Apache Corporation

2004 Summary Annual Report

24/7/365

2:37am – Gulf of Mexico

At any time of day, on any day of the week, 365 days a year, in locations around the world, Apache people are working on behalf of shareholders to find and produce oil and natural gas. As part of the largest industry on Earth, Apache helps fuel economies and raise living standards, operates in an environmentally responsible manner, and continues a 50-year tradition of profitable growth.

The Tarantula field, located about 60 miles off the Louisiana coast in the Gulf of Mexico, is one of Apache's newest assets, acquired in 2004 as the field was about to commence production.

Apache Corporate Profile

Established in 1954 with $250,000 of investor capital, Apache Corporation has grown to become one of the world's top independent oil and gas exploration and production companies with $15.5 billion in assets. Apache's U.S. operations are focused in some of the nation's most important producing basins, including the Outer Continental Shelf of the Gulf of Mexico, the Anadarko Basin of Oklahoma, the Permian Basin of West Texas and New Mexico, the Texas–Louisiana Gulf Coast and East Texas. In Canada, Apache is active in British Columbia, Alberta, Saskatchewan and the Northwest Territories. The company also has exploration and production operations in Australia's offshore Carnarvon, Perth and Gippsland basins, Egypt's Western Desert, the United Kingdom sector of the North Sea, China and Argentina.

Making A Difference

Apache Corporation & Subsidiaries

Apache urges all who share its commitment to education to support Fund for Teachers, a program that recognizes and encourages pre–kindergarten through 12th–grade teachers with grants for summer travel; the Ucross Foundation, which provides Artist–in–Residence programs, meeting facilities for consensus–building, and a model of land stewardship integrated with an open–space initiative in Wyoming; and Springboard – Educating the Future, which raises money to build one–room schools for young girls in Egypt's rural communities. For more information about or to make a contribution to Fund for Teachers, please contact Karen Kovach–Webb, executive director, 2000 Post Oak Boulevard, Suite 100, Houston, Texas, 77056, or e–mail her at smiles@fundforteachers.org. For more information or to make a contribution to the Ucross Foundation, please contact Michelle Sullivan, president, 30 Big Red Lane, Clearmont, Wyoming, 82835, or e–mail her at ucross@wyoming.com. For more information on Springboard, please contact Dina Kohleffel, Apache's director of philanthropic programs, at 2000 Post Oak Boulevard, Suite 100, Houston, Texas, 77056, or e–mail her at dina.kohleffel@apachecorp.com.

Performance Highlights

(dollars in millions, except per-common-share data)	Year Ended December 31		
	2004	2003	2002
Financial Highlights			
Revenues	$ 5,333	$ 4,190	$ 2,560
Income attributable to common stock	1,663	1,116	544
Diluted net income per common share	5.03	3.43	1.80
Cash from operations before changes in operating assets and liabilities[a]:			
Net cash provided by operating activities	$ 3,232	$ 2,706	$ 1,381
Changes in operating assets and liabilities	193	95	186
Cash from operations before changes in operating assets and liabilities	$ 3,425	$ 2,801	$ 1,567
Total assets	$ 15,502	$ 12,416	$ 9,460
Long-term debt	2,588	2,327	2,159
Shareholders' equity	8,204	6,533	4,924
Cash dividends paid per common share	.26	.21	.19
Operational Highlights			
Oil and gas capital expenditures (including acquisitions, gas gathering, transmission and processing facilities and goodwill)	$ 3,594	$ 3,118	$ 1,288
Natural gas production (MMcf/d)	1,235	1,217	1,080
Oil and condensate production (Mbbls/d)	242	215	161
Proved reserves (MMboe)	1,937	1,657	1,313

Per-share results have been adjusted to reflect the five percent and 10 percent common stock dividends declared in 2002 and 2001, respectively, and the two-for-one stock split declared in 2003.

[a] NON-GAAP FINANCIAL MEASURE:
This annual report discusses Apache's cash from operations before changes in operating assets and liabilities. It is presented because management believes the information is useful for investors because it is used internally and widely accepted by those following the oil and gas industry as a financial indicator of a company's ability to generate cash to internally fund exploration and development activities, fund dividend programs, and service debt. It is also used by research analysts to value and compare oil and gas exploration and production companies and is frequently included in published research when providing investment recommendations. Cash from operations before changes in operating assets and liabilities, therefore, is an additional measure of liquidity, but is not a measure of financial performance under GAAP and should not be considered as an alternative to cash flows from operating, investing, or financing activities.

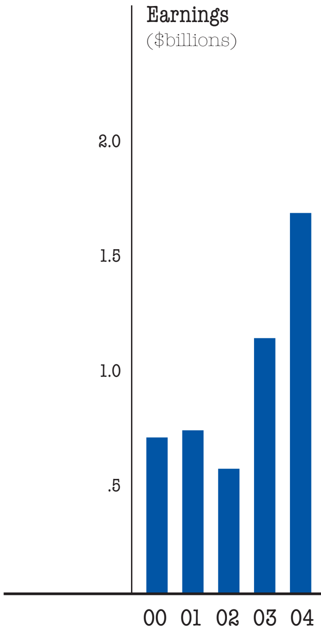
Contents

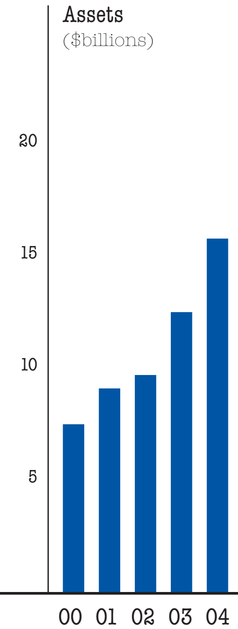
Performance Highlights 1
A Record Year 2
Letter to Shareholders 3
Central Region 5
Gulf Coast Region 7
Egypt 9
Canada 10
U.K. North Sea 12
Australia 14
China 17
Directors and Officers 20
Statement of Consolidated Operations 21
Statement of Consolidated Cash Flows 22
Consolidated Balance Sheet 23
Statement of Consolidated Shareholders' Equity 24
Eleven-Year Statistical Summary 26
Oil and Gas Reserve Information 28
Future Net Cash Flows 30
Shareholder Information 31

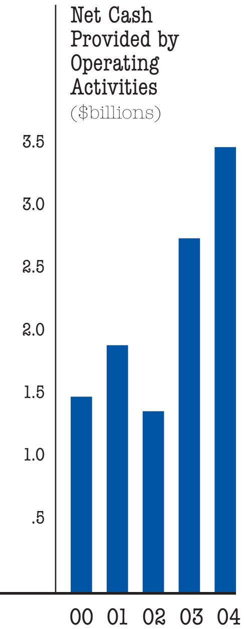
Abbreviations

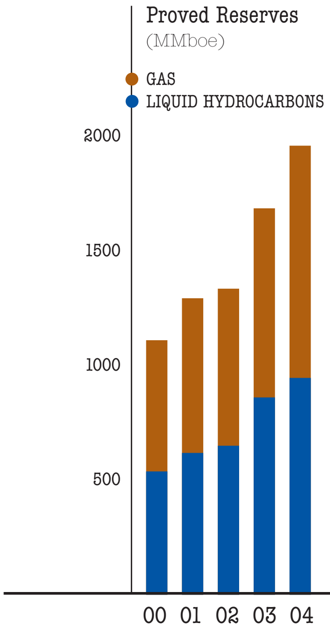
Mcf Thousand cubic feet (of gas)
MMcf Million cubic feet
Bcf Billion cubic feet
Tcf Trillion cubic feet
Boe Barrel of oil equivalent
MMboe Million barrels of oil equivalent

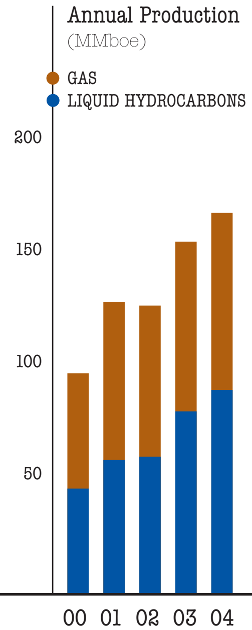
Six Mcf of gas is the energy equivalent of one barrel of oil.

