percent from Canada. In the comparable 2002 quarter, 80 percent of Apache's natural gas revenues were from North America, with the U.S. and Canada contributing 51 and 29 percent, respectively. The U.S. garnered a higher percentage of consolidated natural gas revenues, as increases in the U.S. outpaced gains in Egypt and Australia. Canada's contribution to consolidated revenues remained flat.

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

	FOR THE QUARTER ENDED MARCH 31,		
	2003	2002	INCREASE (DECREASE)
Revenues (in thousands):			
Natural gas.....	\$ 520,360	\$ 225,982	130%
Oil.....	438,343	294,137	49%
Natural gas liquids.....	16,459	9,270	78%
	-----	-----	
Total.....	\$ 975,162	\$ 529,389	84%
	=====	=====	
Natural Gas Volume - Mcf per day:			
United States.....	552,783	540,433	2%
Canada.....	309,205	314,659	(2%)
Egypt.....	123,719	117,525	5%
Australia.....	101,153	120,645	(16%)
Argentina.....	6,788	3,856	76%
	-----	-----	
Total.....	1,093,648	1,097,118	-
	=====	=====	
Average Natural Gas Price - Per Mcf:			
United States.....	\$ 6.22	\$ 2.35	165%
Canada.....	5.35	2.33	130%
Egypt.....	4.50	3.05	48%
Australia.....	1.31	1.23	7%
Argentina.....	0.42	0.64	(34%)
Total.....	5.29	2.29	131%
Oil Volume - Barrels per day:			
United States.....	57,334	55,829	3%
Canada.....	24,735	25,339	(2%)
Egypt.....	45,710	44,378	3%
Australia.....	30,439	32,941	(8%)
Argentina.....	597	669	(11%)
	-----	-----	
Total.....	158,815	159,156	-
	=====	=====	
Average Oil Price - Per barrel:			
United States.....	\$ 28.97	\$ 20.56	41%



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Canada.....	32.09	18.87	70%
Egypt.....	30.46	21.42	42%
Australia.....	33.00	20.60	60%
Argentina.....	31.95	20.07	59%
Total.....	30.67	20.53	49%
Natural Gas Liquids (NGL)			
Volume - Barrels per day:			
United States.....	6,083	6,895	(12%)
Canada.....	1,406	1,358	4%
	-----	-----	
Total.....	7,489	8,253	(9%)
	=====	=====	
Average NGL Price - Per barrel:			
United States.....	\$ 24.34	\$ 12.78	90%
Canada.....	24.75	10.95	126%
Total.....	24.42	12.48	96%

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## Natural Gas Revenues

The Company's natural gas production declined 3 million cubic feet per day (MMcf/d), which reduced first-quarter natural gas revenues by \$2 million. Production in the U.S. climbed 12 MMcf/d, as the Gulf Coast region's 22 MMcf/d increase more than offset a 10 MMcf/d decline in the Central region. Production in the Gulf Coast region benefited from a full quarter of production from properties acquired in South Louisiana, 18 days of production from the Gulf of Mexico properties acquired from BP and additional production from a successful recompletion program. These increases offset natural declines in mature fields and downtime associated with well performance. New discoveries in the Central region, particularly the Loper field, partially offset natural declines in mature fields. One of Australia's contracts with a Perth gas distribution company expired in October 2002, resulting in 19 MMcf/d of lower production. Rising natural gas prices contributed \$296 million to first-quarter natural gas revenues. Correspondingly, the Company has seen a rise in oil and gas revenue receivables.

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

	FOR THE QUARTER ENDED MARCH 31,	
	2003	2002
	-----	-----
Fixed-price physical.....	\$ (.15)	\$.05
Derivatives.....	(.17)	-
Amortization.....	-	.06

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## Crude Oil Revenues

The Company's oil production declined 341 barrels per day (b/d), which reduced first-quarter crude oil revenues by \$1 million. Production growth in the Gulf Coast region, up 2,377 b/d, and Egypt, up 1,332 b/d, was offset by 2,502 b/d and 871 b/d declines in Australia and the Central region, respectively. The Gulf Coast region's growth is attributable to the South Louisiana and BP acquisitions discussed above. Egypt saw production growth in several concessions. The declines in Australia and the Central region were distributed among numerous fields. The 49 percent increase in oil price contributed \$145 million to crude oil revenues. Correspondingly, the Company has seen a rise in oil and gas revenue receivables.

