



The Supply Chain Challenge: Procurement the "Apache Way"



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Procurement the “Apache Way”

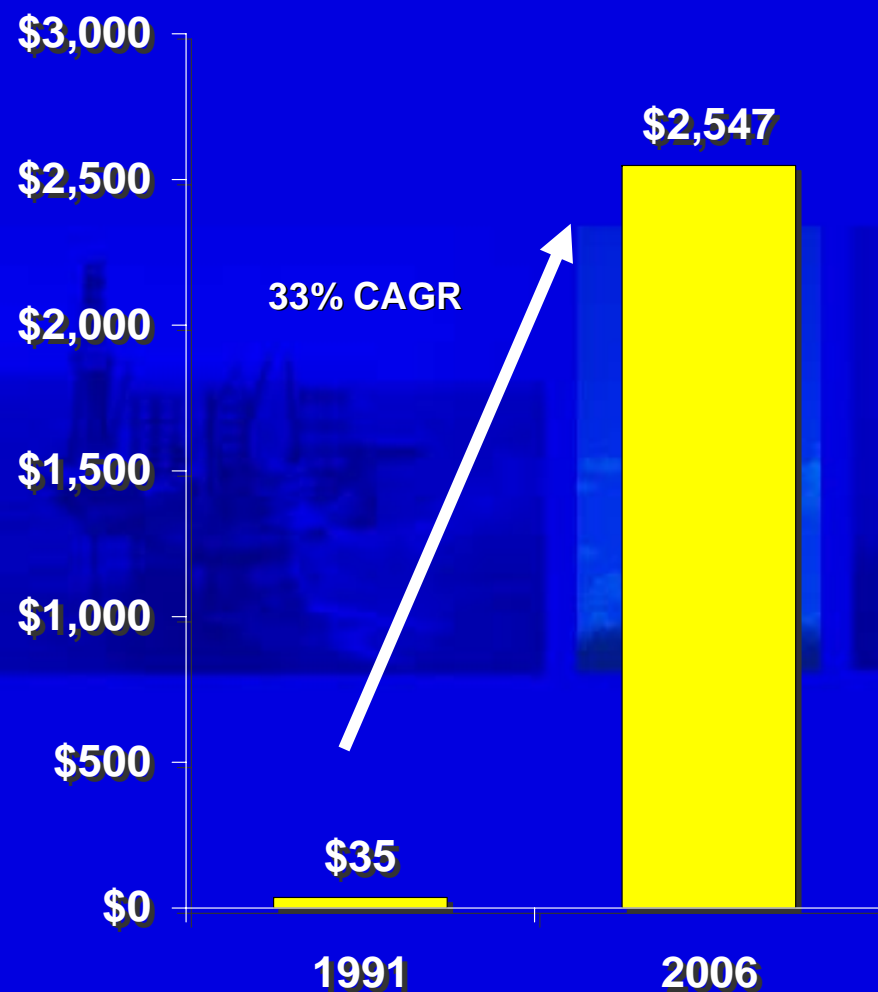
- *The Apache story*
- *Why our DNA makes procurement (particularly strategic supply chain efforts) hard*
- *What we chose to do...*



Building to Last



Earnings (MM\$)

