



Apache



02.25.2016

OPTIMIZED AND VALUE DRIVEN SUPPLY CHAIN

MARK HOOD – APACHE CORPORATION

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Certain statements in this presentation contain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities and Exchange Act of 1934 including, without limitation, expectations, beliefs, plans and objectives regarding production and exploration activities. Any matters that are not historical facts are forward-looking and, accordingly, involve estimates, assumptions, risks and uncertainties, including, without limitation, risks, uncertainties and other factors discussed in our most recently filed Annual Report on Form 10-K, recent Quarterly Reports on Form 10-Q, recent filed Current Reports on Form 8-K available on our website, <http://www.apachecorp.com/>, and in our other public filings and press releases. These forward-looking statements are based on Apache Corporation's (Apache) current expectations, estimates and projections about the company, its industry, its management's beliefs and certain assumptions made by management. No assurance can be given that such expectations, estimates or projections will prove to have been correct. A number of factors could cause actual results to differ materially from the projections, anticipated results or other expectations expressed in this presentation, including, Apache's ability to meet its production targets, successfully manage its capital expenditures and to complete, test and produce the wells and prospects identified in this presentation; to successfully plan, secure necessary government approvals, finance, build and operate the necessary infrastructure and LNG plants; and to achieve its production and budget expectations on its projects.

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EARNINGS ANNOUNCED TODAY

NEWS RELEASES

 Download PDF

Apache to Release Fourth-Quarter, Full-Year 2015 Results Feb 25

HOUSTON, Jan. 25, 2016 /PRNewswire/ -- Apache Corporation (NYSE, Nasdaq: APA) will release its fourth-quarter and full-year 2015 results on its website, www.apachecorp.com, at 7 a.m. Central time Thursday, Feb. 25, 2016, followed by a conference call to discuss its results at 1 p.m. Central time.

The conference call will be webcast from the website, and the webcast replay will be archived there as well. The conference call will be available for delayed playback by telephone for one week beginning at approximately 4 p.m. Central time Feb. 25. To access the telephone playback, dial 855-859-2056 or 404-537-3406 for international calls. The conference access code is 13719037.

Apache Corporation is an oil and gas exploration and production company with operations in the United States, Canada, Egypt and the United Kingdom. Apache posts announcements, operational updates, investor information and copies of all press releases on its website, www.apachecorp.com, and on its Media and Investor Center mobile application, which is available for free download from the [Apple App Store](#) and the [Google Play Store](#).

APACF

Listen to the Call at 1:00 if you are interested

REPOSITIONED FOR THE FUTURE

- ▶ Significant leadership, portfolio and capability changes over the last 2 years.

Strategic Organizational Changes



Strategic Portfolio Changes

\$10.5 billion

of non-strategic assets sold, or announced to sell, since 2014

APACHE: ADAPTING TO THE MARKET; POSITIONING FOR SUCCESS

- ▶ In 2015, we:
 - ▶ Streamlined and simplified our portfolio,
 - ▶ Paid down debt and strengthened our balance sheet,
 - ▶ Aggressively reduced activity and spending levels to align with the falling price environment, and
 - ▶ Attacked our cost structure and realized tangible results in G&A, LOE and capital cost.
- ▶ In 2016, we are:
 - ▶ Protecting our strong balance sheet and liquidity,
 - ▶ Focusing on returns, strategic testing, advancing new plays, and
 - ▶ Remaining flexible and opportunistic

