The following discussions contain certain “forward-looking statements” as defined by the Private Securities Litigation Reform Act of 1995 including, without limitation, estimates, expectations, plans and goals regarding Apache’s production, reserves, financings, acquisitions, exploration and exploitation prospects, energy prices, operating costs, and results of operations. Such forward-looking statements involve estimates, assumptions and uncertainties. No assurance can be given that Apache’s expectations or goals will be realized, and actual results may differ materially from those expressed in the forward-looking statements. For reconciliations of non-GAAP financial measures, see our web site www.apachecorp.com.
Challenges facing Independent Oil Companies

- Growth strategies of independent oil companies
  - Acquire and exploit
  - International
  - Unconventional

- Challenges facing the oil and gas industry
  - Resource constraints
  - Price volatility
  - Geopolitical risks
What is an Independent Oil Company

- Independent oil company is primarily in the exploration and production side of the industry (i.e., little refining and marketing)
- Total of about 5,000 companies
- Drill 90% of the wells in the U.S.
- Produce 68% of U.S. oil
  - 23% from public and 45% from private companies
- Produce 82% of U.S. natural gas
  - 32% from public and 50% from private companies

Source: IPAA
Oil Companies are Consolidating

- Oil & Gas Journal 400 – 300 – 200 – 100?
  - Tracks the largest U.S. based public companies
  - 400 companies in 1983
  - 300 companies in 1991
  - 200 companies in 1995
  - 138 companies in 2005

- ExxonMobil 1\textsuperscript{st} in revenue - $370.7 billion
- Apache 10\textsuperscript{th} in revenue - $7.6 billion
- Smallest company had revenue of $469,000
Apache Corporation’s Portfolio

40 MM acres worldwide in 6 countries

2nd Quarter 2006 Production:
500,888 BOE/Day – 52% Gas & 48% Oil

US Onshore  US Offshore  Canada  North Sea
Australia  Egypt  Argentina  Other
Driven to Grow

Compound Growth Rates:
- Reserves 19%
- Production 14%
Independents acquired assets that were no longer of strategic significance to major oil companies

- Assets typically manpower intensive and provided lower rates of return than mega-projects available to majors

- Assets divested by major oil companies were significant additions to the portfolios of independents
  
  - Typically, assets had a large inventory of projects and a large land position
  
  - Projects provided a high rate-of-return
  
  - Independents are low cost producers and can squeeze more oil and gas out of assets
Apache is the largest HBP leaseholder and 2nd largest producer on the Shelf.

Through 2005, 136% of the net investments in the Gulf of Mexico have been returned and 64% of the original reserves remain.
Apache Egypt – Gross Operated Production

Record Oil Production
7/7/06  120,562 Bopd

Record Gas Production
5/27/06    522 MMcf/d

Repsol Acquisition
65% increase
125% increase

Oil
Gas

Bopd

140,000
120,000
100,000
80,000
60,000
40,000
20,000
0


MMcf/d

550
500
450
400
350
300
250
200
150
100
50
0

UBS Bus Tour.ppt 10/16/2006  9
CBM Activity Growing in Alberta

WCSB CBM

- More than 6,000 CBM wells - most since ‘03
- 3,000+ wells drilled in ‘05
- 3,500 planned in ‘06
- More than $2 billion invested $1.5 billion planned for ‘06
- Current production is ~450 MMcf/d (projected 700+ MMcf/d by ‘07)

Apache currently produces about 25% of basin total
Resource Constraints – Access to Land

- International
  - National oil companies control 90% of the world’s reserves

- U.S. Offshore
  - 11% of the Lower 48 OCS is open to drilling

- U.S. Onshore
  - ANWR
  - Rockies
Resource Constraints - People

- Downsizing in the 80s and 90s shrank the workforce
  - Employment shrank from 1.1 million to 270,000

- Average age of a petroleum engineer – 48
  - Half of the engineers could retire within 10 years
  - Demographics for most technical positions are the same

- Lack of skilled labor
  - Not enough people to man rigs
  - Failure rate for drug testing extremely high
Resource Constraints – Materials & Equipment

- Demand for rigs exceeded supply
  - Rigs moving overseas from Gulf of Mexico
  - Rigs imported from China
  - Suppliers gained pricing power

- Availability of steel for pipe has been constrained

- Compressors delayed up to a year

- Demand for CO2 for enhanced oil recovery exceeds supply
Keeping Rig Count in Perspective