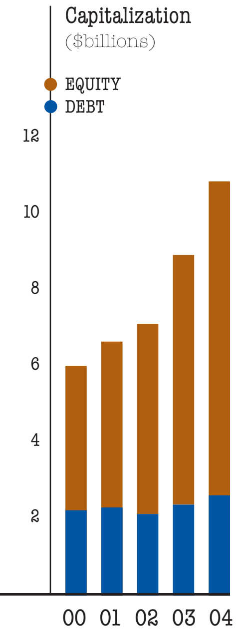

Earnings
($billions)
2.0
1.5
1.0
.5
00 01 02 03 04


Assets
($billions)
20
15
10
5
00 01 02 03 04


Net Cash Provided by Operating Activities
($billions)
3.5
3.0
2.5
2.0
1.5
1.0
.5
00 01 02 03 04


Proved Reserves
(MMboe)
GAS
LIQUID HYDROCARBONS
2000
1500
1000
500
00 01 02 03 04


Annual Production
(MMboe)
GAS
LIQUID HYDROCARBONS
200
150
100
50
00 01 02 03 04


Capitalization
($billions)
EQUITY
DEBT
12
10
8
6
4
2
00 01 02 03 04

In last year's annual report, we noted that we would be celebrating the company's 50th anniversary during 2004. The year provided many opportunities to recall and highlight the values that have fostered Apache's five decades of progress while remaining solidly focused on the present and future. It was also our best year ever: With record production and strong commodity prices, Apache earned $1.7 billion, up nearly 50 percent from 2003.

To provide perspective for new shareowners and employees, here are some comparisons: Apache's mid-February market capitalization of $19 billion is about 75,000 times the company's initial capitalization of $250,000. With adjustments for stock dividends and splits, our recent share price is about 1,400 times the value of Apache shares when they were first traded.

As we observed Apache's anniversary, we were asked many questions, but the most common queries can be boiled down to three topics:

Q. Did you think Apache would reach these levels?

A. No. We had confidence in the future but we didn't have such dreams. We know now what we believed then, that growth is incremental.

Q. Are you proud?

A. No, not really. We are focused on the present and future challenges rather than past accomplishments. After all, personal pride has an aroma of arrogance and often leads to self-destruction.

But yes, we are proud of the Apache people who have risen to the challenges and opportunities they have faced and have grown as a result of the responsibilities they have embraced.

Q. What are the principal elements that have served Apache so well?

A. Our values, by a country mile.

As Apache has grown over the past five decades, we have worked hard to preserve the values – integrity, respect for people and other cultures, an entrepreneurial spirit – that have helped us build the company to last. When we say that we are "building Apache to last," we mean that our strategies and decisions are weighted toward the long term, not quarter-to-quarter results. We are making decisions today to benefit shareholders three to five years forward.

Add to this Apache's sense of urgency, our people's creativity and the credibility they have gained from meeting their commitments and assuming new responsibilities.

That's what drives us. So, how did we do in 2004? And what are the challenges and opportunities ahead of us?

When we reported to you last year, there was a significant amount of uncertainty for our industry and in the world. Unfortunately, many of the same issues that confronted us a year ago are still around today.

Oil prices, fueled by increased demand, the weak U.S. dollar and turmoil in the Middle East, remain strong and volatile. Natural gas prices in North America, despite adequate levels of inventory in storage, also remain strong (and volatile). It is widely recognized that reserve targets in the United States continue to decline and the development of meaningful capacity to import liquefied natural gas (LNG) is still years away.

It is difficult to predict when and how these conditions will change. Predicting the future is always tenuous; in the current environment, even foolhardy.

We can say demand for crude oil and natural gas has never been greater, and the outlook is not likely to change in the foreseeable future. Many of the world's emerging economies – led by China and India, the two most populous countries, comprising a third of the world's population – are making important strides in improving their standards of living and their appetites for energy appear insatiable. Whether their economies may or may not support their appetites is beyond present knowledge.

The challenges for the energy industry – the world's largest and arguably most important sector – are numerous. The most critical challenge is continuing to find, develop and produce new oil and gas reserves to meet this ever-growing demand.

Although your company is but a small part of the upstream sector, we believe Apache is an important spoke in the wheel. As a pure upstream producer, with no refineries, chemical plants or retail marketing, our challenge is to continue to grow our production and reserves in a cost-effective and environmentally compatible manner for the benefit of our shareholders and to help meet overall energy needs.

In 2004, Apache increased its worldwide reserves 17 percent to 1.94 billion barrels of oil equivalent. This marked our 19th consecutive year of reserve growth. Apache's average daily production grew 7.4 percent for the year on a barrel-of-oil-equivalent basis. Our production has now increased in 25 of the last 26 years.

Since 1999, Apache's production has more than doubled, from 204,000 boe per day to 448,000 boe per day in 2004.

We enter 2005 stronger, in terms of opportunities and financial flexibility, to meet the challenge of continued growth of production and reserves.

We have a strong, diverse portfolio of drilling opportunities and, while exploration, development and acquisition expenditures totaled $3.4 billion in 2004, Apache ended the year with debt at 24 percent of capitalization, providing flexibility as we address the challenges ahead. We also increased the common stock dividend from an annual rate of 24 cents per share to 32 cents per share. With adjustments for splits and stock dividends, the quarterly cash dividend has, since 2001, increased each year and doubled.

As part of our acquisition from ExxonMobil in September, we farmed-in nearly 400,000 acres in central Alberta, supplementing our existing 6.5 million gross acres of prospective properties in Canada.

5:00am – Northeast Drinkard Unit, Lea County, New Mexico

Central Region Pumper Travis Carnes, an eight-year Apache veteran, makes his rounds at the Northeast Drinkard Unit Satellite No. 1, a pipeline gathering system for many of the wells flowing into the unit's central tank battery, which handles an average of 2,000 barrels of oil, 13 MMcf of natural gas and 9,700 barrels of water per day. Travis is responsible for 51 producing wells and 50 injection wells. By closely regulating daily injection rates and pressures, he increased his area's production by 20 percent in 2004. Travis' father, Rickey, also is part of the Apache family, serving as a senior pumper working near Andrews, Texas.

In the mature fields of the Permian Basin of West Texas and New Mexico, the sense of urgency, hard work and experience of Apache's field personnel pay dividends every day.

The Central Region's estimated proved reserves increased 20 percent in 2004 through hard work by Travis and his fellow Apaches, acquisitions, and the region's most active drilling year ever. The region completed 268 of 283 wells drilled during the year. Production averaged 202 MMcf of gas and 21,300 barrels of liquid hydrocarbons per day.

Apache's transaction with ExxonMobil added 23 Permian Basin fields that have extensive opportunities for production enhancements and drilling. At year-end, Apache had grown production at several fields, including a sharp increase at the East Vealmoor Unit in Howard County, Texas.

The 2005 Permian drilling program is spread among the newly acquired properties and opportunities on Apache's sizable acreage base.

Apache also is the third largest gas producer in Oklahoma and plans to continue its activity in established plays such as the Red Fork and Deep Springer, which have long been a staple at Apache. The Central Region is expanding its developing Granite Wash play in the Texas Panhandle and, through new fracture stimulation methods, has found an economic second-wind in several older fields located in East Texas.

The ExxonMobil acquisition also added production of approximately 8,000 barrels of oil and 7 MMcf of gas per day in the Permian Basin of West Texas and New Mexico. We also acquired rights to 66,000 undeveloped acres in the Permian Basin, where we currently produce approximately 24,000 barrels of oil and 53 MMcf of gas per day.

In the Gulf of Mexico, we added to our already sizable position with the acquisition of Anadarko Petroleum's Gulf of Mexico Outer Continental Shelf properties, comprising 232 offshore blocks (664,000 net acres), which should provide additional drilling opportunities in the years ahead. Morgan Stanley acquired 20 MMboe of Anadarko's proved reserves. Apache acquired 60 MMboe and gained control of the underlying acreage – and the potential upside. Apache is now the largest acreage holder on the Shelf, where we operate 395 platforms.

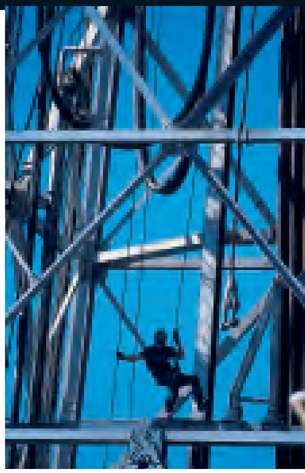
In Egypt, we were awarded four new concessions in the Western Desert, where we are the largest oil producer and second-largest natural gas producer. These new concessions will add 1.7 million gross prospective acres to our existing base of 14.3 million gross acres. With the appraisal and development of Apache's Qasr discovery – our largest ever – we expect significant production growth later in 2005. Discovery of the deep-Jurassic Qasr field, with estimated reserves of 2 trillion cubic feet of gas and 40 million barrels of condensate, provides encouragement that we will continue to find new Jurassic fields in the Western Desert with significant gas and condensate potential.