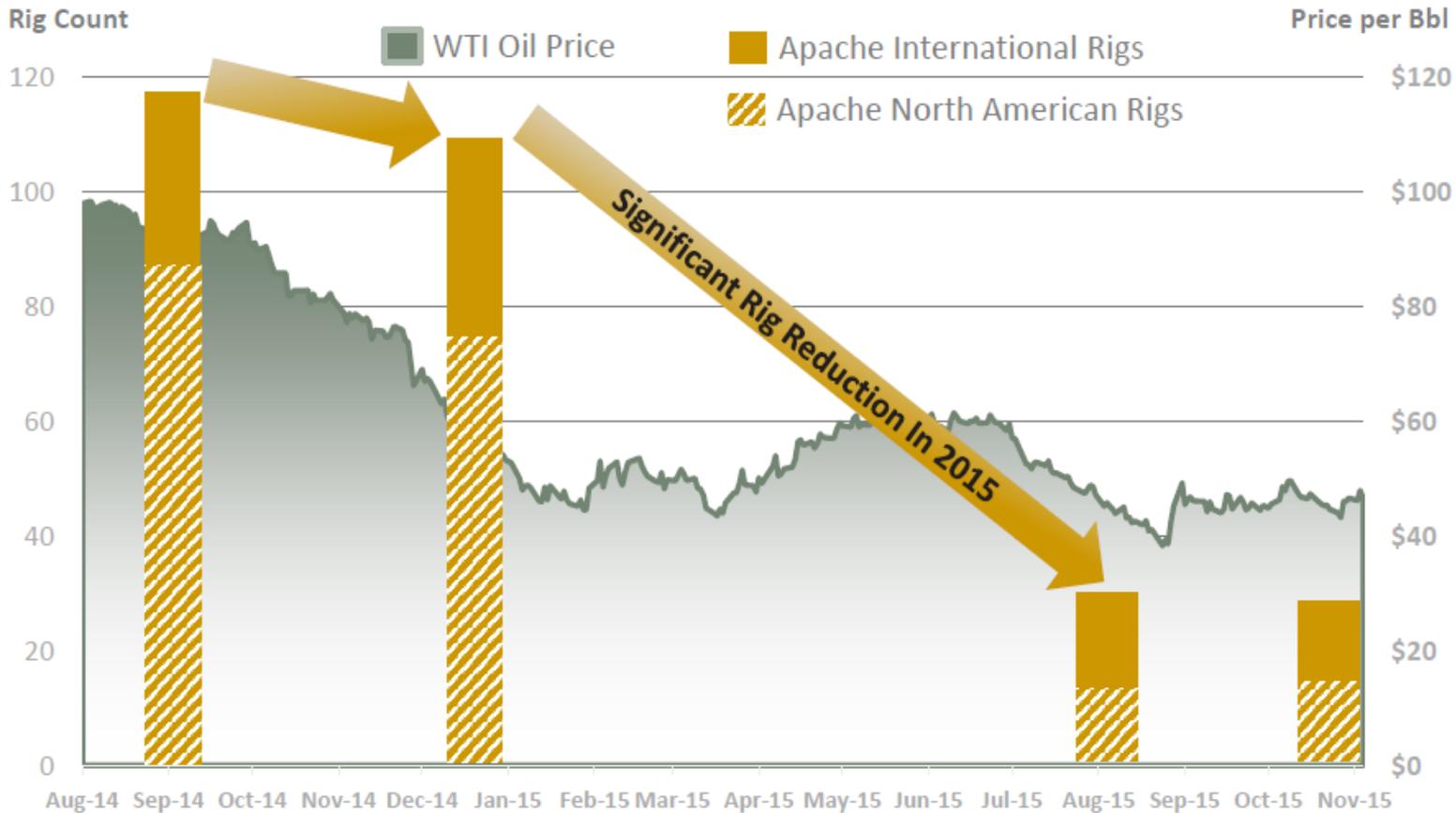
One of our primary operational objectives both last year and in 2016, is to assess, refine, optimize and add to our extensive inventory of captured drilling locations in North America in the context of “lower for longer” oil prices.

NORTH AMERICA OVERVIEW

- ▶ Large acreage position across multiple oil-prone plays: Permian, Eagle Ford, Woodford and Duvernay/Montney
- ▶ Relatively low base decline rate reduces capital required to replace production
- ▶ Focused on cost structure, strategic testing and acreage delineation
- ▶ Well-positioned to ramp drilling program and deliver strong rates of return
- ▶ Opportunistically acquiring low cost acreage in high potential areas where APA has a technical/competitive advantage