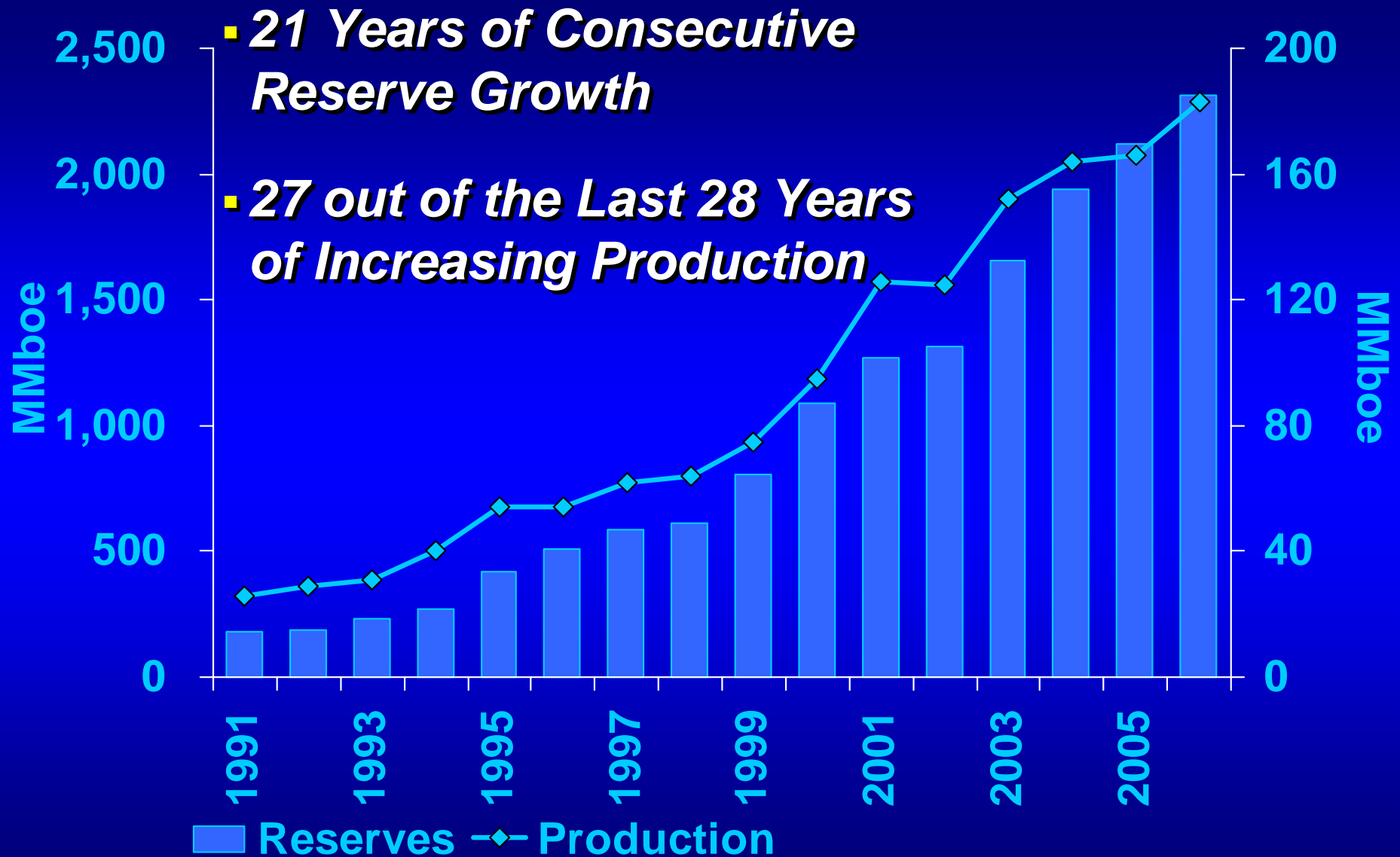


Cash Flow (MM\$)