In the North Sea, we saw our labors at the Forties Field begin to bear fruit. Since taking over operations in the second quarter of 2003, after acquiring the field from BP p.l.c., we have steadily boosted oil production to 61,700 barrels per day in the fourth quarter of 2004. The Forties Field, which commenced production in November 1975 and peaked at 500,000 barrels of oil a day in 1978, still has a lot of life left in it. Ironically, at current oil prices and production, the field is generating more cash flow today than when production was at its peak.

In Australia, we had very good drilling success and have a strong portfolio for 2005. However, we did a poor job of planning our drilling program for 2004. We scheduled our exploration program ahead of our more reliable extension drilling program, and we will be playing catch-up in our oil production all year.

On the natural gas side, it's a different story. With our John Brookes development due to come on production in mid-2005, we should add approximately 60 MMcf of gas per day to our current Australian production, an increase approaching 50 percent.

7:36am – Gulf Coast prospect meeting, Houston, Texas



Apache President and Chief Executive Officer G. Steven Farris, left, reviews Gulf of Mexico drilling prospects with Gulf Coast Region Senior Staff Reservoir Engineer Bill Fetter, right, and Geologic Adviser Doug Webb.

One of the most active drillers in the region, the company started 2005 with six drilling rigs operating in the Gulf, plus two onshore rigs and a barge rig operating on south Louisiana acreage.

The Gulf Coast Region is Apache's largest with 2004 average daily production of 54,800 barrels of liquid hydrocarbons and 445 MMcf of gas.

Apache is the largest acreage holder and the second largest producer in Gulf waters to 1,200 feet deep. The Gulf Coast Region also operates Apache's properties onshore along the Texas and Louisiana Gulf Coast, including more than 250,000 acres in South Louisiana.

Acquisitions – including the Anadarko transaction in 2004 and asset purchases from Shell and BP in 2003 – are important because the Gulf's rapid decline rates require Apache to replenish its drilling inventory. The Anadarko transaction was significant because it was a rare opportunity to buy assets that had not been fully developed by an independent producer with an exploration-oriented Gulf strategy.

Worldwide, Apache has many opportunities, but the flip side of higher oil and gas prices has been a steady increase in costs. Service costs, drilling costs and steel costs have grown significantly over the past year. Unless these costs level out, we may reduce our drilling expenditures, as we did in 2001. This is the case especially in the Lower 48 U.S. states, where reserve targets continue to decrease in size.

Apache confronts the challenges of cyclical commodity prices and volatile service costs through a disciplined approach to controlling costs and a measured approach to risk-taking. Supporting our culture are systems that measure performance and ensure we are all speaking the same language and focused on achieving the same goals.

We have developed ways to complete cost-effective, prudent asset acquisitions even when prices are high. Often, we hedge production from newly acquired assets in order to protect acquisition economics in the critical early years. Because of our strong balance sheet, however, we have the ability to fund exploration and development activities without hedging our base production. The benefits of higher prices flow to our shareholders in the form of increased earnings. So, too, do the risks of lower prices often experienced during our 50 years in the industry.

We have developed a core-area portfolio that balances oil versus gas, long-lived reserves versus rapidly declining fields, and consistent production in mature basins together with opportunities for growth through exploration.

Apache allocates capital from our internally generated cash flow to each segment of our portfolio based on our assessments of drilling inventory, a disciplined approach to future price expectations, and anticipated contributions to production. Then, we measure how effective we've been, in terms of rate of return, and how efficient we've been, measured by the cost of finding new reserves.

While Apache's values, culture and systems help us control many factors, there are other aspects of our business that are influenced by outside forces beyond our control.

The United States still suffers from the lack of a coherent energy policy, and the prospects for bipartisan legislation to correct this situation remain poor. With the potential of adequate LNG imports still three to five years away, continued volatility in natural gas prices remains a certainty.

The executive branch of government has proposed comprehensive legislation that would encourage development of alternative fuels, promote conservation, and provide access to prospective domestic resources in an environmentally responsible manner. It is the very least that the nation

11:00am – Apache girls' school, Abu Sir, Egypt

Apache Egypt General Manager and Executive Vice President Rodney J. Eichler visits a class in the first school for girls built by the company in the village of Abu Sir, located about 10 miles south of the Giza Pyramids. In addition to fulfilling its main mission of providing energy to drive the economy and raise living standards, Apache strives to be a good corporate citizen and an unofficial U.S. ambassador wherever the company operates. Apache is helping raise money to construct a number of schools aimed at providing educational opportunities for Egyptian girls.

Gross operated production in Egypt continued to rise during 2004, reaching a record 107,100 barrels of oil and 306 MMcf of gas per day in December. For the year, net production averaged 52,200 barrels of oil and 138 MMcf of gas. An active drilling program and the Qasr gas development program signal further growth in 2005.

The company's 2005 drilling program will target deep Jurassic gas/condensate structures – like Qasr – and shallow oil drilling programs at Khalda, Umbarka and East Bahariya. Apache currently is acquiring 1,300 square miles of 3-D seismic data, supplementing its existing inventory of 4,500 square miles of 3-D data. This should provide additional opportunities in the hands of the company's skilled geologists and geophysicists.

Apache added proved reserves of more than 100 MMboe in Egypt in 2004, including the company's share of 1.75 trillion cubic feet of gas reserves at Qasr, the largest discovery in its history. Production from the Qasr field development program is expected to begin during summer 2005, ramping up to 150 MMcf and 5,000 barrels of condensate per day around year-end.

Senior Staff Production Engineer Ken Leong supervises coiled-tubing-nitrogen-fracture stimulation on a coalbed methane (CBM) well in Apache Canada's Nevis Field. Nitrogen is pumped into the well under high pressure to crack (fracture or "frac") the coal, enabling gas to flow more freely. Ken's main responsibility is maximizing production at Nevis, Canada's largest coalbed methane field, which is now flowing 50 MMcf of CBM gas per day.

During 2004, Apache's production in Canada averaged 327 MMcf of gas and 27,900 barrels of liquid hydrocarbons per day.

Apache's newest acreage plays in Canada are four packages totaling 382,000 acres acquired in a farm-out from ExxonMobil. Apache plans to drill at least 250 wells over the first two years of the agreement. Apache earns its interest section-by-section, and the company is off to a fast start, with 50 wells in the fourth quarter of 2004 and a similar number planned in the first quarter of 2005.

The new acreage fits well with Apache's asset portfolio in Canada, which comprises large acreage plays with high working-interest ownership – places such as Zama, Hatton, Provost and Nevis. The North and South Grant Lands in the ExxonMobil farmout provide additional CBM potential.

At Zama, where Apache produces 7,800 barrels of liquids and 75 MMcf of gas per day, the company has 1.2 million gross acres and 590 locations in inventory.

Many of the locations are shallow, low-production, slow-decline gas wells that are inexpensive to drill. At Hatton, where current gross production is 80 MMcf per day, Apache has 1,800 locations in its inventory; at Nevis, with current total production of 96 MMcf per day, Apache has 350,000 acres and 610 locations in inventory. Provost, a 674,000-acre play, is producing 75 MMcf per day with 1,200 locations in inventory.

Coalbed methane well, Nevis Field, Alberta, Canada – 3:12pm

with the world's largest appetite for energy can do, and we hope Congress can generate the political fortitude to look beyond opinion polls and do what is good for our country.

Clearly, the industry and policymakers are no closer to providing transparency in the marketplace. Three years after the demise of Enron and the self-crippling of several natural gas marketing companies (traders), little has changed that would ensure consumers that the prices they are paying for gas at the burner tip are not subject to manipulation.