MIRRORING ACTIVITY LEVEL TO THE FALLING PRICE ENVIRONMENT



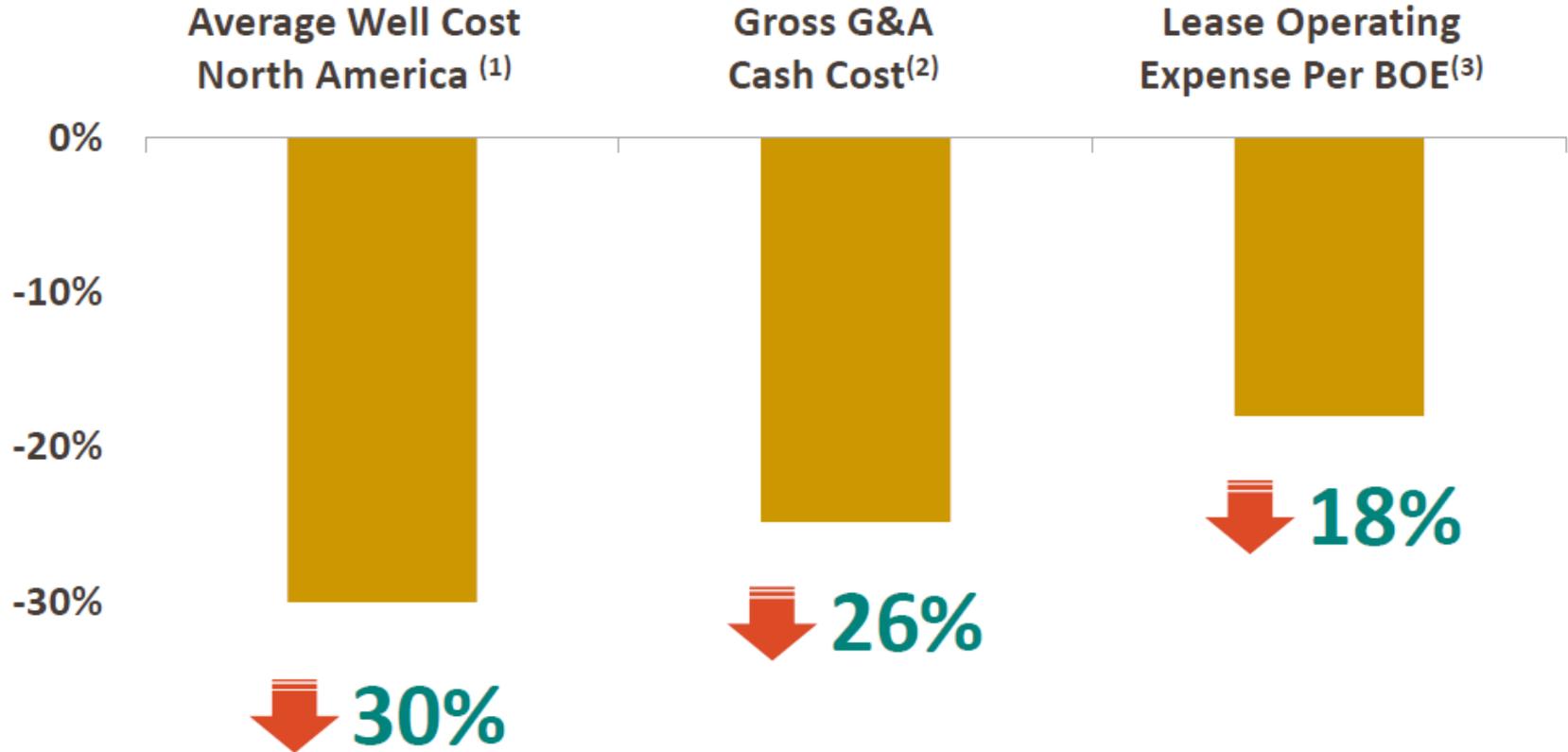
70%

Capital reduction
3Q'15 from 3Q'14

86

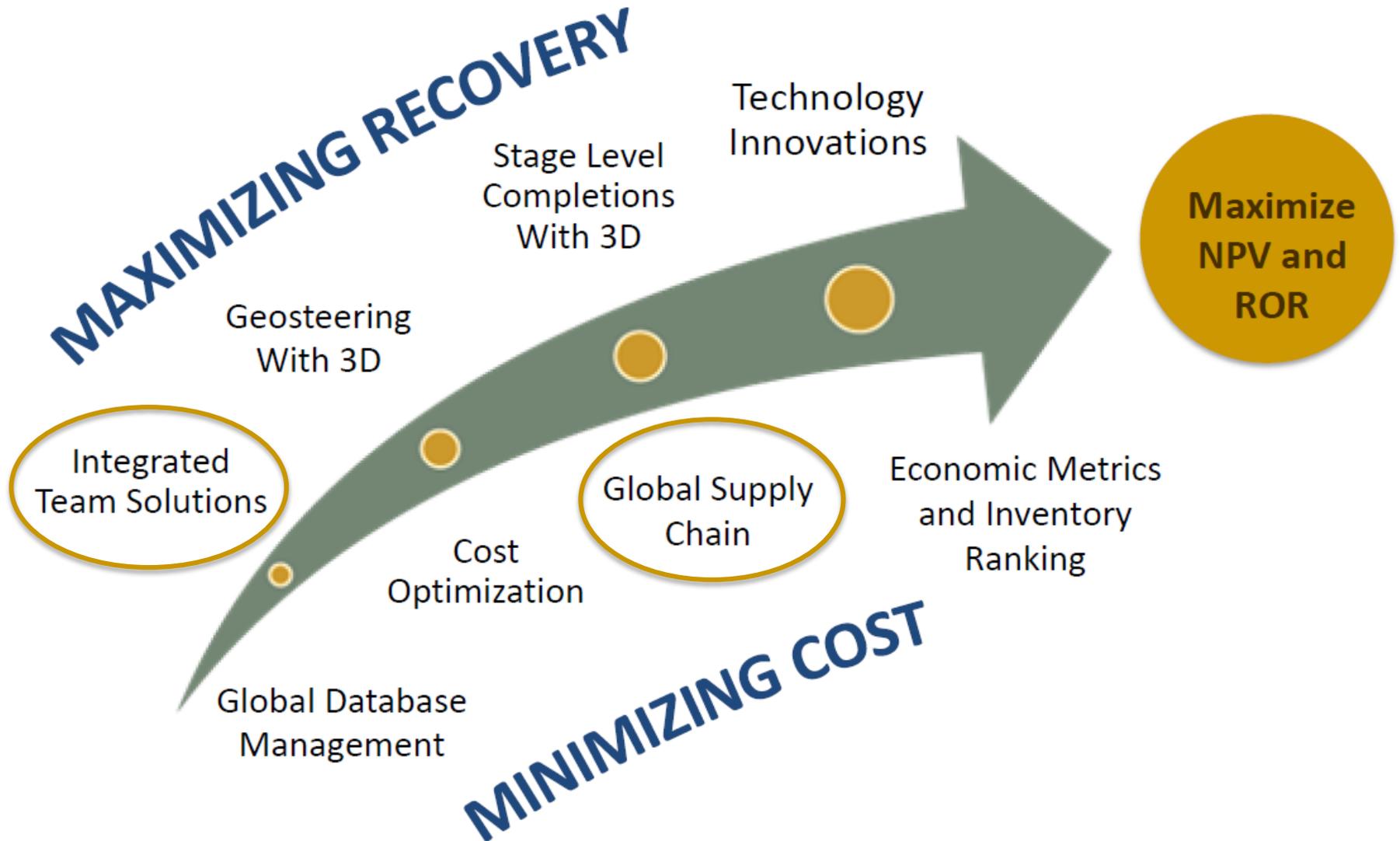
Rigs cut
worldwide since
September 2014

CONTINUING TO ATTACK THE COST STRUCTURE



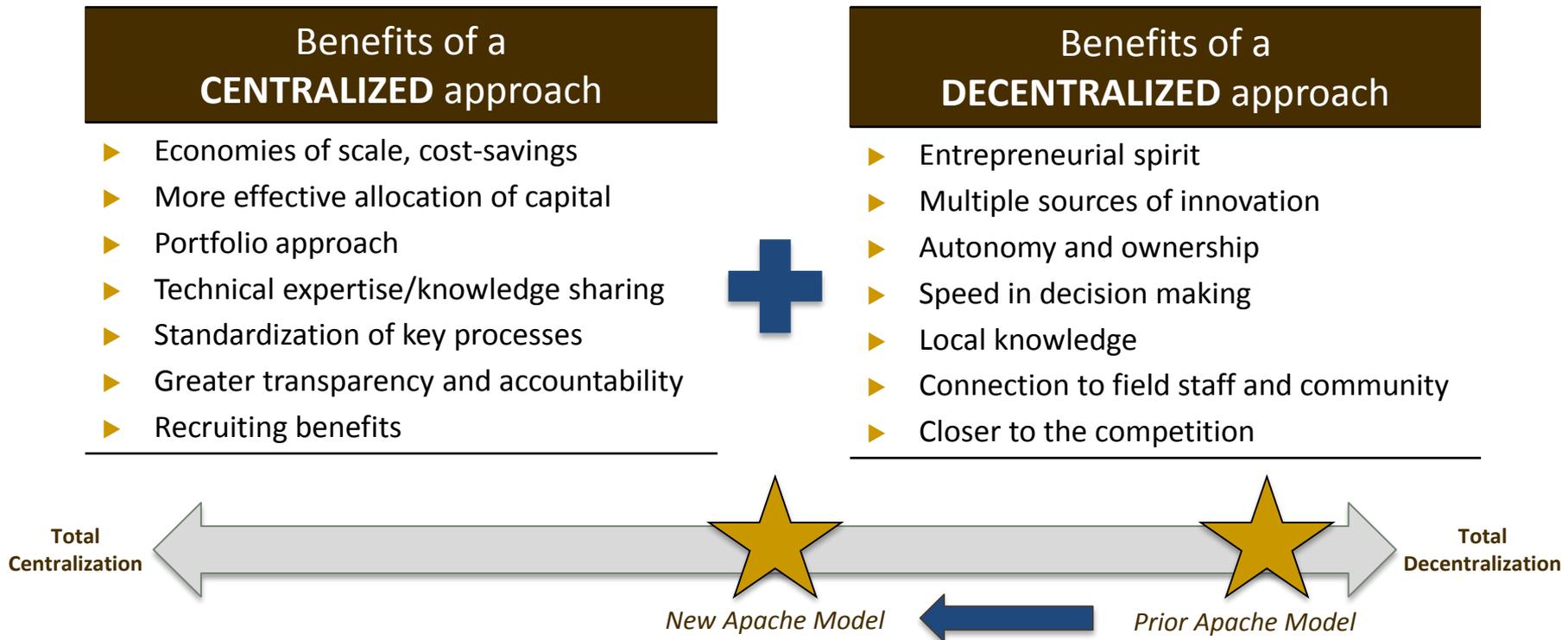
1. Includes a reduction of expenditures associated with drilling and completion costs from November 2014 to the third-quarter 2015.
2. Includes a reduction of gross capitalized and expensed G&A costs from third-quarter 2014 to the third-quarter 2015.
3. Includes a reduction in LOE expenses from the third-quarter 2014 to the third-quarter 2015.

STRATEGIC OPERATING OBJECTIVE: MAXIMIZE NPV AND ROR



BLENDING THE CENTRALIZED AND DECENTRALIZED MODEL

- ▶ The prior Apache model relied heavily on decentralization, which complemented the acquire-and-exploit approach.
- ▶ With today's more **integrated portfolio approach**, however, centralization for certain functions is required.



THE NEW APACHE MODEL

Integrated Teams



APACHE'S SUPPLY CHAIN HAS EVOLVED WITH THE FULLY INTEGRATED TEAM MODEL



Integrated Teams Fully Implemented

- Center Led / Decentralized
- Maintained historical responsibilities
- Cross-Regional / Regional Strategic Sourcing
- Manage proppant supply and logistics for lower 48
- Manage supplier relationships
- Manage company owned rental equipment
- New technology deployment support
- Providing Commercial and Contracting expertise