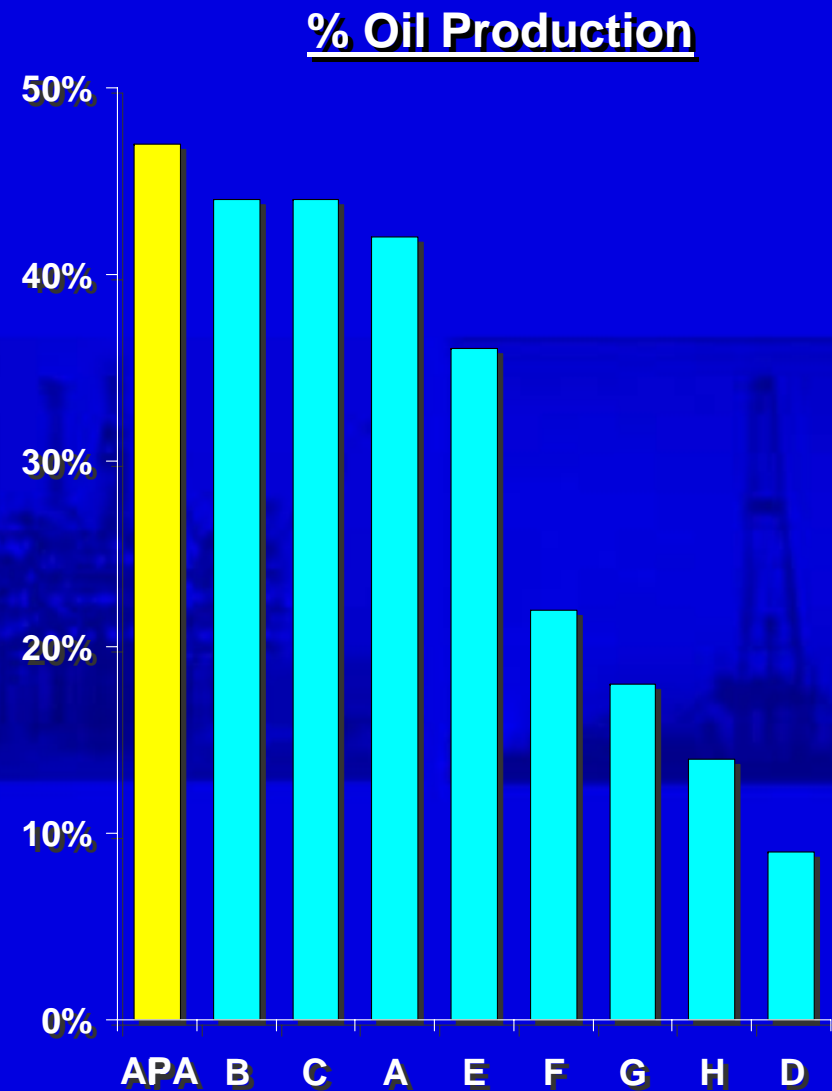
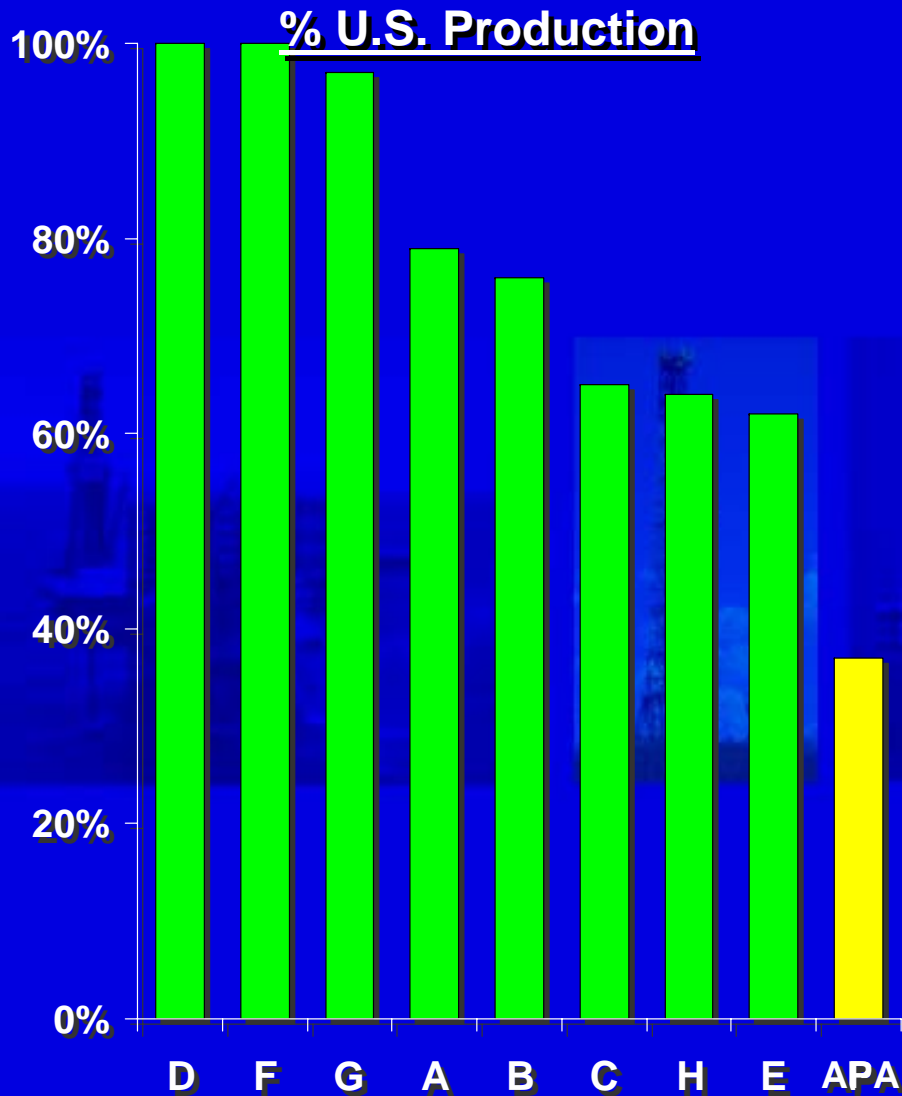


Note: Apache relocated headquarters to Houston in 1992.