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

	FOR THE QUARTER ENDED MARCH 31,	
	2003	2002
Derivatives.....	\$ (1.61)	\$ -
Amortization.....	.03	.08

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## Operating Expenses

The table below presents a detail of our expenses.

	FOR THE QUARTER ENDED MARCH 31,	
	2003	2002
	(In millions)	
Depreciation, depletion and amortization (DD&A):		
Oil and gas property and equipment.....	\$ 198	\$ 197
Other assets.....	16	14
Asset retirement obligation accretion.....	5	-
International impairments.....	-	5
Lease operating costs (LOE).....	134	113
Gathering and transportation costs.....	12	8
Severance and other taxes.....	25	14
General and administrative expense (G&A).....	28	25
Financing costs, net.....	26	26

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Total.....	\$ 444	\$ 402
	=====	=====

### Depreciation, Depletion and Amortization

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

First-quarter 2003 full-cost DD&A expense of \$198 million is mainly comprised of the U.S., \$97 million, Canada, \$37 million, Egypt, \$38 million and Australia, \$25 million. Overall, full-cost DD&A expense was relatively flat compared to the same period last year. Egypt and Australia's DD&A expense increased \$3 million and \$2 million, respectively, while Canada's DD&A expense fell \$3 million. U.S. DD&A expense was flat to the 2002 first quarter.

On a boe basis, our full-cost DD&A rate increased \$.07 from \$6.24 in the first quarter of 2002 to \$6.31 in 2003. The increase in the consolidated rate is related to Australia and Egypt. The impact from Australia is related to costs incurred for several long-lead development projects and higher finding costs. The impact from Egypt is driven by higher finding and development costs.

### Lease Operating Costs

LOE increased \$22 million from last year's first quarter driven by increases in North America. Acquisitions in Canada and the U.S. in the latter half of last year and the close of the acquisition of the Gulf of Mexico properties from BP contributed to the increase on an absolute basis. The rate increased \$.72 per Boe compared to the prior year quarter. Higher commodity prices increased the cost of power, fuel, and ad valorem and property taxes in North America. The Company also increased workover activity in the U.S., Canada and Egypt.

### Gathering and Transportation Costs

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

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These costs are primarily related to the transportation of natural gas in our North American operations. During the first quarter of 2003, the costs totaled \$7 million in Canada and \$ 5 million in the U.S. compared to \$ 5 million and \$ 3 million in Canada and the U.S., respectively in the first quarter of 2002.

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### 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 and the Canadian Large Corporation Tax, Saskatchewan Capital Tax, Saskatchewan Resource Surtax and Freehold Mineral Tax. Egyptian operations are not subject to these various taxes.

In the first quarter of 2003, severance and other taxes totaled \$25 million, comprised of U.S., \$15 million, Australia, \$7 million and Canada, \$3 million. Overall, severance and other taxes increased \$10 million from the first quarter of 2002 with U.S. and Australia contributing \$8 million and \$2 million, respectively. The increase in both the U.S. and Australia severance taxes were primarily attributable to higher price-driven oil and gas production revenues. The other tax components were relatively flat compared to the first quarter of 2002.

### General and Administrative Expense

The Company's first-quarter 2003 G&A costs were \$2 million, \$.09 per boe, higher than the year-ago quarter. The increase is related to higher overall insurance costs following the events of September 11, 2001 and higher retirement costs.