FOCUSED ON OPTIMIZATION AND VALUE CREATION

Supply Chain THEN

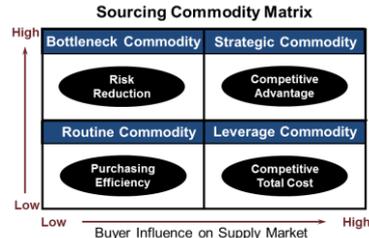
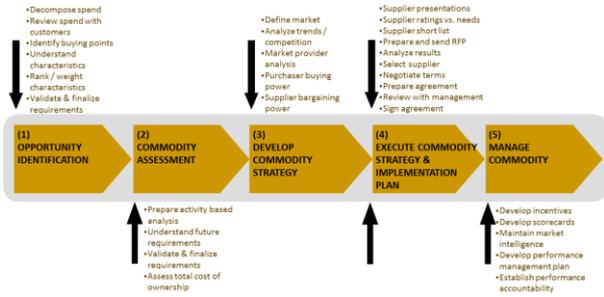
- ▶ Bundled pressure pumping services called out by engineers
- ▶ Sourcing equipment and simple service
- ▶ Call out pipe and wellhead from stocking program

- ▶ Rental equipment handled by rig and service companies with costs being passed through
- ▶ Invoices paid unless they had glaring errors
- ▶ Data analysis

Supply Chain NOW

- ▶ Manage > 55,000 truckloads of frac sand
- ▶ Sourcing EVERYTHING
- ▶ Inventory management including scrubbing, substitution recommendations, and aggressively seeking ways to utilize stock
- ▶ Coordinate purchase, utilization and billing of company owned rental equipment
- ▶ Invoices aggressively audited
- ▶ Spotfire and other big data tools

WE ARE USING ALL THE TOOLS IN THE TOOLKIT

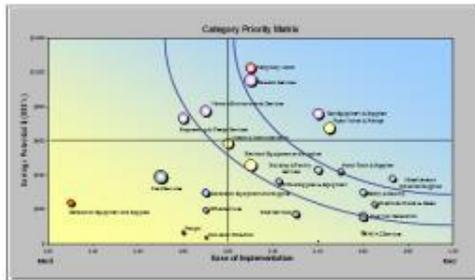
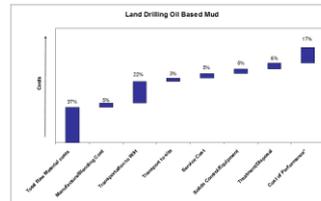


- Difficulty ↓
- Volume Concentration
 - Demand Management
 - Best Price Analysis
 - Global Sourcing
 - Product Redesign
 - Process Improvement
 - Relationships Restructuring
- Typically used for initial sourcing efforts

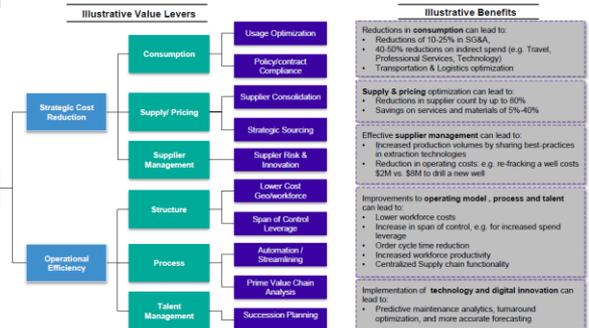


Transportation

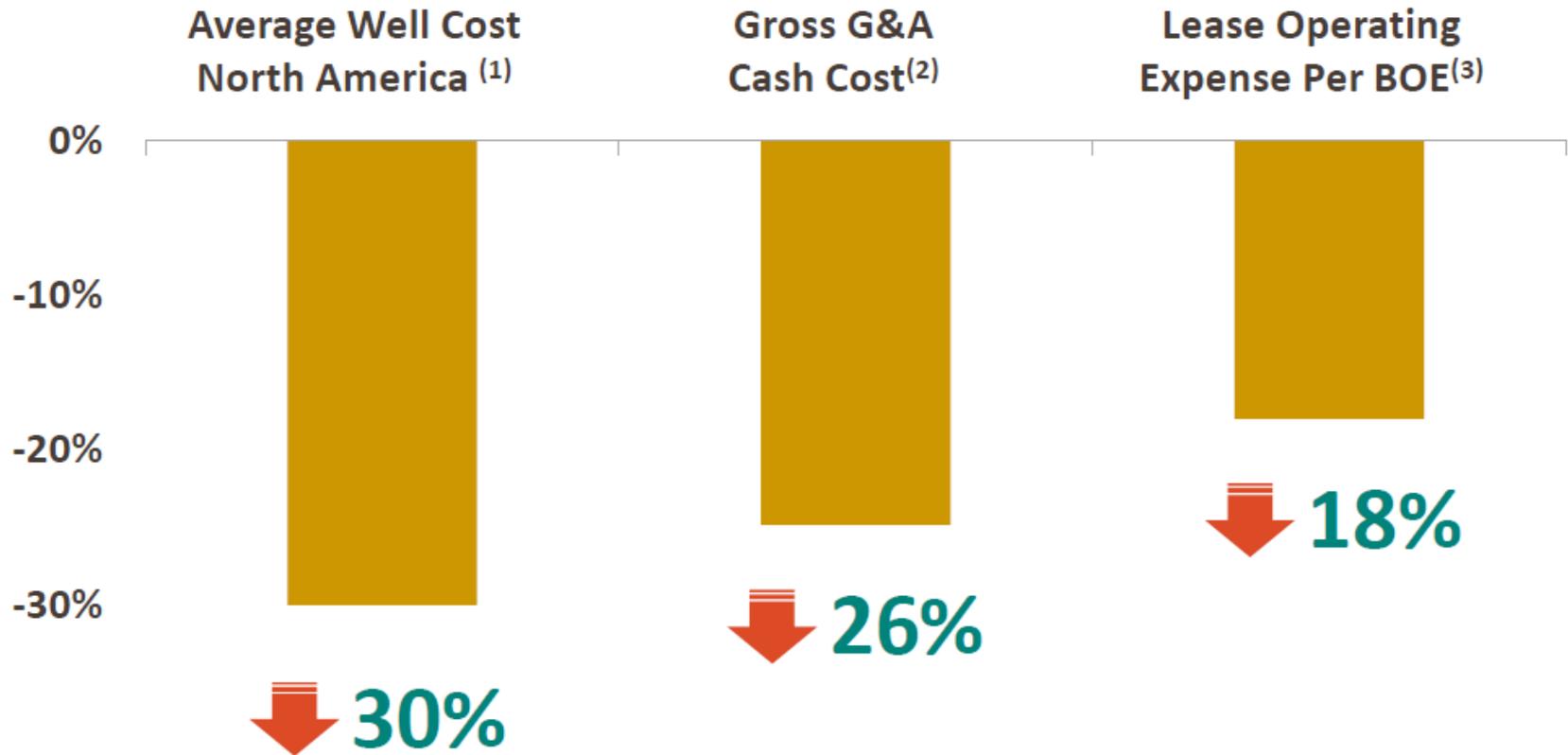
Total Cost of Ownership (TCO)