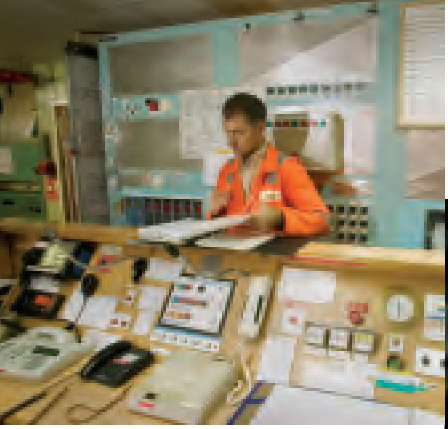
Although several gas traders have pleaded guilty to price manipulation, with others awaiting trial, and many of the so-called leading firms in the marketing arena have paid hefty settlements, neither Congress nor the Federal Energy Regulatory Commission (FERC) has demanded transparency in the marketplace. This is unfortunate because market integrity would benefit consumers and producers alike. Mandatory reporting of energy market data, backed up by penalties for lying, would go a long way toward remedying the situation.

Throughout our history, outreach to others, in acts of responsibility and caring, has been at the core of Apache's value system. In all of our endeavors in this critical arena, our co-workers and directors are fully involved.

We support a wide variety of worthy institutions and initiatives in the arts, education and community service in the communities in which we operate, nationally and internationally. The corporation identifies some initiatives and some are selected by our people, whose donations are matched by Apache. In 2004, Apache supported 454 different causes. We also support the volunteer efforts of our employees.

Over Apache's 50 years of outreach, our highest priority has been education. Our involvement is predicated on the value of lifetime learning as a component of personal and societal wellbeing. To advance this goal, Apache, its directors, officers and employees support a series of initiatives that share common characteristics.

The Ucross Foundation, which will celebrate its 25th anniversary in 2006, is best-known in the arts through more than 1,100 fellowships that have been granted for its Artists-in-Residence program. Three recipients have received Pulitzer Prizes, while many others have been recognized nationally and internationally.



Delta Platform, Forties Field, UK North Sea – 6:15pm

Projects Team Leader Ian Grant, right, and Operations Supervisor, Maintenance, Paul Manson inspect a newly refurbished gas turbine on Apache's Forties Field Delta Platform. The turbine powers a compressor, which is part of the gas lift system, circulating high-pressure gas down the producing wells to assist in lifting oil up the well bore from the producing reservoir. Apache's experienced workforce is tackling projects to extend the life of the largest field in the United Kingdom sector of the North Sea.

Production increases at Forties – the anchor of Apache's newest core area – were driven by successful drilling and a maintenance program, which continues to improve efficiency. Average daily production of approximately 61,700 barrels per day in the fourth quarter of 2004 was more than 50 percent above the fourth quarter level in 2003. For the year, Apache averaged 52,800 barrels of oil per day.

During 2004, Apache completed 12 of 17 wells drilled as part of a $362 million capital program, which also included $150 million of maintenance and operations capital.

The completion of a gas and power ring and the installation of new electric generators during 2005 will increase the efficiency of the field, cut consumption of diesel fuel and reduce emissions of greenhouse gases. Other projects include new control systems on all platforms, new cranes and increased water injection capacity.

The land itself provides another element of the Ucross mission. The 22,000-acre ranch offers opportunities to study and improve conservation and holistic land practices.

Finally, Ucross offers a venue for discussions of issues important to Wyoming, the West and the nation. At times, it has provided a setting to contemplate national energy policy, Wyoming's future and other important topics.

More recently, Ucross served as host for a project, funded by Apache, two other responsible energy companies and the U.S. Department of Energy to provide baseline studies on coalbed methane and its impact on water resources, particularly in the arid Rocky Mountain region. Top scientists from Stanford University, the University of Wyoming, and the Montana Bureau of Mines and Geology provided their expertise, and research results will be published this year by the Wyoming Geological Survey.

In April, 44 top minds from industry and academia will gather at Ucross for dialogue on imaging using controlled-source electromagnetics – potentially the most important development in the science of oil and gas exploration since the development of three-dimensional seismic in the 1980s. The idea for the four-day forum, sponsored by the Society of Exploration Geophysicists, was originated by Mike Bahorich, an Apache executive vice president who is widely respected in the industry for his own innovations in 3-D seismic and within Apache for his leadership in developing Apache's application of technology in our exploration and production activities.

The goal at Ucross is to cast a reflection into the future from the cultural mirror of our lives and times.

As you can see, we broadly define our commitment to education.

Bringing this commitment back to a more familiar level, through the Fund for Teachers initiative we are now in our seventh year of providing summer sabbaticals and growth experiences for teachers from pre-kindergarten through high school. These teachers, chosen for the creativity of proposals of their own design, return from their experiences motivated to transfer their enthusiasm and commitment for lifetime learning to their bright-eyed pupils. Fund for Teachers and its predecessors have created opportunities for more than 1,000 teachers, 444 of them in 2004, with awards of up to $5,000 each. Now in eight cities, the program is building an endowment and a network to support a broader national effort. Please visit www.fundforteachers.org to learn more.

Apache's directors have contributed, as have many of our people. Apache has set the pace by contributing $10 million. The company anticipates providing another $5 million to Fund for Teachers. In 2004, Houston-based Energy for Teachers gained commitments for more than $3 million, mainly from our colleagues in the oil and gas industry.

Tagging turtles on Varanus Island, Western Australia – 8:12pm

Marine Biologist Fiona Maxwell (foreground) checks the tracking tag on a Hawksbill Sea Turtle as it lays eggs on a beach near Apache's gas plant on Varanus Island. Meg Green, also a marine biologist, discusses the find with Joe Fry, a contract civil engineer working with the Apache Projects Team on the installation of a new gas plant.

Each day, Apache demonstrates that it can conduct oil and gas operations at its Varanus Island hub in harmony with the unique environment of the island and its surrounding waters.

Apache had an active year in Australia in 2004, completing 16 of 31 wells and branching out from its base in the Carnarvon Basin to the Perth and Gippsland basins. Production averaged 118 MMcf of gas and 25,200 barrels of oil per day in 2004.

The Linda gas development and the Monet oil field commenced production during 2004. In the Exmouth Sub-Basin, Apache drilled the Stickle and Harrison discoveries, which will be integrated into the Ravensworth/Crosby oil development.

Keys to success in 2005 will be early development of new oil production from the Flag Sandstone formations near Varanus Island and commencement of gas production from the John Brookes Field to fulfill the requirements of two new gas contracts that are expected to add approximately 60 MMcf per day to production. Apache's 2005 drilling program is focused in the Carnarvon Basin but also includes wells in the Perth and Gippsland basins.

As Apache has grown, we have identified ways to translate our commitment to education overseas, as well.

In Egypt – Apache's largest international region – we see a large and growing country with a population seeking to improve its standard of living. As the largest U.S. investor and third-largest oil and gas producer in Egypt, we have a significant direct and indirect impact on the nation's economy and welfare.

The need for education is great. As we describe elsewhere in this report, many young Egyptian girls – particularly in rural areas – have not had an opportunity to attend school, to learn to read, write and perform basic arithmetic.

On one of our board of directors' trips to Egypt, we visited a one-room school built for young girls through a government initiative led by Mrs. Suzanne Mubarak, Egypt's first lady, who is committed to the continued development of a modern, stable nation.

Recognizing an important initiative and supported by senior management and the board of directors, Apache people in Cairo jumped in. Working in concert with Egypt's National Council for Childhood and Motherhood, we hired an architectural firm staffed by impressive young Egyptian professionals and paid for construction of a prototype school in Abu Sir, about 10 miles from the famous Giza Pyramids.

The school opened in October, with eager students and teachers trained in modern educational techniques, working together in an airy, enthusiastic environment. Mrs. Mubarak dedicated the school in December – a memorable event for all of us.

Also during 2004, we created the legal, financial and operational structures and partnerships necessary to accelerate the construction of more schools. We have a new nonprofit organization, Springboard – Educating the Future, to accept contributions in the United States to fund school construction in Egypt, and a strong partner in Egypt, the Sawiris Foundation. Already, we have donations from Apache directors, officers, co-workers and friends to build several more schools. In 2005, we will continue to build schools. We want to create a system that ultimately will produce 1,000 one-room schools for 35,000 girls.

Springboard's Web site, www.schoolsforegyptsgirls.com, provides more information and photos of the school and its students.

Apache's outreach in Egypt extends to a project that we have named Nile Weavers, through which we seek to improve living standards of Egyptian women by purchasing their handicrafts and distributing the products in the United States through volunteer groups. This effort has involved many of our people in Houston and Cairo, and Nile Weavers products have made it to Florida, Minnesota, New York and Texas. For more information, please visit www.nileweavers.com on the Internet.

