Significant progress at West Med: Apache's first deepwater foray off to successful start

Fellow Shareholders and Employees

Recently, we announced the testing of Apache's first deepwater well, the Abu Sir-1X (the Blue Prospect), located 42 miles offshore Egypt in 3,255 feet of water. Testing 104 feet of gas sands in the least prospective segment of a 311-foot gas column, the well demonstrated characteristics of a monster.

We view the commencement of Apache's deepwater drilling to be the latest among significant turning points over our 48-year history. The purpose of this communication is to provide perspective by placing the discovery in context of our development from a very small company to one of midsize in the world's largest industry – oil and gas.

The Abu Sir-1X produced an impressive gas flare during testing sections of a 311-foot gas column. The size of the flare grew as the tests progressed and the flow rate increased. Apache engineers later calculated an absolute open flow potential at 90.4 million cubic feet per day.

Oversimplified, Apache has two types of shareowners, short-term speculative traders and longer-term investors. While we value both as owners of Apache Corporation as well as equity providers, our identity of interest and that of our employees is longer term, because that is how we have grown and propose to continue to reward those who relate to Apache. Accordingly, if your investment time horizons are a day, week or a month, you may not wish to read further.

At a flattering dinner two summers ago, one of our earliest investors observed that he had exchanged units in an early Apache exploration program for Apache shares in which his cost basis had become 5 cents per share. Since that dinner preceded our recent 10 percent stock dividend, his cost basis is now reduced to 4.5 cents per share. His annual indicated cash dividend of 40 cents per share equates to a yield exceeding 800 percent on his cost. His shares closed out the week of my 80th birthday at a value 1,300 times greater than his cost. Perhaps this example lends some validity to our longer term investment horizons as well as to our perceptions of key changes along the route. We view our initial deepwater drilling as another important marker.

Apache's first phase was driven between our founding in 1954 as a program exploration company headquartered in Minneapolis, Minn., until we exited the program business 32 years later. That same year – 1986 – we moved our headquarters to Denver on the occasion of a $440 million acquisition; the move brought operations and headquarters closer together physically and accelerated the rate of change of Apache.

To keep our equity growing during the 1960s and early 1970s, when the oil and gas sector was in one of its not infrequent slumps, we diversified into a number of smaller, proprietor-run businesses which served our purposes and shareholders well, even though the diversity confused the analysts who followed the company. The trade-off was earnings and equity growth on the long trek toward critical mass.

By 1987 and the sale of the last of our non-oil-and-gas-related businesses, we were back to our original focus which had been delayed but not lost, bent on emergence as a significant upstream oil and gas independent. Our equity had grown while oil and gas slumped; half of the nation's independent oil companies had become casualties.

The period 1987-2001 was dedicated to the development of critical mass: the size essential to pursue opportunities of scale both in North America and internationally.

We sought growth of critical mass both through relatively low-risk drilling and acquisitions of assets, on the basis of negotiated transactions versus auction sales. We had concluded that auctions were wasteful of time and frequently, based upon prices paid by others, quite likely to be wasteful of capital, with overextended debt-to-equity ratios and lower profits (unless, of course, such transactions were carefully overstructured to paint a pretty face on an unseemly canvas).