Time-tested growth



Balanced Portfolio with International Presence

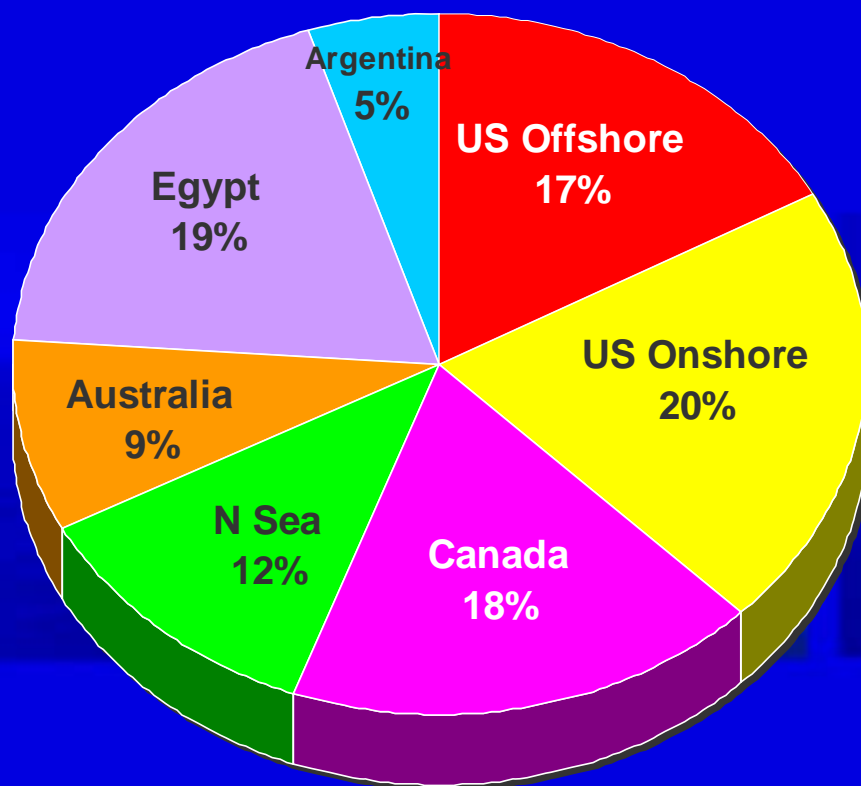


Peer group consists of APC, CHK, DVN, EOG, NBL, NFX, PXD, XTO

Portfolio Snapshot

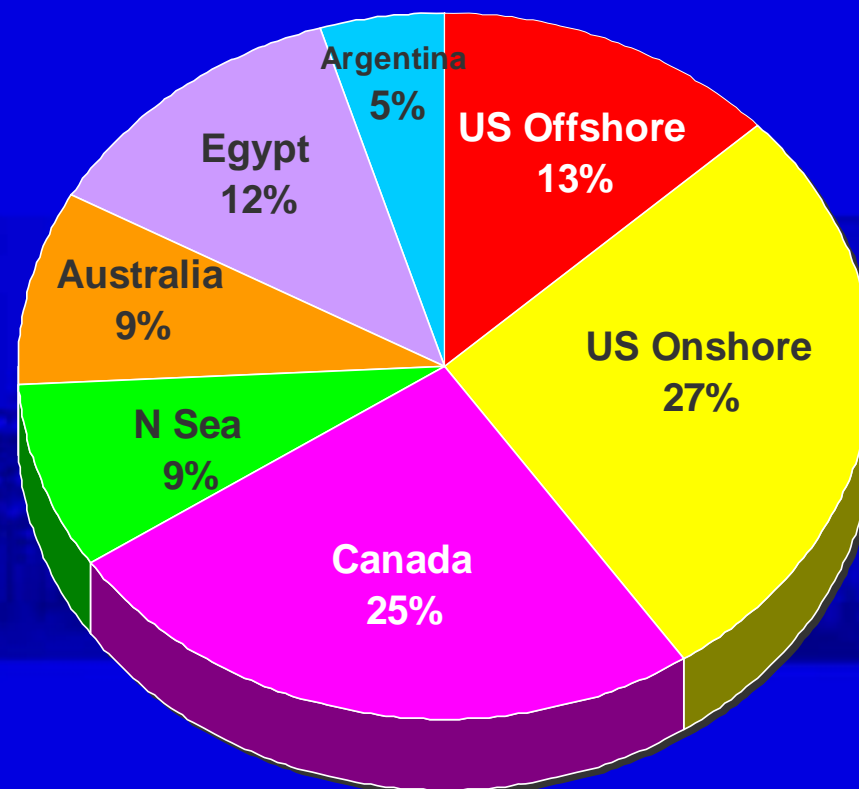


Production – 2006



Total 501 Mboe/d
R/P Ratio: 12.6

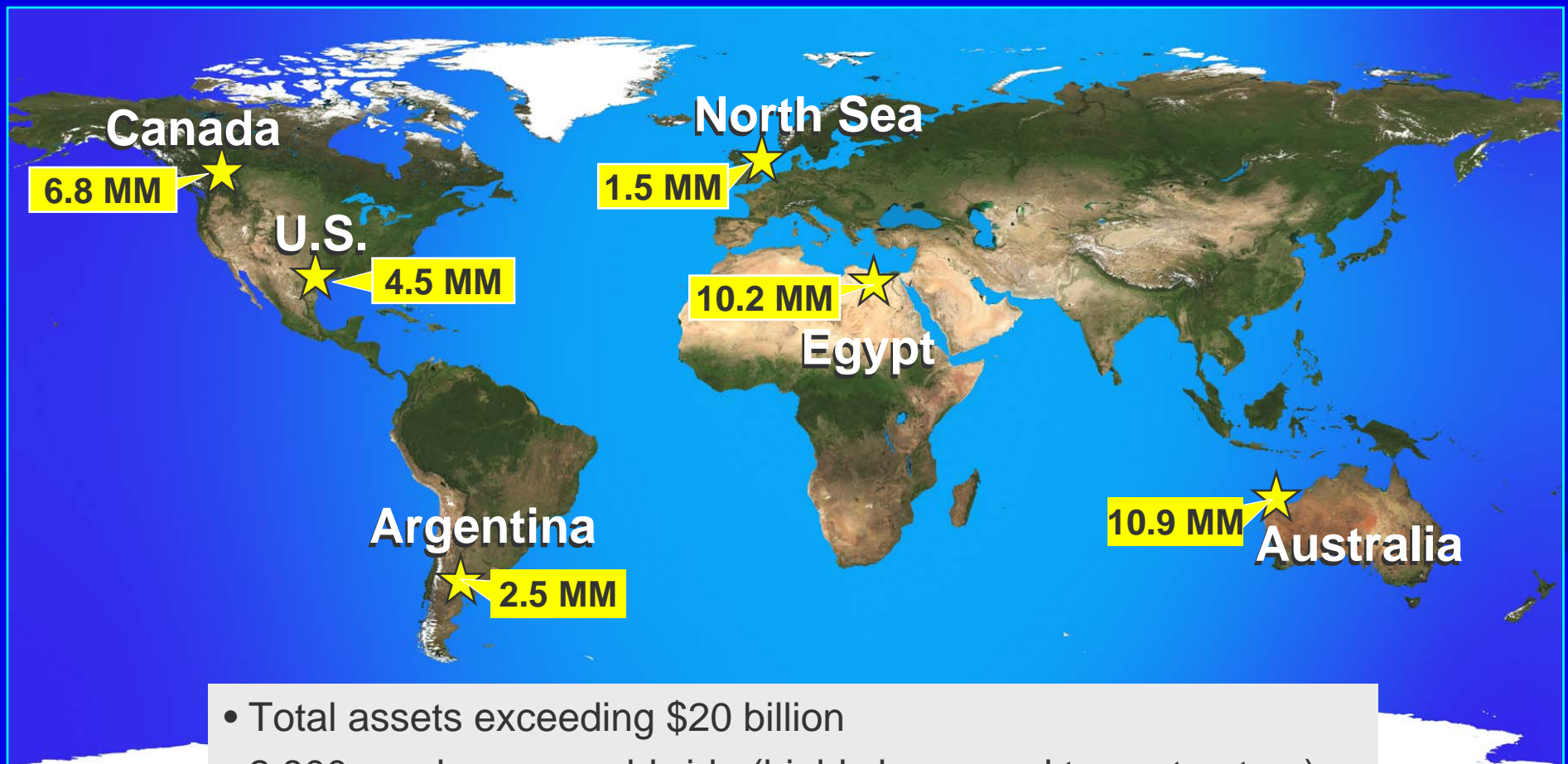