Historical U.S. Rig Activity

Source: Baker Hughes
Shift in Drilling Targets

U.S. Oil & Gas Rig Activity

- Drilling for Gas
- Drilling for Oil

Source: Baker Hughes
Historical Oil Prices

Nominal and Real Oil Prices

- **1973 Arab Oil Embargo**
- **Iran-Iraq War Begins; oil prices peak**
- **Iranian Revolution; Shah Deposed**
- **Saudis abandon "swing producer" role; oil prices collapse**
- **Iraq Invades Kuwait**
- **Gulf War**
- **Prices rise sharply on OPEC cutbacks, increased demand**
- **Asian economic crisis; oil oversupply; prices fall sharply**
- **Prices spike on Iraq war, rapid demand increases, constrained OPEC capacity, low inventories, etc.**
- **Prices fall sharply on 9/11 attacks; economic weakness**

Source: EIA
Global Oil Supply

Source: BP Statistical Review
Global Oil Supply and Demand

Source: EIA
Historical Natural Gas Prices

US Average Natural Gas Consumption & Prices

- Average US Wellhead Price
- Average US Import Price
- Consumption

Source: EIA
U.S. Excess Production Capacity is Gone

Production, Bcfd

Source: EIA
Natural Gas Demand by Sector

Source: EIA
Impact of Power Generation on Demand

New Generation Capacity by Fuel
1990-2005

Source: Energy Velocity
Fuel for Future Generation will Change

Power Generation Capacity Under Construction or Permitted

Source: Energy Velocity
Summer Weather Impact

Natural Gas Consumption - Electricity Sector

Source: EIA
Recent Hot Summers

June through Sept. Cooling Degree-Days - Past 30 Years

Statistics:
57 Year Max - 1,183
57 Year Min - 834
57 Year Avg - 990
30 Year Max - 1,183
30 Year Min - 834
30 Year Avg - 1,003

Source: EIA
Recent Warm Winters

Winter Heating Degree-Days - Past 30 Years

Statistics:
- 57 Year Max - 4,077
- 57 Year Min - 3,168
- 57 Year Avg - 3,623
- 30 Year Max - 4,077
- 30 Year Min - 3,168
- 30 Year Avg - 3,603

Source: EIA/Climate Prediction Center.

Note: Data is for November through March.

Source: EIA
**Natural Gas Demand vs. Weather**

Storage Drawdown vs. Heating Degree-Days

\[ y = 1.6509x - 3577.7 \]

\[ R^2 = 0.992 \]

Source: EIA & Apache
Uptrend in Tropical Storm Activity

Tropical Activity in the Atlantic Ocean

Number of Named Systems

Source: NOAA
Hurricane Impact on Natural Gas Prices

NYMEX 12 Month Strip Price

12 Month Strip Price is the Average of the Next 12 NYMEX Contract Months

Source: NYMEX
NYMEX Futures Contract – Poor Price Predictor

Source: NYMEX
Geopolitical - Recent Actions

- Nationalization of oil and gas industry
- Making resources off-limits to foreign oil companies
- Assessment of back taxes
- Assessment of windfall profits tax
- Unilateral modification of contracts
- Imposition of higher royalty rates
- Higher export taxes
- Assignment of preferential bidding rights
- Attacks by militants
Geopolitical - Impact of Recent Actions

- Discourages investment in countries that have nationalized their reserves
  - Massive external financing needed or countries will have to reinvest more of their energy income into the industry

- Promotes inefficient national oil companies and less technology transfer

- Less investment and a lack of new technology will lead to slower production growth or production losses
Emergence of National Oil Companies

- National Oil Companies (NOC)
  - Strategic advantage within country
  - Instruments of foreign policy – alliances with producing countries
  - Competing globally with IOC’s for scarce resources

- Impact on International Oil Companies (IOC)
  - Fewer resources available for development
  - Greater competition for assets that are available

- Impact on global production
  - Lower growth from countries with greatest resources
    - Less capital available & lack of IOC expertise
  - Greater concentration of reserves in the future
Global “Hot Spots”

- Iran – Nuclear stand-off threatens 25% of world’s oil supply transiting through the Strait of Hormuz
- Nigeria – More violence as April 07 election approaches
- Iraq – Threat of civil war and conflict over oil contracts in Kurdistan region
- Venezuela – More nationalization and possible embargo of U.S.
- Russia – More nationalization and threat of natural gas supply disruptions to Europe
- China/Japan – New field in disputed waters
- Mexico – Potential steep decline in production from the Cantarell field
Low prices and inadequate investments in the 80s and 90s set up the current period of growth for the oil and gas industry.

Resource constraints, price volatility and geopolitical events create a challenging environment for production growth.

The industry will continue to consolidate because of limited investment opportunities.

High energy prices and new technologies will provide incentives and methods to find and produce more oil and gas.