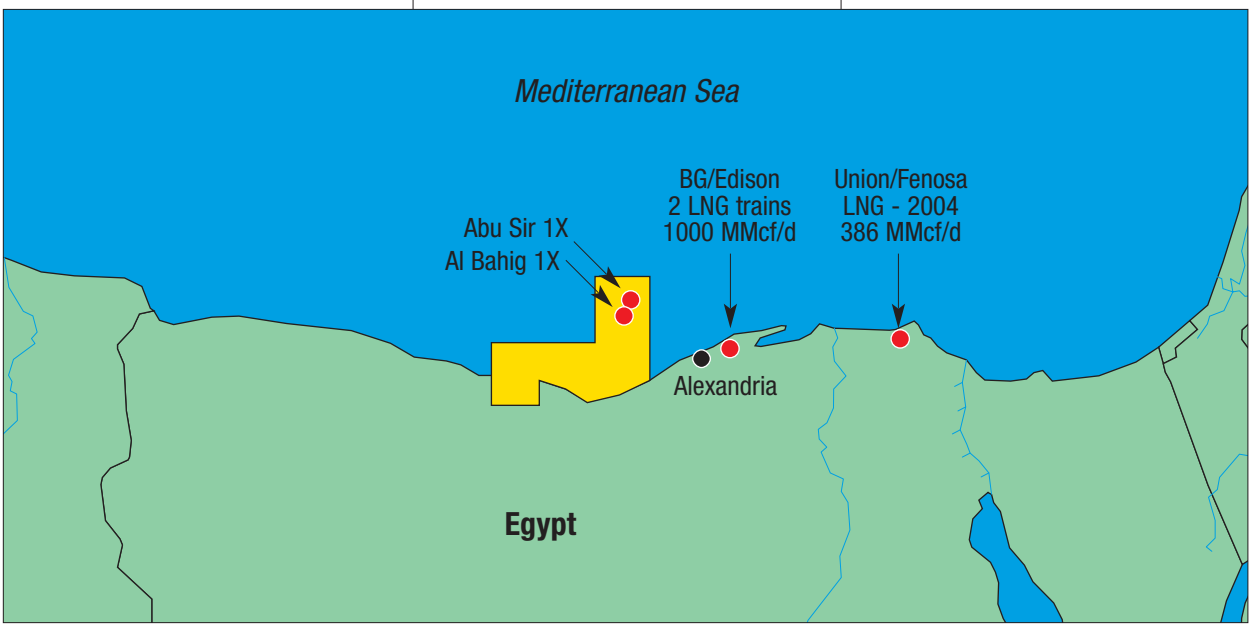
The second chapter of developing critical mass is traceable to 1991, when Apache doubled its size through an acquisition of assets from Amoco, multiplying daily oil production and balancing existing oil production with growing natural gas production and reserves. Through that acquisition we gained a more balanced portfolio in focused core areas. We high-graded our portfolio while selling off assets outside core areas. We moved again – to Houston. Since that time, our growth of production and reserves, longer reserve life, increased cash flow, and – finally – significant earnings, has rapidly progressed.

With mega-mergers both among the internationals and within the independent sector, Apache has been peppered, if not bombarded, with suggestions and recommendations that we join the chase to become a mega-independent, or the largest of our diminishing flock of survivors, through a series of mergers. I would like to make it clear, that while this strategy may yet work out for others, it has not been and is not anticipated to become Apache's cup of tea.

First and foremost, we value and prefer to continue to build incrementally within our strong and effective culture. We value assets with upside potential, including the core professional, technical and operations personnel able to become part of Apache's culture without creating redundancies and avoiding organizational confusion, politics and conflict.

Second, the standard format for acquiring a publicly held company is to utilize the acquirer's shares as currency to pay a premium of 25 percent to 50 percent (or more) over the market price of the target com-

West Med Concession



pany. Often, the underlying assets may not justify the price and the transaction requires excessively creative financial structuring, excessive debt or both, leading to future per-share pitfalls, such as higher amortization rates, general and administrative expenses and operating costs.

Perhaps the most recent examples fresh in all our memories are found in high-tech mergers, followed by Enron's collapse and the gimmickry of its energy merchant brethren, all unfolding in weekly – if not daily – chapters. Many problems remain to be revealed and dealt with, not only by equity holders but by debt holders, investment bankers, banks, rating agencies and the beleaguered analysts. We should not omit the inert role of regulatory agencies and a Congress anesthetized by political contributions and the mantra of "free market," more accurately called "free to pillage."

While much of the negative news has set markets in turmoil, Apache prefers to believe that times like these present even greater opportunities to go about our business of incremental growth as the Augean stables are hosed out, and appropriate rules of conduct are established to embrace transparency and ethical behavior.

Enormous technological advancements in drilling – straight holes, directional wells and horizontal wells – coupled with advances in computer applications have empowered tremendous individual growth for our motivated technical staff. I believe that our staff has more than kept pace, not only in North America, but also importantly in Australia and Egypt, which are areas of growing profitability for our shareowners. Planned growth, we note, is our preference.