Reserves – YE 06



Total 2,313 MMboe

Extensive "Running Room"

36 MM acres worldwide in 6 countries

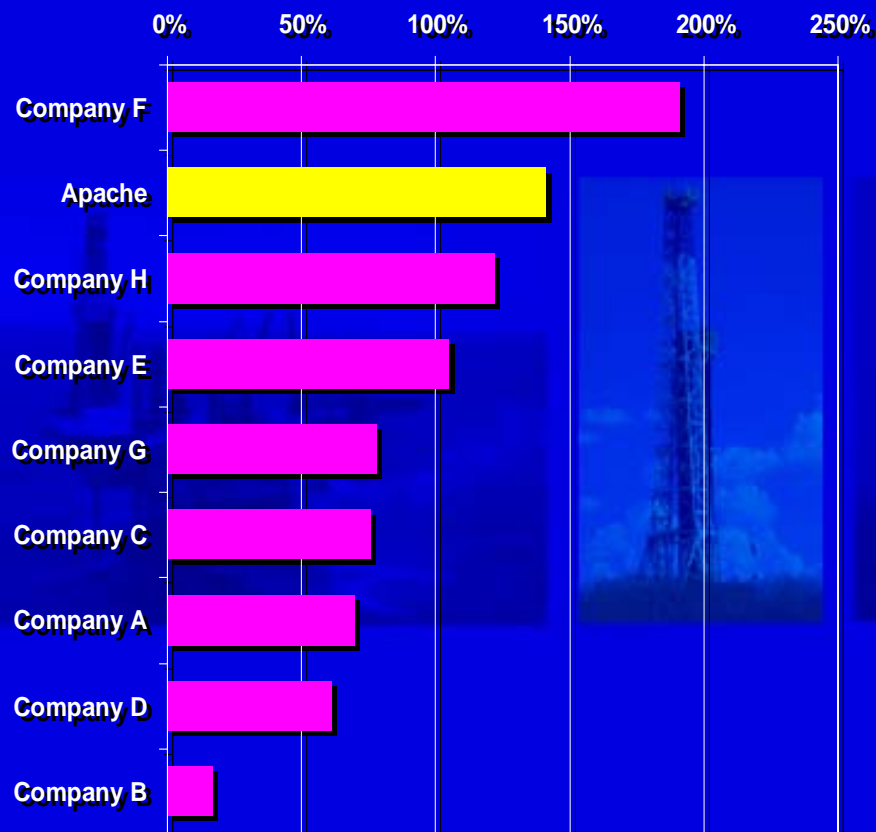


- Total assets exceeding \$20 billion
- 2,800 employees worldwide (highly leveraged to contractors)
- Goods and services spending in excess of \$5 billion per annum