Source: Competitive Strategy, Michael E. Porter, 1980



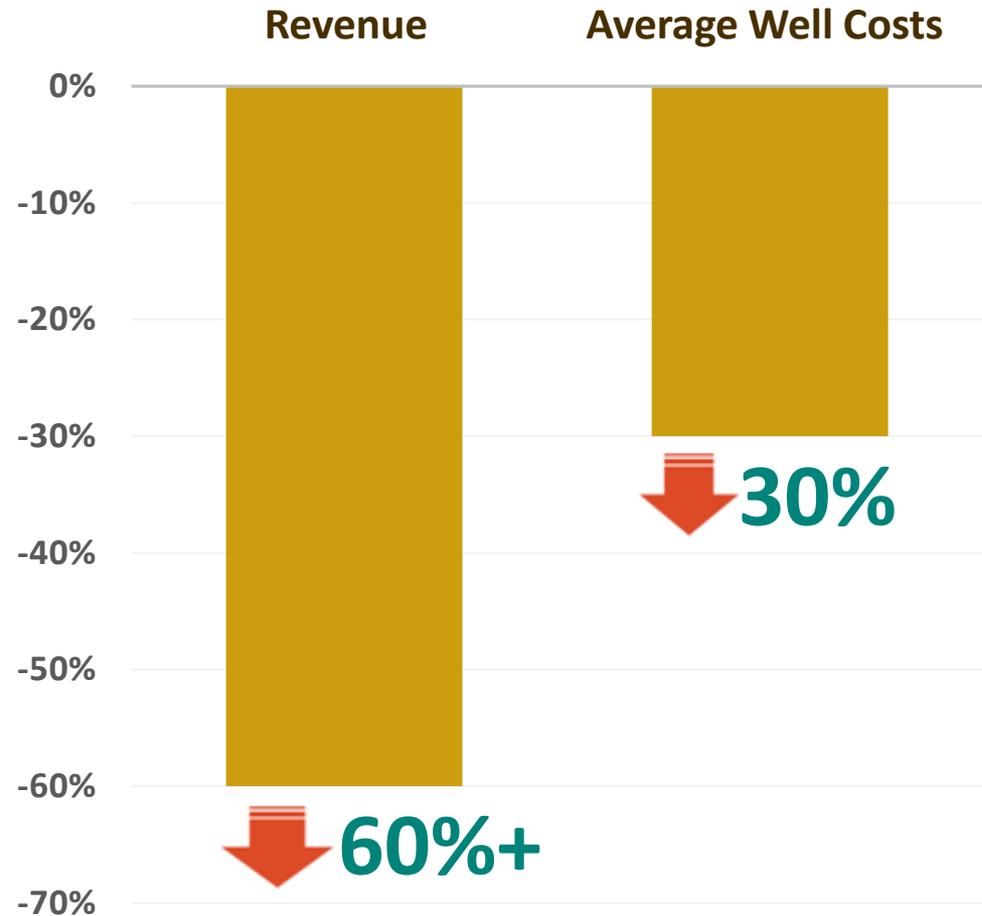
CONTINUING TO ATTACK THE COST STRUCTURE



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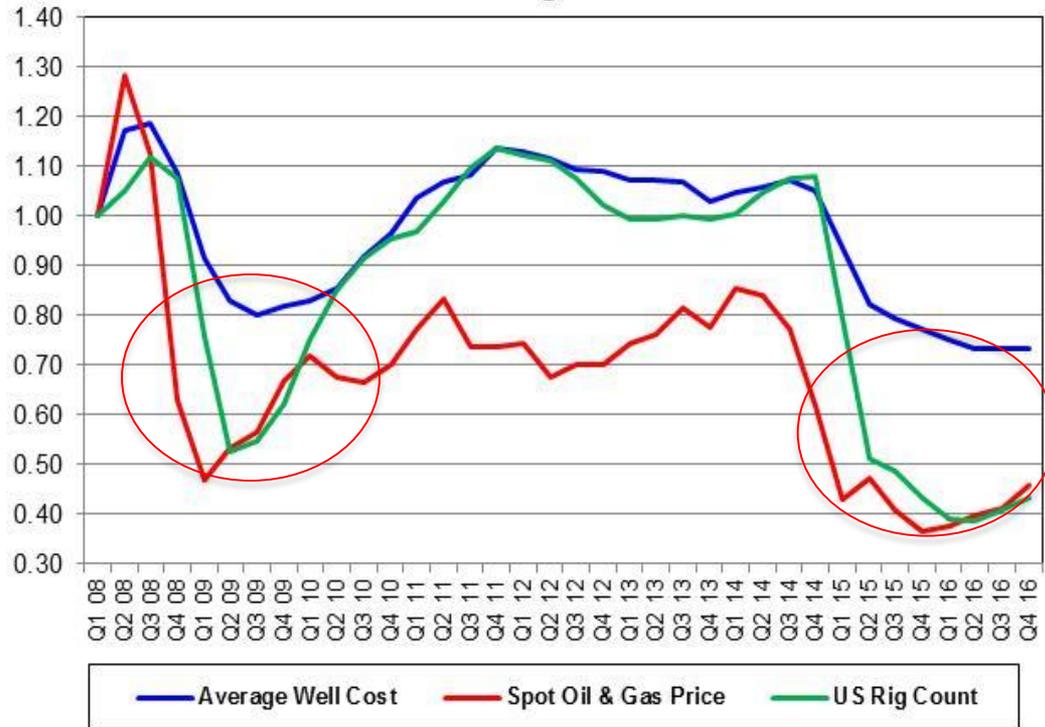
REVENUES HAVE FALLEN FASTER AND FARTHER

Still have a gap between Revenue & Costs



COSTS HAVE NOT FALLEN IN LINE WITH OTHER INDEXES