It may be interesting to observe the degree to which Apache's focus has moved offshore globally in the last two decades. In the shallow portions of the Gulf of Mexico, Apache now operates gas and oil production from 160 platforms. From Australia, 100 percent of our growing production of gas and oil is located offshore. This was the case in the Côte de Ivoire, an asset which we sold in 1999 with our investment intact, and now, in the waters of Bohai Bay, China, where facilities and development wells are in process for first production in 2003. The vast majority of these assets are operated by Apache, combining tactical acquisitions with prospects developed by our geoscientists and experts in drilling, reservoir and production engineering.

In Egypt, but for a well drilled in the 1970s in the Gulf of Suez (a dry hole), our activity until 2002 has been on land, driven again by integrated technical teams analyzing thousands of square miles of 3-D seismic data.

Often Steve Farris, who succeeded me on my recent 80th birthday as Apache's CEO, and I have been asked, why not the deepwater Gulf of Mexico?

Following several ill-fated forays, we participated in the Gulf of Mexico in shallow waters of up to 350 feet in a program with Shell Oil Company in the early 1980s. At that time, though perhaps others did not care for the reference, the Gulf was frequently called "Shell Lake." The formidable technology of Shell and the other supermajors led them to the deep water where they acquired and ultimately drilled a number of large and very expensive discoveries. They were in fact "firstest with the mostest," and their leading role in the deepwater Gulf continues.

Apache was too small and too late. While we were concentrating on critical mass, larger entities made the play.

In a few instances, smaller companies have tried to make an impact in the deep water. While some have had results, many sacrificed earning assets, their balance sheets and, in a number of cases, their existence.

Frequently, smaller companies farmed into larger companies' positions; they occasionally controlled operations but exposed themselves to very high costs from a base of lesser expertise. Apache grew up respecting our "sand lot" experience, setting the stage for progress.

In brief, as Apache prepared to seek large, world-class, offshore reserves, we preferred to be ready on those major fronts which we perceived as vital to long-term success: an adequate base of internal capital generation; people with integrated expertise who have embraced our culture; and industry credibility. In World War II, rapidly commissioned officers were called "90-day wonders" – not Apache's style.

Offshore Egypt, several large companies – primarily foreign – analyzed the potential of the Nile Delta for a number of years before embarking on highly successful exploration

programs. Today, Egypt's national oil company estimates offshore reserves in the area at 100 trillion cubic feet (Tcf) of gas, plus oil and condensate. Foreign companies—based on results thus far—place gas reserves in the 50 Tcf range. Either way, it's a lot of gas.

Highly important to Egypt's 65 million people, the probable usage for much of the gas in excess of Egypt's domestic needs will be as liquefied natural gas (LNG). The primary markets are expected to be in Europe, but should the Nile Delta's reserves continue to grow, the market could be worldwide in scope. LNG could be of interest to Apache, as well.

As Apache commenced our serious nuts-and-bolts pre-drilling work, there was no early industry consensus whether Nile Delta production might extend as far west in the Mediterranean to encompass the offshore position of our 2.1-million-acre West Mediterranean concession, acquired through purchases of holdings from Mobil, Amoco and, last year, Repsol YPF.

The values we attributed to and paid for the purchases were small, based upon the onshore potential alone. But the geoscience and analysis of all fields in the Delta where data was available indicated otherwise.

As large discoveries moved toward our holdings through exploration successes of others, studies of 3-D seismic jointly acquired by BP and Apache quickened the pulse of our explorationists and Apache's Board of Directors alike. After drilling the second BP discovery, the Sedco Express, a rig owned by quality deepwater contractor Transocean Sedco Forex, was ready for our first drilling location.

When Apache bought Repsol's holdings in Egypt, Repsol retained its one-third interest in the deepwater portion of our block, subsequently selling it to BP and RWE-Dea, a large German utility and oil and gas exploration company. Apache retained its position as operator of the deepwater portion; after selling 12 percent to RWE-Dea to recover a disproportionate share of the costs, we hold 55 percent of the deepwater portion of the concession.