Throughout this report, we have emphasized themes of individual initiative and innovation at Apache. We find these ideas are vulnerable to increasing layers of rules and regulations that seem to be aimed at introducing an adversarial relationship between American corporations, their boards of directors and investors.

Apache has a 50-year record of forthright disclosure and a board of directors of strong-minded men and women with varied experiences and a shared commitment to integrity and transparency. With the active involvement of our board, we have built an organization that is firmly aligned with the interests of our loyal shareholder base. We have grown the company and created shareholder wealth through good times and bad.

However, we are beset and besieged by groups that have sprung up in the name of better corporate governance from the position of having held a minimum of $2,000 worth of Apache shares for a year. We question whether some of these groups know what industry we are in or the range of challenges we face, or even whether we deliver value for our shareholders.

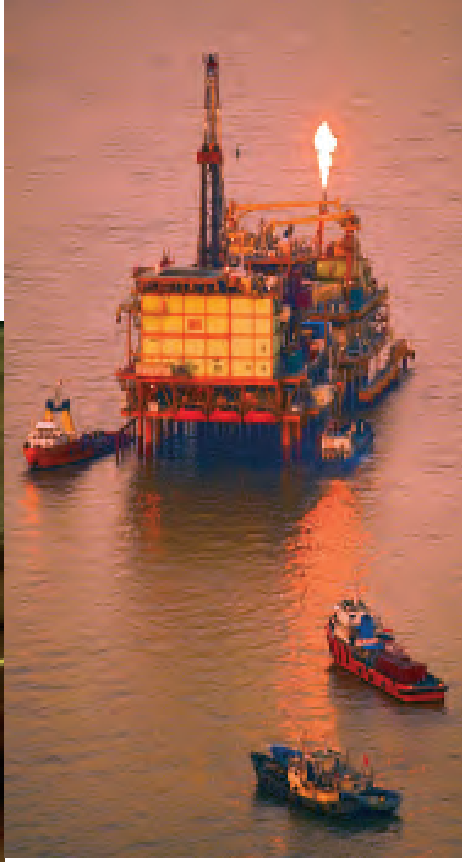
In the name of shareholder democracy, these groups either purposely or inadvertently erect barriers between boards and management as well as divert the attention of companies away from strategic concerns and toward single-issue political agendas that have little to do with corporate success (and much to do with counterproductive harassment).

These self-appointed, single-issue advocates sometimes influence the votes of shareholders on a variety of governance issues. Please consider these proposals carefully, and reflect on the broad vision required to guide a successful enterprise. Consider also, our track record for creating shareholder value, for safe, environmentally responsible operations, and for conducting Apache's affairs in an ethical, responsible and accountable manner.

Providing leadership on the board of directors of a large corporation for the benefit of its shareholders, employees and communities is a serious responsibility. It should not be, as the recently removed head of the California Public Employees Retirement System asserted, a "bully pulpit" for advancing political agendas.

One matter submitted by the board of directors for a vote by our shareholders at our annual meeting is the next stage in our successful effort to align employees with shareholders in building shareholder value.

In 2004, Apache employees were rewarded for driving a $9 billion increase in shareholder value over the past four years. Approximately 1,900 Apache employees received shares when Apache's closing stock



9:06pm – Drilling from Zhao Dong platform, Bohai Bay, China

Drillers work around the clock to complete an injection well on Apache's Zhao Dong Block. In the shallow waters of Bohai Bay, China, some of the newest Apaches are building bridges and adapting to the company's culture and sense of urgency.

With completion of the second phase of drilling at the Zhao Dong field, gross oil production reached 25,000 barrels per day during the fourth quarter of 2004. Apache's fourth-quarter net production of 9,000 barrels per day was about 13 percent higher than in the prior-year comparable period. For the year, Apache averaged 7,600 barrels per day.

Apache's attention to safety, its focus on the bottom line, and the lessons for the Chinese oil industry were the subject of a September 2004 story in China Oil News. *Chinese members of the crew were concerned when Apache's drilling supervisor abandoned efforts to recover drilling tools stuck in one of the wells, the journal reported. "The drilling supervisor explained that it wasn't worthwhile to spend $3 million to recover tools worth $1.5 million. This made Chinese staff realize that costs and benefits should be the first priority."*

price exceeded the threshold of $43.29 per share for 10 trading days in April, and more shares when the closing stock price exceeded the second threshold of $51.95 per share for 10 days in October. (The goals reflected the impact of stock dividends and splits on the pre-split targets of $100 and $120 per share.) Ninety percent of the shares were awarded to non-executive employees. The awards will be distributed over a three-year period, so the Share Appreciation Plan also serves as an effective retention tool.

Recently, your board of directors voted to ask shareholders to approve a new plan that provides incentives for employees to double the share price again, from $54 per share at the date of the board approval to $108 per share by the end of 2008, with an interim goal to be achieved by the end of 2007. If both goals are achieved, the shareholder value of the company will have grown by an additional $18 billion. Like the program launched in 2000, this is an ambitious goal that will require more than hard work – it will require and motivate creativity and innovation by the Apache team. We believe our employees are up to the challenge; we ask for your support.

While Apache's share price advanced in 2004 and our long-term performance continues to compare positively with our peers and the major indexes, the share prices of companies in our sector still trail the price-earnings ratios of the broader market.

Much of the trading volume of our shares is the result of traders and speculators moving in and out to profit from small moves in the market.

Among the reasons for this: the cyclical nature of commodity markets and concerns that some technological development could substantially affect the world's need for hydrocarbons. In our judgment, those who would base their decisions on such factors are, basically, guessing.

Against those factors, we would stake our 50-year history of finding and developing reserves and production – a record of growth that reaches across the commodity price cycles – and our assessments of the fundamental factors that are driving rising worldwide demand for oil and gas. Shareholders who have stayed with Apache over the years have benefited substantially from this long-term performance while many of the traders have missed the boat.

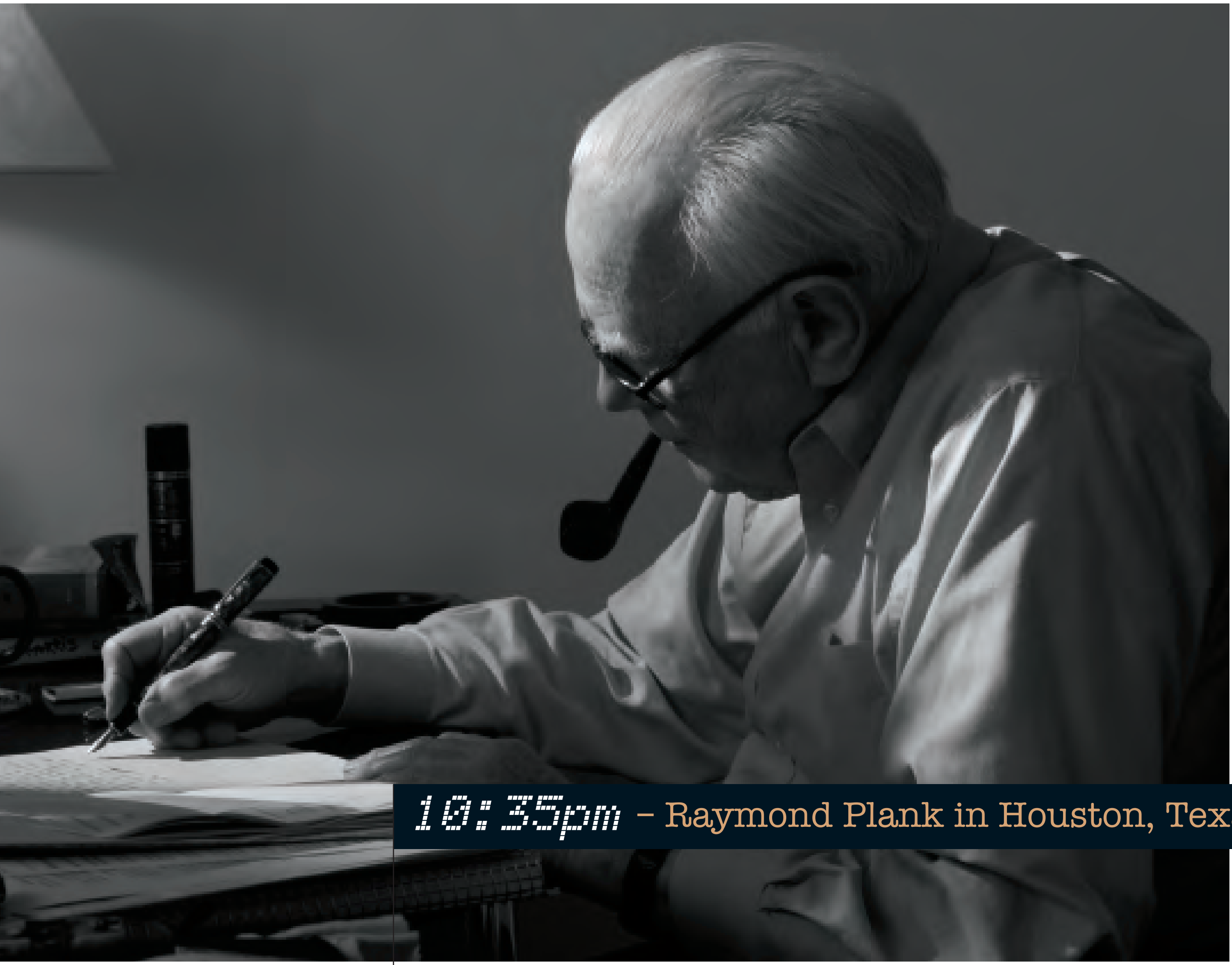
Apache's 50th year was one of solid achievement on many fronts, made possible in large part by of the loyalty and support of our shareholders and employees over the decades. We believe that our recent exploration successes, coupled with our ability to acquire assets at prudent prices throughout the commodity cycles, show that we will be able to continue to add to shareholder value in constructive ways. We hope you share our enthusiasm for the future.