Index of US Spot Prices, Rig Count, and Average Well Costs



Declining well costs:

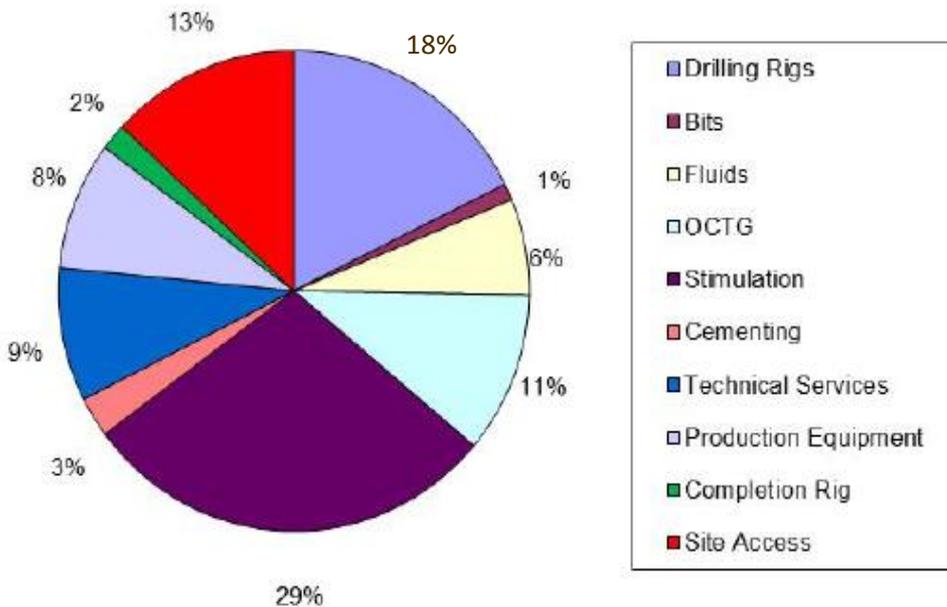
- ▶ ~25% over the first half of 2015
- ▶ Only 3.6% in Q3 while spot prices fell sharply
- ▶ 4.3% in Q4 to finish year roughly 30% lower than 2014

Source: Spears & Associates DCS Cost Index

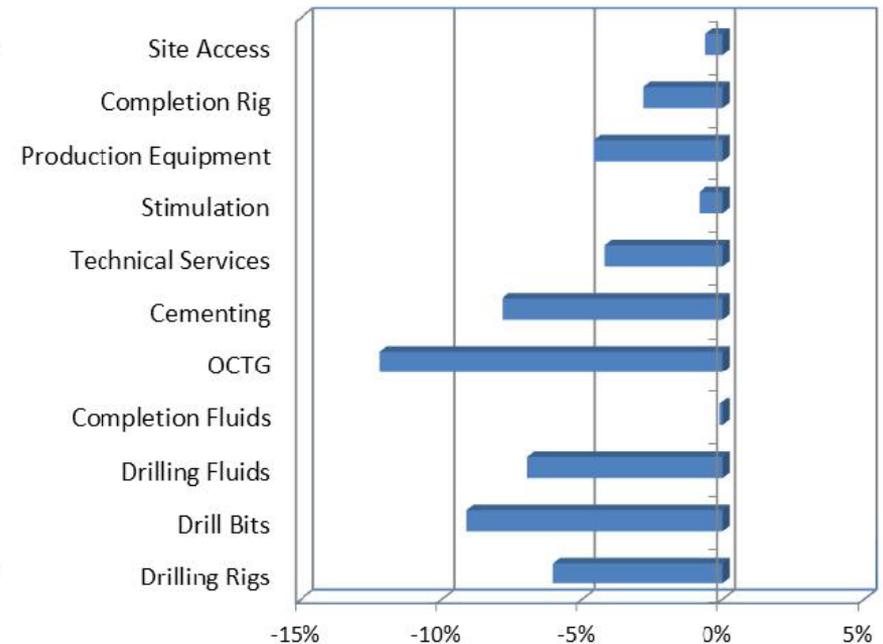
COST COMPONENTS (Q4 2015)