The Abu Sir 1-X well started our deepwater play with a bang – it is a

significant discovery that we're optimistic may provide 1 Tcf of recoverable gas.

If that is the case, it would put us one-third of the way to our goal of proving up 3 Tcf of gas reserves on the deepwater portion of the concession. That is roughly the amount required to warrant an LNG train – the infrastructure required for processing and transportation.

To put it in further perspective, 3 Tcf represents three-quarters of Apache's current worldwide developed and undeveloped natural gas reserve base after 48 years in the business. On an energy-equivalent basis, 3 Tcf is the same as half a billion barrels of oil. The gross reserves will be shared among the Egyptian government, our partners and Apache.

While recognizing that a train may not be required to market the gas, at this stage we prefer exploration and evaluation drilling later to delineate more clearly the size of our initial and subsequent productive reservoirs. Subsequent discoveries of large reserves, if made, should add to our options.

Beyond Abu Sir, we have to date identified seven additional prospects and leads in West Med deep water. The first of these to be drilled – the Al Bahig -1X – came in as a discovery, Apache's 11th worldwide in 2002. Like our first deepwater well, it is a Pliocene discovery. Located 10 miles southwest of Abu Sir 1-X, the Al Bahig had what was originally reported as a 247-foot gas column; further evaluation since the announcement has increased our assessment to 300 feet. Wireline logs and pressure data indicate a high-quality reservoir, so we see no need to test the flow rate.

We plan to drill three more deepwater wells to test three different play types on the concession by yearend.

We will be paying close attention to the condensate or oil content of horizons both above and below the sands in our discovery. Predominately gas reservoirs to the east in the Nile Delta have carried high ratios of liquid hydrocarbons from other formations. Thirty million barrels, not an unrea-

sonable order of magnitude, at $20 per barrel, adds significantly to the economics of the project.

When Apache began in 1954, most of our drilling was exploration in basins with proven oil reservoirs. Gas was yet to have commercial value. Over the years, our exploration focus has been commensurate with our size and our risk tolerance. Early on, our focus was on lower-risk drilling accompanied by asset acquisitions and building critical mass. We obviously like and respect the potential discovery value of larger oil and gas exploration for our shareowners, employees, and related parties. With our focus on exploration drilling shifting to these larger targets, we are finding and developing reserves with higher potential. We are well aware that when we acquire productive assets from others, it is likely that a significant portion of the value has already been extracted.

However, this was not the case in Canada, where former Shell experts who are now valued members of the Apache team found Ladyfern in British Columbia, reportedly the largest discovery in Western Canada in 20 years. The field is now producing 650 million cubic feet of gas per day, though pressures are declining.

It was not the case at Egypt's Qarun Concession, originally estimated in 1995 to contain 35 million barrels of oil; it is now more likely to approach or exceed 100 million barrels.

Nor was it the case at Egypt's Khalda Concession, where a series of fields along the Khalda Ridge were estimated to have reserves of 100 million barrels. In a few short years, gas production totaling 200 million cubic feet per day has been added, with up to 1 Tcf of reserves. A rough estimate of 300 million barrels of oil and condensate may do greater justice to our Khalda holdings. We have increased daily oil production by 30 percent in the year since acquiring operatorship and increasing our stake to a 100 percent contractor interest.

In future reports, Steve Farris and I will be updating you on the West Med and other developments, the objectives of which are to reward shareholders through discovery, growth of production, reserves, and profit.

Respectfully,

Raymond Plank

Apache's deepwater Egypt discovery test-flows 17.4 MMcf/day

Houston, May 21, 2002 – Apache Corporation (NYSE: APA) today reported a flow rate of 17.4 million cubic feet (MMcf) of gas per day during testing of its Abu Sir-1X (Blue Prospect) deepwater well on its West Mediterranean Concession offshore Egypt. It is Apache's ninth discovery worldwide in 2002.

The test was conducted on a 38/64-inch choke with 2,095 pounds per square inch of flowing tubing pressure. Perforations were between 6,620 feet and 6,724 feet in the Pliocene-age Kafir El Sheikh formation.