We appreciate your commitment and pledge ours to continuing to build Apache to last.

Thank you for being part of our present and future.

Raymond Plank
Chairman and Founder

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



10:35pm – Raymond Plank in Houston, Texas

As Apache has grown from its modest beginnings in Minneapolis in 1954 to its current worldwide operations, Chairman and Founder Raymond Plank has continued to communicate with shareholders to connect investors to the strategy, culture and values that helped build Apache and continue to drive the company. He is shown here at home at the end of the day, writing letters to shareholders. It's his regular routine.

Raymond continues to impress upon all Apaches that this is a shareholder-driven company. Through stock-based incentive programs, employees at all levels become Apache owners, forging an identity of interest with shareholders that helps spur performance.

Whether addressing supply and demand or ethical issues, Raymond's bluntness is legendary. He was the first to expose corruption in the Enron-dominated energy merchant-trading sector, taking on some of the most powerful, politically connected companies to expose a flawed system that threatened the nation's economic wellbeing.

Raymond's boldness and tenacity echo across Apache as we build on our heritage and look to the future.

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]
Chairman,
WolfCreek Broadcasting, 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.

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.

(1) Executive Committee
(2) Audit Committee
(3) Management, Development and Compensation Committee
(4) Corporate Governance and Nominating Committee
(5) Stock Option Plan Committee

Corporate 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 and
Managing Director,
Apache North Sea Ltd.

Rodney J. Eichler
Executive Vice President and
General Manager,
Apache Egypt Companies

Roger B. Plank
Executive Vice President and
Chief Financial Officer

Floyd R. Price
Executive Vice President –
Eurasia, Latin America and
New Ventures

Jon A. Jeppesen
Senior Vice President

P. Anthony Lannie
Senior Vice President and
General Counsel

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

Janice K. Hartrick
Vice President and Associate
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

STATEMENT OF CONSOLIDATED OPERATIONS

(In thousands, except per-common-share data)

	For the Year Ended December 31, 2004	2003	2002
REVENUES AND OTHER:			
Oil and gas production revenues	$ 5,308,017	$ 4,198,920	$ 2,559,748
Other	24,560	(8,621)	125
	5,332,577	4,190,299	2,559,873
OPERATING EXPENSES:			
Depreciation, depletion and amortization	1,222,152	1,073,286	843,879
Asset retirement obligation accretion	46,060	37,763	–
International impairments	–	12,813	19,600
Lease operating costs	864,378	699,663	457,903
Gathering and transportation costs	82,261	60,460	38,567
Severance and other taxes	93,748	121,793	67,309
General and administrative	173,194	138,524	104,588
China litigation provision	71,216	–	–
Financing costs:			
Interest expense	168,090	169,090	155,667
Amortization of deferred loan costs	2,471	2,163	1,859
Capitalized interest	(50,748)	(52,891)	(40,691)
Interest income	(3,328)	(3,290)	(4,002)
	2,669,494	2,259,374	1,644,679
PREFERRED INTERESTS OF SUBSIDIARIES	–	8,668	16,224
INCOME BEFORE INCOME TAXES	2,663,083	1,922,257	898,970
Provision for income taxes	993,012	827,004	344,641
INCOME BEFORE CHANGE IN ACCOUNTING PRINCIPLE	1,670,071	1,095,253	554,329
Cumulative effect of change in accounting principle, net of income tax	(1,317)	26,632	–
NET INCOME	1,668,754	1,121,885	554,329
Preferred stock dividends	5,680	5,680	10,815
INCOME ATTRIBUTABLE TO COMMON STOCK	$ 1,663,074	$ 1,116,205	$ 543,514
BASIC NET INCOME PER COMMON SHARE:			
Before change in accounting principle	$ 5.10	$ 3.38	$ 1.83
Cumulative effect of change in accounting principle	–	.08	–
	$ 5.10	$ 3.46	$ 1.83
DILUTED NET INCOME PER COMMON SHARE:			
Before change in accounting principle	$ 5.04	$ 3.35	$ 1.80
Cumulative effect of change in accounting principle	(.01)	.08	–
	$ 5.03	$ 3.43	$ 1.80

STATEMENT OF CONSOLIDATED CASH FLOWS

(In thousands)	For the Year Ended December 31,		
	2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$1,668,754	$ 1,121,885	$ 554,329
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortization	1,222,152	1,073,286	843,879
Provision for deferred income taxes	444,906	546,357	137,672
Asset retirement obligation accretion	46,060	37,763	–
Amortization of deferred loan costs	2,471	2,163	1,859
International impairments	–	12,813	19,600
Cumulative effect of change in accounting principle, net of income tax	1,317	(26,632)	–
Other	39,694	32,923	9,531
Changes in operating assets and liabilities, net of effects of acquisitions:			
(Increase) decrease in receivables	(296,383)	(94,295)	(122,830)
(Increase) decrease in inventories	(659)	(4,216)	717
(Increase) decrease in drilling advances and other	(35,761)	(19,881)	(26,116)
(Increase) decrease in deferred charges and other	(35,328)	(29,520)	496
Increase (decrease) in accounts payable	182,454	68,176	32,219
Increase (decrease) in accrued expenses	28,431	11,227	(16,595)
Increase (decrease) in advances from gas purchasers	(18,331)	(16,246)	(14,574)
Increase (decrease) in deferred credits and noncurrent liabilities	(18,258)	(9,903)	(39,469)
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,231,519	2,705,900	1,380,718
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to property and equipment	(2,456,488)	(1,594,936)	(1,037,368)
Acquisition of ExxonMobil properties	(348,173)	–	–
Acquisition of Anadarko properties	(531,963)	–	–
Acquisition of BP properties	–	(1,140,156)	–
Acquisition of Shell properties	–	(203,033)	–
Acquisition of Louisiana properties	–	–	(258,885)
Acquisition of Occidental properties	–	(22,000)	(11,000)
Proceeds from sales of oil and gas properties	4,042	58,944	7,043
Proceeds from short-term investments, net	–	–	101,723
Other	(78,431)	(57,576)	(37,520)
NET CASH USED IN INVESTING ACTIVITIES	(3,411,013)	(2,958,757)	(1,236,007)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Long-term borrowings	544,824	1,780,870	1,467,929
Payments on long-term debt	(283,400)	(1,613,362)	(1,553,471)
Dividends paid	(90,369)	(72,832)	(68,879)
Common stock activity	21,595	583,837	30,708
Treasury stock activity, net	12,472	4,378	1,991
Cost of debt and equity transactions	(2,303)	(5,417)	(6,728)
Repurchase of preferred interests of subsidiaries	–	(443,000)	–
Other	54,265	–	–
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	257,084	234,474	(128,450)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	77,590	(18,383)	16,261
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	33,503	51,886	35,625
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 111,093	$ 33,503	$ 51,886

(In thousands)