Peer Group Returns and Finding Costs



Full Cycle ROI 2002-2006



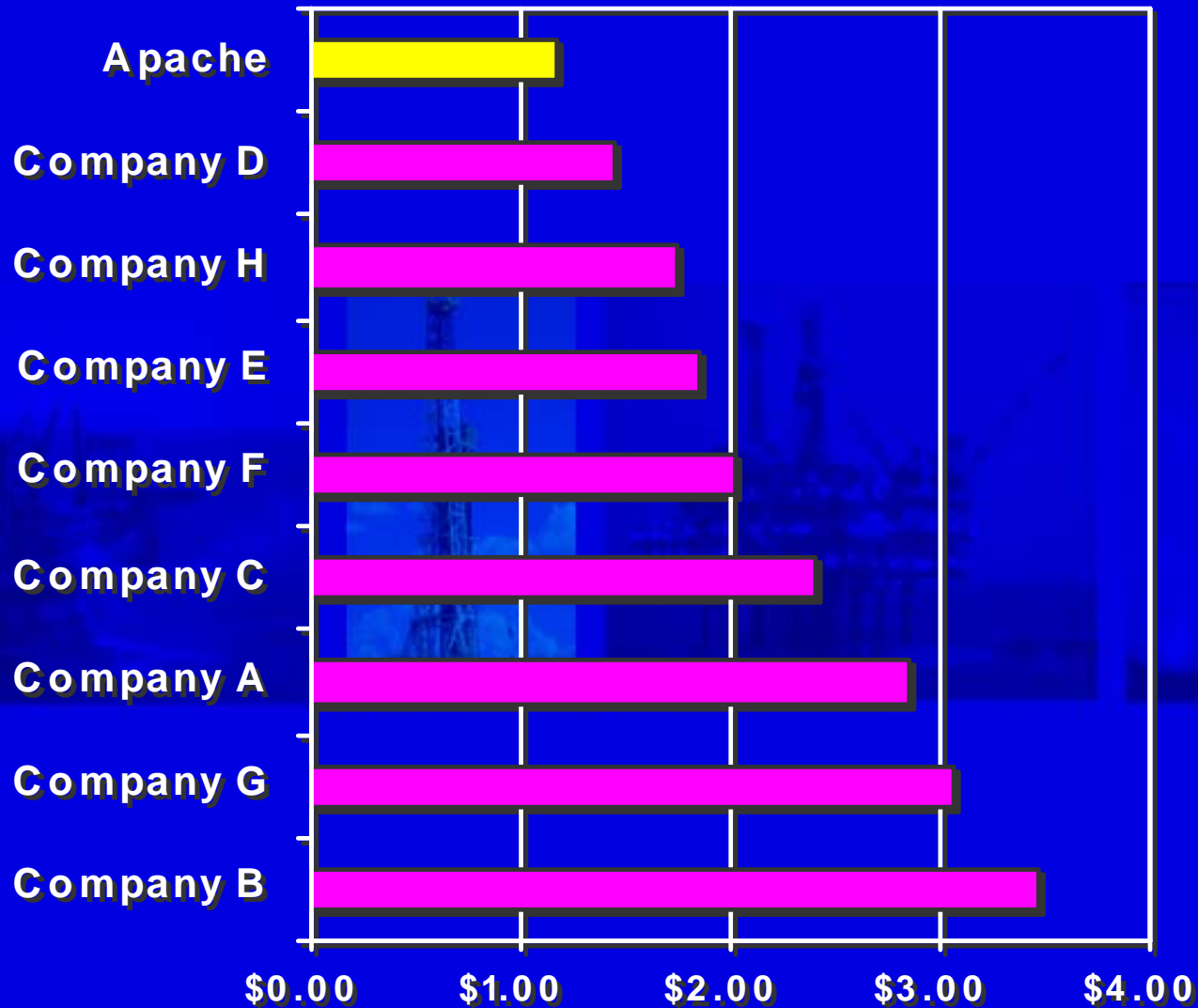
\$/BOE 2002-2006



Peer group consists of APC, CHK, DVN, EOG, NBL, NFX, PXD, XTO

Source: Bear Stearns & Co.

G&A per BOE - 2006



Peer group consists of APC, CHK, DVN, EOG, NBL, NFX, PXD, XTO

Source: Public Company Data

Building procurement with our DNA



Our company has grown through some key principles...