"We're very encouraged with the results thus far. This test was conducted over a 104-foot interval that represents the least prospective portion of the 311-foot potential gas pay column. The flow rate was restricted by equipment limitations and the unconsolidated nature of the reservoir, so we ran extensive pressure build-ups to establish the zone's productivity, calculating the absolute open flow potential at 90.4 MMcf per day," said Apache President and Chief Operating Officer G. Steven Farris. "Based on these results, we see no need to test the remaining pay."

Apache is the operator with a 55 percent contractor interest. RWE-Dea has a 28.333 percent interest and BP holds the remaining 16.667 percent.

The Abu Sir well was drilled to a total depth of 7,530 feet. It is located in 3,255 feet of water approximately 42 miles from shore.

"The West Mediterranean block has the best exploration potential of any play in Apache's worldwide inventory,"

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Farris said. "We have now identified seven prospects and leads in the deepwater portion of the concession and have only scratched the surface on the 2.3 million acres in the concession.

"Deepwater drilling in this area is far less expensive than in the Gulf of Mexico and because of its relative proximity to shore, development costs will be lower. Our goal over the next 18 months is to prove up at least 3 trillion cubic feet of gross commercial gas reserves," he said. "We plan to drill on four additional structures this year."

Apache reports second gas discovery in deep water offshore Egypt

Houston, July 2, 2002—Apache Corporation (NYSE: APA) today announced its second deepwater discovery on its 2.3-million-acre West Mediterranean Concession offshore Egypt. It is the company's 11th discovery worldwide this year.

The Al Bahig-1X well, located 37 miles offshore in 3,510 feet of water 10 miles southwest of Apache's recent Abu Sir Pliocene discovery, encountered a 247-foot gas column. Wireline logs and pressure data indicate reservoir quality as good as or better than that encountered in the Abu Sir well, the company said. Apache said it sees no need to test the discovery at this time.

"The Pliocene sand in our Al Bahig discovery came in exactly as predicted based on pre-drill seismic interpretation," said Apache President and CEO G. Steven Farris.

The well was drilled to a total depth of 8,050 feet in the Kafr El Sheik (Pliocene) formation. Apache is the operator, with a 55 percent contractor interest in the deepwater portion of the concession. RWE-Dea has a 28.33 percent contractor interest and British Petroleum holds the remaining 16.67 percent.

"We have at least seven prospects and leads in deepwater West Med and plan to drill three more of them by yearend," Farris said. "We are extending Egypt's prolific Nile Delta play westward in pursuit of our goal of proving up a minimum of 3 Tcf of reserves on the deepwater block."

This 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 the drilling and test results of the Abu Sir-1X and Al Bahig-1X wells, the commerciality, exploration potential, and drilling and development costs of Apache's West Mediterranean Concession, Apache's worldwide exploration inventory, and future drilling activities and the timing thereof. Among the important factors that could cause actual results to differ materially from those indicated by such forward-looking statements are future exploration and development results in the West Mediterranean, and fluctuations in oil and gas prices, general economic conditions, and the political situation in the Middle East. Specifically, and without limitation, Apache's goal with respect to gross commercial gas reserves in the deepwater West Mediterranean is subject to exploration success and negotiation and execution of commercially acceptable marketing arrangements in respect of hydrocarbons discovered.

The U.S. Securities and Exchange Commission permits oil and gas companies, in their filings with the SEC, to disclose only proved reserves that a company has demonstrated by actual production or conclusive formation tests to be economically and legally producible under existing economic and operating conditions. We use certain terms in this release, such as "gross commercial gas reserves," that the SEC's guidelines strictly prohibit us from including in the filings with the SEC.

Investors are urged to consider closely the risk factors detailed from time to time in Apache's periodic reports and registration statements filed with the Securities and Exchange Commission and specifically the disclosures and risk factors in our Forms 10-K and 10-Q, File No. 1-4300, available from Apache's offices or Web site, www.apachecorp.com. You can also obtain these forms from the SEC by calling 1-800-SEC-0330.

To receive e-mail alerts when Apache issues news releases and reports, or to receive Apache's news by mail, please go to: www.apachecorp.com/html/FR_Inforequests.htm.

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