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### OIL AND GAS CAPITAL EXPENDITURES

	FOR THE QUARTER ENDED MARCH 31,	
	2003	2002
	(In thousands)	
Exploration and development:		
United States.....	\$ 87,280	\$ 55,132
Canada.....	165,047	82,245
Egypt.....	60,327	32,624
Australia.....	25,247	24,242
Other International.....	4,375	4,005
	-----	-----

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	\$	342,276	\$	198,248
	=====		=====	
Capitalized Interest.....	\$	11,232	\$	10,022
	=====		=====	
Gas gathering, transmission and processing facilities.....	\$	3,061	\$	7,646
	=====		=====	
Acquisitions:				
Oil and gas properties.....	\$	544,371	\$	108
Gas gathering, transmission and processing facilities ..		5,484		-
Goodwill.....		-		-
	-----		-----	
	\$	549,855	\$	108
	=====		=====	

## CAPITAL RESOURCES

Apache's primary cash needs are for exploration, development and acquisition of oil and gas properties, operating expenses, repayment of principal and interest on outstanding debt and payment of dividends. The Company funds its exploration and development activities primarily through internally generated cash flows. Apache budgets capital expenditures based upon projected cash flows and routinely adjusts its capital expenditures in response to changes in oil and natural gas prices and corresponding changes in cash flow. The Company cannot accurately predict future oil and gas prices.

### Net Cash Provided by Operating Activities

Apache's net cash provided by operating activities during the first three months of 2003 totaled \$538 million, an increase of 162 percent from \$205 million in the first three months of 2002. This increase reflects the impact of higher prices on oil and gas production revenues.

### 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. These funds were used to pay down debt which increased Apache's available borrowing capacity. We pay a weighted average return to the investors of 123 basis points above the prevailing LIBOR interest rate. These subsidiaries are consolidated in the accompanying financial statements. For the first quarter of 2003, the subsidiaries paid \$3 million to investors, which is reflected as Preferred Interests of Subsidiaries on the Statement of Consolidated Operations.

## LIQUIDITY

The Company had \$40 million in cash and cash equivalents on hand at March 31, 2003, down from \$52 million at December 31, 2002. Apache's ratio of current assets to current liabilities at March 31, 2003 was 1.37 compared to 1.44 at December 31, 2002.

On January 22, 2003, the Company completed a public offering of 19.8 million shares of Apache common stock, adjusted for the five percent common stock dividend and the two-for-one common stock split, including underwriters' over-allotment option, for net

proceeds of approximately \$554 million. The proceeds were used toward the purchase of Apache's acquisition of producing properties in the U.K. North Sea and the Gulf of Mexico from BP.

Apache believes that cash on hand, net cash generated from operations, short-term investments, and unused committed borrowing capacity under its \$1.5 billion global credit facility will be adequate to satisfy future financial obligations and liquidity needs. The global credit facility includes a \$750 million 364-day U.S. credit facility which we expect to extend on the same terms for an additional one-year period at the end of May. As of March 31, 2003, Apache's available borrowing capacity under its global credit facility was \$1.5 billion.

Occasionally, the Company accesses capital markets to fund acquisitions, repay debt, and enhance future liquidity. On May 8, 2003, we priced a private offering of \$350 million of 4.375 percent, 12-year, senior unsecured notes. The notes are to be issued by Apache Finance Canada Corporation, one of our subsidiaries, and guaranteed by us. We expect the sale of the notes to close on May 15, 2003.

#### FUTURE TRENDS

Our objective is to build a company of lasting value by pursuing profitable growth through a combination of drilling and acquisitions. Our investment decisions are subjected to strict rate of return criteria and generally fall in the categories identified below, depending on which phase of the price and cost cycle we may be in. Those categories include:

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

#### Exploiting Existing Asset Base

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

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

We seek to purchase reserves at appropriate prices by generally avoiding auction processes, where we are competing against other buyers, and attempting to time our acquisitions to avoid the peak of the price cycle. 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. The acquisition environment appears to be swinging our way as major integrated companies shed non-core assets.