***Speed:** we bring barrels to market faster than anyone and we reward for best-in-class delivery*

***Nimbleness:** We use our portfolio as a hedge on commodity prices, rather than financial instruments (need ability to “toggle” business)*

***Entrepreneurship:** local delivery sets the tone; do what you need to do to “get ‘er done”*

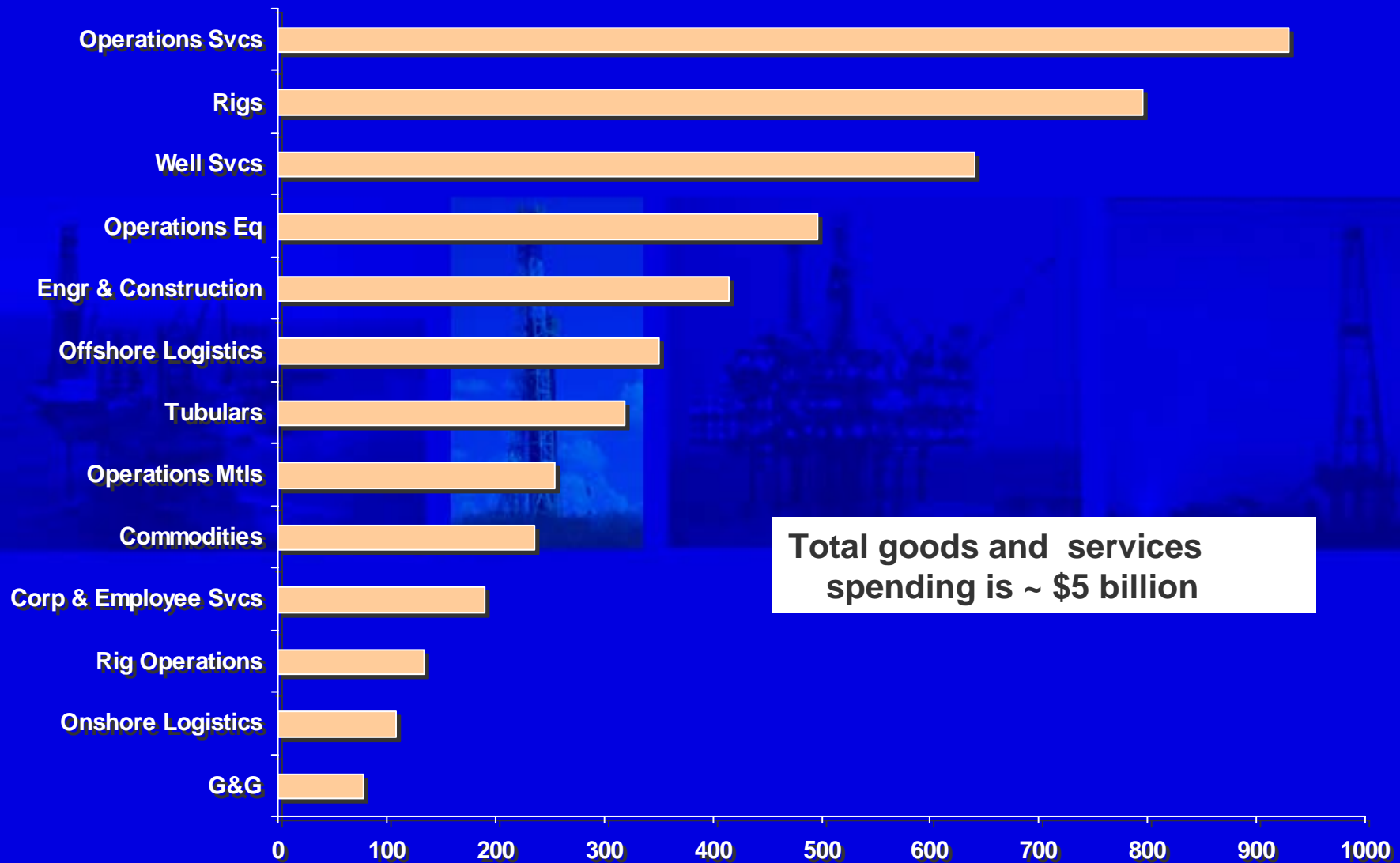
...which have implications if you want to build a sourcing effort

- *World class expeditors, pockets of sourcing efforts, lots of bidding*
- *Collaboration across regions limited or non-existent*
- *General dislike for long-term contracting*
- *Unaccustomed to exotic price protection in contracts*
- *Processes are largely local (everyone figured out way to do their work)*
- *Relationships are local and strong*

2006 Apache Spend by Category



Worldwide Spend
(US Dollars in Millions)