ASSETS	December 31, 2004	2003
CURRENT ASSETS:		
Cash and cash equivalents	$ 111,093	$ 33,503
Receivables, net of allowance	939,736	639,055
Inventories	157,293	125,867
Drilling advances	82,889	58,062
Prepaid assets and other	57,771	42,585
	1,348,782	899,072
PROPERTY AND EQUIPMENT:		
Oil and gas, on the basis of full cost accounting:		
Proved properties	19,933,041	16,277,930
Unproved properties and properties under development, not being amortized	777,690	795,161
Gas gathering, transmission and processing facilities	966,605	828,169
Other	284,069	239,548
	21,961,405	18,140,808
Less: Accumulated depreciation, depletion and amortization	(8,101,046)	(6,880,723)
	13,860,359	11,260,085
OTHER ASSETS:		
Goodwill, net	189,252	189,252
Deferred charges and other	104,087	67,717
	$ 15,502,480	$ 12,416,126
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 542,074	$ 300,598
Accrued operating expense	80,741	72,250
Accrued exploration and development	341,063	212,028
Accrued compensation and benefits	83,636	56,237
Accrued interest	32,575	32,621
Accrued income taxes	78,042	18,936
Derivative instruments	21,273	63,542
Other	103,487	64,166
	1,282,891	820,378
LONG-TERM DEBT	2,588,390	2,326,966
DEFERRED CREDITS AND OTHER NONCURRENT LIABILITIES:		
Income taxes	2,146,637	1,697,238
Advances from gas purchasers	90,876	109,207
Asset retirement obligation	932,004	739,775
Derivative instruments	31,417	5,931
Other	225,844	183,833
	3,426,778	2,735,984
COMMITMENTS AND CONTINGENCIES		
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, 334,912,505 and 332,509,478 shares issued, respectively	209,320	207,818
Paid–in capital	4,106,182	4,038,007
Retained earnings	4,017,339	2,445,698
Treasury stock, at cost, 7,455,002 and 8,012,302 shares, respectively	(97,325)	(105,169)
Accumulated other comprehensive loss	(129,482)	(151,943)
	8,204,421	6,532,798
	$ 15,502,480	$ 12,416,126

STATEMENT OF CONSOLIDATED SHAREHOLDERS' EQUITY

(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	$ 554,329	–	–	–
Currency translation adjustments	5,328	–	–	–
Commodity hedges	(16,322)	–	–	–
Marketable securities	(125)	–	–	–
Comprehensive income	$ 543,210			
Cash dividends:				
Preferred		–	–	–
Common ($.19 per share)		–	–	–
Five percent common stock dividend		–	–	–
Common shares issued		–	–	1,240
Conversion of Series C Preferred Stock		–	(208,207)	7,803
Treasury shares issued, net		–	–	–
Other		–	–	–
BALANCE AT DECEMBER 31, 2002		98,387	–	194,331
Comprehensive income (loss):				
Net income	$ 1,121,885	–	–	–
Commodity hedges	(39,007)	–	–	–
Comprehensive income	$ 1,082,878			
Cash dividends:				
Preferred		–	–	–
Common ($.22 per share)		–	–	–
Five percent common stock dividend		–	–	581
Common shares issued		–	–	12,906
Treasury shares issued, net		–	–	–
Other		–	–	–
BALANCE AT DECEMBER 31, 2003		98,387	–	207,818
Comprehensive income (loss):				
Net income	$ 1,668,754	–	–	–
Commodity hedges	22,461	–	–	–
Comprehensive income	$ 1,691,215			
Cash dividends:				
Preferred		–	–	–
Common ($.28 per share)		–	–	–
Five percent common stock dividend		–	–	–
Common shares issued		–	–	1,502
Treasury shares issued, net		–	–	–
Other		–	–	–
BALANCE AT DECEMBER 31, 2004		$ 98,387	$ –	$ 209,320

Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
$ 2,803,825	$ 1,336,478	$ (111,885)	$ (101,817)	$ 4,418,483
–	554,329	–	–	554,329
–	–	–	5,328	5,328
–	–	–	(16,322)	(16,322)
–	–	–	(125)	(125)
–	(10,815)	–	–	(10,815)
–	(56,565)	–	–	(56,565)
395,820	(395,820)	–	–	–
26,044	–	–	–	27,284
200,404	–	–	–	–
666	–	1,326	–	1,992
691	–	–	–	691
3,427,450	1,427,607	(110,559)	(112,936)	4,924,280
–	1,121,885	–	–	1,121,885
–	–	–	(39,007)	(39,007)
–	(5,680)	–	–	(5,680)
–	(72,200)	–	–	(72,200)
25,333	(25,914)	–	–	–
579,107	–	–	–	592,013
4,109	–	5,390	–	9,499
2,008	–	–	–	2,008
4,038,007	2,445,698	(105,169)	(151,943)	6,532,798
–	1,668,754	–	–	1,668,754
–	–	–	22,461	22,461
–	(5,680)	–	–	(5,680)
–	(91,433)	–	–	(91,433)
–	–	–	–	–
56,660	–	–	–	58,162
11,144	–	7,844	–	18,988
371	–	–	–	371
$ 4,106,182	$ 4,017,339	$ (97,325)	$ (129,482)	$ 8,204,421

ELEVEN-YEAR STATISTICAL SUMMARY

(In millions of dollars, except as otherwise indicated)

	2004	2003	2002	2001
Financial Data				
Oil and gas production revenues	5,308.0	4,198.9	2,559.8	2,823.0
Other	24.6	(8.6)	.1	(13.6)
Consolidated revenues	5,332.6	4,190.3	2,559.9	2,809.4
Income (loss) attributable to common stock	1,663.1	1,116.2	543.5	703.8
Net cash provided by operating activities	3,231.5	2,705.9	1,380.7	1,905.0
Oil and gas capital expenditures (including acquisitions)	3,455.7	3,073.8	1,252.6	2,280.2
Total assets	15,502.5	12,416.1	9,459.9	8,933.7
Long-term debt	2,588.4	2,327.0	2,158.8	2,244.4
Shareholders' equity	8,204.4	6,532.8	4,924.3	4,418.5
Common shares outstanding at year-end	327.5	324.5	302.5	287.9
Amortization of oil and gas properties–recurring	1,149.2	1,003.3	783.6	760.2
Effective tax rate (benefit)	37.3%	43.0%	38.3%	39.7%
Future cash inflows	66,103.4	46,959.0	33,806.4	20,584.9
Shareholder Data				
Basic net income (loss) per common share	5.10	3.46	1.83	2.44
Cash dividends per common share	.26	.21	.19	.12
Shareholders' equity per common share	24.75	19.83	15.95	14.28
Operations Data				
Natural gas production (Bcf)	452.0	444.3	394.3	411.5
Oil, condensate and natural gas liquids production (MMbbls)	88.7	78.3	58.9	57.0
Total production (MMboe)	164.1	152.3	124.6	125.6
Average price of natural gas (per Mcf)	4.91	4.61	2.87	3.70
Average price of oil (per barrel)	35.24	27.76	24.78	23.18
Oil, condensate and NGL reserves (MMbbls):				
Proved developed	662.7	593.7	414.4	411.8
Proved undeveloped	269.4	250.2	222.4	187.6
Natural gas reserves (Bcf):				
Proved developed	3,844.1	3,541.0	3,206.5	3,203.8
Proved undeveloped	2,183.9	1,335.0	848.1	801.5
Total proved reserves (MMboe)	1,936.7	1,656.5	1,312.5	1,266.9
Reserve life (in years)	11.8	10.9	10.5	10.1