- ▶ During Q4 2015, prices fell most sharply for OCTG, drill bits, cementing services, drilling fluids and drilling rigs (39% of cost components).

Well Cost Components - Q4 2015



Well Cost Component Price Change: Q4 2015



Source: Spears & Associates

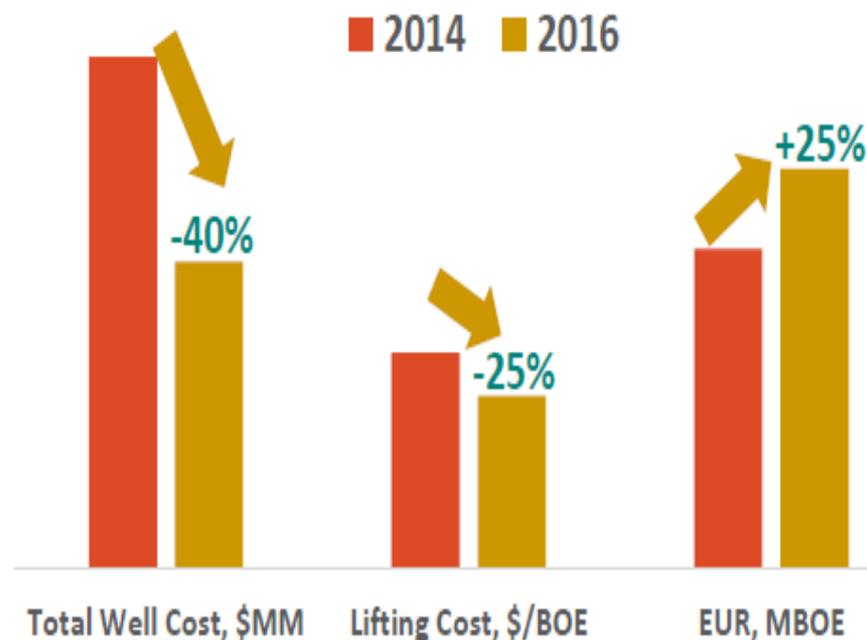
THE COST CHALLENGE: APACHE'S **PRUDENT** APPROACH

- ▶ Focus on optimizing and creating Value
 - ▶ Right-sizing the organization and look at who does what and where
 - ▶ Vertically integrating areas traditionally handled by suppliers
 - ▶ Challenging ourselves to utilize existing stock and substitutes
 - ▶ Writing down reserves
 - ▶ Looking into Big Data analytics
 - ▶ Moving to a Portfolio approach
 - ▶ Focusing our dollars on higher return projects
 - ▶ Reducing capital program to mirror cash flow
 - ▶ Remaining flexible, opportunistic and ready to react to changes in price

APACHE IS ADAPTING (ILLUSTRATION)

Technology & Efficiencies

- ▶ Reduced Total Well Cost by 40%
 - ▶ Renegotiating service contracts
 - ▶ Reduced drilling time
 - ▶ Centralized sand and water systems
- ▶ Reduced Lifting Cost by 25%
 - ▶ Optimized produced water disposal



Completion Optimization

- ▶ Increased EUR by 25%
 - ▶ Enhanced completion design
 - ▶ Using new 3D seismic processing

EUR: Estimated Ultimate Recovery

THE COST CHALLENGE: THE INDUSTRY MUST ADAPT

- ▶ We cannot achieve cost reduction goals from price cuts alone
 - ▶ Requires aggressive reduction in cost structure (capital & LOE) to maintain economic inventory, returns and cash flow
 - ▶ Fully integrated teams
 - ▶ Improvements in technology (fit for purpose)
 - ▶ Innovation
 - ▶ Resolving our data problems
 - ▶ Sustainable ideas; borrow ideas from other industries
- ▶ **A dollar of sustainable cuts is worth more than a dollar in price concessions**
- ▶ Producers and suppliers will sink or swim together!

THE INDUSTRY WILL CONTINUE TO EVOLVE

- ▶ **Surviving North American producers and Suppliers will be ready due to lessons learned and corrective actions**
 - ▶ Technology has and will continue to drive productivity gains
 - ▶ Efficiencies have greatly lowered costs
 - ▶ Innovation has improved procedures and equipment
 - ▶ Mergers, acquisitions and asset transfers will create new winners
- ▶ **Adaptive and creative thinking will prevail**

THANK YOU