#### Investing in High-Potential Exploration Prospects

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

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

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

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

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

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

The Company considers its interest rate risk exposure to be minimal as a result of fixing interest rates on approximately 95 percent of the Company's debt. At March 31, 2003, total debt included \$102 million of floating-rate debt. As a result, Apache's annual interest costs in 2003 will fluctuate based on short-term interest rates on approximately five percent of its total debt outstanding at March 31, 2003. Additionally, our preferred interests of subsidiaries of \$437 million is subject to fluctuations in short-term interest rates. The impact on annual cash flow of a 10 percent change in the floating interest rate, including our preferred interests in subsidiaries, (approximately 25 basis points) would be approximately \$1.4 million.

On March 31, 2003, the Company had open natural gas derivative positions with a fair value of \$(13.3) million. A 10 percent increase in natural gas prices would change the fair value by \$(59.3) million. A 10 percent decrease in prices would change the fair value by \$58.8 million. The Company also had open oil price swap positions with a fair value of \$(11.6) million. A 10 percent increase in oil prices would change the fair value by \$(50.7) million. A 10 percent decrease in oil prices would change the fair value by \$50.7 million. See Note 2 to the Company's consolidated financial statements for notional volumes associated with the Company's derivative contracts.

### ITEM 4 - CONTROLS AND PROCEDURES

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

### FORWARD-LOOKING STATEMENTS AND RISK

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

There are numerous uncertainties inherent in estimating quantities of proved oil and gas reserves and in projecting future rates of production and the timing of development expenditures. The total amount or timing of actual future production may vary significantly from reserves and production estimates. The drilling of exploratory wells can involve significant risks, including those related to timing, success rates and cost overruns. Lease and rig availability, complex geology and other factors can affect these risks. Although Apache may make use of futures contracts, swaps, options and fixed-price physical contracts to mitigate risk, fluctuations in oil and gas prices, or a prolonged continuation of low prices, may adversely affect the Company's financial position, results of operations and cash flows.

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### PART II - OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS

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

#### ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None

#### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

#### ITEM 5. OTHER INFORMATION



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During the quarterly period covered by this filing, the Company's Audit Committee approved the engagement of Ernst & Young to act as the Company's independent public auditors for the calendar year 2003, including the annual financial statement audit.

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

#### (a) Exhibits

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

31.1 - Certification of Chief Executive Officer.

31.2 - Certification of Chief Financial Officer.

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

#### (b) Reports filed on Form 8-K

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

Item 5 - Other Events - dated January 13, 2003 (January 11, 2003), filed January 13, 2003

Apache filed a preliminary prospectus supplement for offering to the public of up to 7,130,000 shares (14,973,000 shares adjusted for the five percent stock dividend and the two-for-one common stock split) of Apache common stock, par value \$0.625 per share, registered pursuant to a registration statement on Form S-3 (Registration No. 333-32580).

Apache announced the purchase (a) from BP Exploration & Production, Inc. of BP's interests in 61 producing fields, including 113 blocks, located in the Gulf of Mexico, and (b) from BP Exploration Operating Company Limited of BP's interests in two producing fields located in the North Sea.

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\* Previously filed.

Item 5 - Other Events - dated January 16, 2003, filed January 17, 2003

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Apache filed a prospectus supplement for offering to the public of up to 9,430,000 shares (19,803,000 shares adjusted for the five percent stock dividend and two-for-one common stock split) of Apache common stock, par value \$0.625 per share, registered pursuant to registration statements on Form S-3 (Registration Nos. 333-32580 and 333-75633).

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### SIGNATURES

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

#### APACHE CORPORATION

Dated: January 23, 2004

/s/ ROGER B. PLANK

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Roger B. Plank  
Executive Vice President and Chief  
Financial Officer

Dated: January 23, 2004

/s/ THOMAS L. MITCHELL

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

### EXHIBIT INDEX

- \*12.1 - Statement of computation of ratio of earnings to fixed charges and combined fixed charges and preferred stock dividends.
- 31.1 - Certification of Chief Executive Officer.
- 31.2 - Certification of Chief Financial Officer.
- 32.1 - Certification of Chief Executive Officer and Chief Financial Officer.

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\* Previously filed.