						Restated for Pooling	*As Originally Reported Before Restatement for Pooling*
2000	1999	1998	1997	1996	1995	1994	1994
2,308.9	1,159.0	773.5	985.4	835.8	657.5	542.4	497.5
(6.9)	2.7	(0.7)	(4.4)	1.2	.3	10.0	7.9
2,302.0	1,161.7	772.8	981.0	837.0	657.8	552.4	505.4
693.1	186.4	(131.4)	154.9	121.4	20.2	45.6	42.8
1,517.4	638.2	471.5	723.8	490.5	332.1	357.8	335.6
2,194.7	1,842.3	649.1	911.4	939.9	1,133.1	524.9	482.5
7,482.0	5,502.5	3,996.1	4,138.6	3,432.4	2,681.5	2,036.6	1,879.0
2,193.3	1,879.7	1,343.3	1,501.4	1,235.7	1,072.1	719.0	657.5
3,754.6	2,669.4	1,801.8	1,729.2	1,518.5	1,091.8	891.1	816.2
285.6	263.3	225.8	215.5	208.0	178.7	160.9	141.9
547.5	415.6	359.7	358.9	296.0	288.4	249.3	224.1
40.1%	41.7%	(31.0)%	40.1%	39.3%	39.0%	31.7%	33.5%
39,081.9	14,951.6	6,502.7	8,559.9	11,427.4	6,455.7	4,101.1	3,564.6
2.54	.75	(.58)	.74	.61	.12	.28	.30
.12	.12	.12	.12	.12	.12	.12	.12
12.07	8.96	7.54	8.02	7.30	6.11	5.54	5.75
304.0	239.5	215.4	222.2	205.3	210.6	176.4	155.9
44.6	34.7	27.7	25.2	20.2	19.1	14.5	13.6
95.2	74.6	63.6	62.2	54.4	54.2	43.9	39.6
3.64	2.16	1.93	2.28	2.03	1.58	1.78	1.83
27.41	18.45	12.70	19.24	20.94	17.21	15.76	15.77
354.0	302.0	178.0	203.1	183.2	137.5	100.0	89.4
168.5	113.2	73.0	70.7	52.1	32.8	10.6	10.5
2,664.8	1,873.7	1,450.1	1,554.3	1,435.3	1,298.5	1,184.9	910.3
718.9	477.9	722.1	317.5	190.0	203.4	131.2	106.0
1,086.4	807.2	613.0	585.7	506.2	420.6	330.0	269.3
11.4	10.8	9.6	9.4	9.3	7.8	7.5	6.8

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 engages Ryder Scott Company, L.P. Petroleum Consultants, as independent petroleum engineers, to review the Company's estimates of proved hydrocarbon liquid and gas reserves and provide an opinion letter on the reasonableness of Apache's internal projections. During this review, they prepare independent projections for each reviewed property and determine if the Company's estimates are within engineering tolerance by geographical area. The independent reviews typically cover a large percentage of major value fields, international properties, and new wells drilled during the year. During 2004, 2003 and 2002, their review covered 79, 78 and 68 percent of Apache's estimated 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 represent estimates and should not be construed as being exact.

(Thousands of barrels)

	Crude Oil, Condensate and Natural Gas Liquids						
	United States	Canada	Egypt	Australia	North Sea	Other Int'l	Total
Proved developed reserves:							
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
December 31, 2004	320,752	87,914	57,084	18,919	172,260	5,721	662,650
Total proved reserves:							
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
Extensions, discoveries and other additions	26,600	1,106	26,865	10,422	45,261	186	110,440
Purchases of minerals in place	84,375	165	–	–	389	–	84,929
Revisions of previous estimates	(13,588)	(1,207)	(2,955)	2	(4)	(348)	(18,100)
Production	(27,867)	(10,209)	(19,099)	(9,214)	(19,338)	(2,982)	(88,709)
Sales of properties	(408)	–	–	–	–	–	(408)
Balance December 31, 2004	458,477	158,261	77,984	54,312	174,188	8,818	932,040

(Millions of cubic feet) *(Thousand barrels of oil equivalent)*

Natural Gas							
United States	Canada	Egypt	Australia	North Sea	Other Int'l	Total	Mboe Total
1,407,561	1,148,516	338,707	307,509	–	1,524	3,203,817	945,751
1,444,677	1,255,068	246,529	256,790	–	3,469	3,206,533	948,797
1,565,855	1,411,877	337,844	218,745	3,902	2,750	3,540,973	1,183,851
1,722,803	1,479,271	474,028	158,789	6,804	2,364	3,844,059	1,303,327
1,675,794	1,301,882	453,233	571,689	–	2,733	4,005,331	1,266,943
102,050	70,066	6,123	28,943	–	3,355	210,537	120,779
154,459	66,113	–	–	–	–	220,572	48,926
37,944	20,900	(37,480)	22	–	37	21,423	2,366
(183,708)	(120,210)	(44,769)	(42,998)	–	(2,656)	(394,341)	(124,644)
(2,446)	–	(6,440)	–	–	–	(8,886)	(1,832)
1,784,093	1,338,751	370,667	557,656	–	3,469	4,054,636	1,312,538
113,552	387,533	217,455	127,516	105	2,084	848,245	234,333
391,510	4,510	–	38,638	4,423	–	439,081	267,019
6,073	(8,177)	4,292	–	–	1	2,189	1,863
(242,782)	(116,263)	(41,447)	(40,537)	(626)	(2,607)	(444,262)	(152,349)
(23,054)	(671)	–	–	–	(196)	(23,921)	(6,855)
2,029,392	1,605,683	550,967	683,273	3,902	2,751	4,875,968	1,656,549
291,303	542,779	452,509	54,272	3,575	1,007	1,345,445	334,681
268,386	17,273	–	–	12	–	285,671	132,541
53,816	(61,695)	(18,572)	1	–	1	(26,449)	(22,508)
(236,660)	(119,669)	(50,412)	(43,228)	(685)	(1,395)	(452,049)	(164,050)
(657)	–	–	–	–	–	(657)	(518)
2,405,580	1,984,371	934,492	694,318	6,804	2,364	6,027,929	1,936,695

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.

(In thousands)

	United States	Canada (1)	Egypt	Australia	North Sea	Other International	Total
2004							
Cash inflows	$ 32,557,246	$ 17,140,078	$ 6,233,328	$ 3,065,332	$ 6,783,414	$ 323,963	$ 66,103,361
Production costs	(8,185,633)	(7,451,626)	(818,876)	(891,117)	(4,098,870)	(89,280)	(21,535,402)
Development costs	(1,620,421)	(584,160)	(596,249)	(422,045)	(569,435)	(25,220)	(3,817,530)
Income tax expense	(7,342,348)	(2,461,911)	(1,790,617)	(423,263)	(617,244)	(42,314)	(12,677,697)
Net cash flows	15,408,844	6,642,381	3,027,586	1,328,907	1,497,865	167,149	28,072,732
10 percent discount rate	(7,414,246)	(3,177,411)	(1,165,331)	(568,722)	(418,169)	(32,775)	(12,776,654)
Discounted future net cash flows (2)	$ 7,994,598	$ 3,464,970	$ 1,862,255	$ 760,185	$ 1,079,696	$ 134,374	$ 15,296,078
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

(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 $22.2 billion, $16.4 billion and $13.2 billion as of December 31, 2004, 2003 and 2002, respectively.

Stock Data

	Price Range*		Dividends per Share*	
	High	Low	Declared	Paid
2004				
First Quarter	$43.49	$36.79	$ .0600	$ .0600
Second Quarter	45.99	38.53	.0600	.0600
Third Quarter	57.00	42.45	.0800	.0600
Fourth Quarter	55.16	47.77	.0800	.0800
2003				
First Quarter	$32.15	$26.26	$ .0500	$ .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

**Per-share prices and dividend amounts have been adjusted to reflect the effects of the two-for-one stock split in 2003.*

The Company has paid cash dividends on its common stock for 40 consecutive years through December 31, 2004. 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, 2004, the Company's shares of common stock outstanding were held by approximately 8,000 shareholders of record and 226,000 beneficial owners. Also listed on the New York Stock Exchange are:

- Apache Finance Canada's 7.75% notes, due 2029 (symbol APA 29)

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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 may 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 also may invest up to an additional $25,000 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 their account with the Company's stock transfer agent and their 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 5, 2005, at 10 a.m. in the Ballroom, Hilton Houston Post Oak (formerly Doubletree Hotel Houston – Post Oak), 2001 Post Oak Boulevard, Houston, Texas. Apache plans to webcast 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 wishing 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: **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

This annual report contains certain "forward-looking statements" as defined by the Private Securities Litigation Reform Act of 1995, including, without limitation, expectations, beliefs, plans and objectives regarding Apache's capital expenditures and exploration and development plans, and the future prices of crude oil and natural gas. Among the important factors that could cause actual results to differ materially from those indicated by such forward-looking statements are delays and difficulties in completing acquisitions and developing currently owned properties, the failure of exploratory drilling to result in commercial wells, delays due to the limited availability of drilling equipment and personnel, fluctuations in oil and gas prices, general economic conditions and the risk factors detailed from time to time in Apache's periodic reports and registration statements filed with the Securities and Exchange Commission.

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