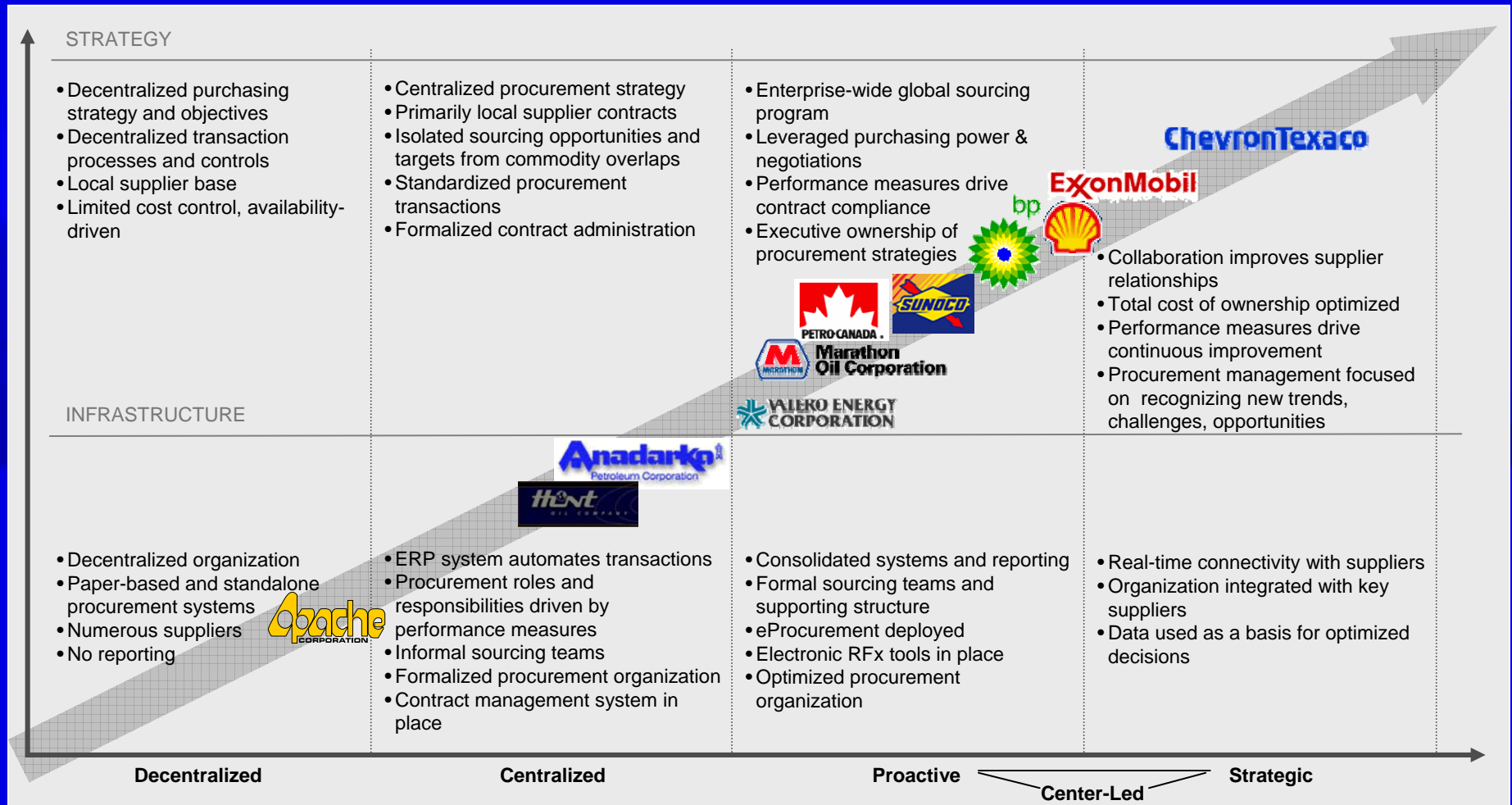
Total goods and services spending is ~ \$5 billion

**2006 Egypt data excluded due to availability.

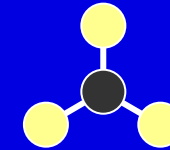
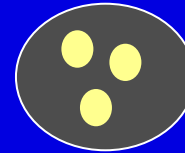
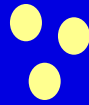
The Strategic Supply Management Continuum



The Strategic Supply Management Continuum explains the various stages of a procurement organization's progression from reactive and paper-based to strategic and collaborative.



Organizational Options and Recommendation



Decentralized

Centralized

Center - Led

Organization

- Sourcing decisions and procurement activities executed at the business or local level
- Spending rarely leveraged across sites/business units
- Procurement reports to plant/business unit manager

- Sourcing decisions and procurement activities executed at central command and control center
- Spending leveraged centrally
- Procurement reports to senior supply chain exec

- Sourcing coordinated across business units
- Spending leveraged across businesses and regions
- Procurement reports to senior supply chain or executive level

Process

- Limited or no process standardization

- Standardized processes and policies executed centrally

- Standardized processes and policies tailored and executed at local level

Knowledge

- Skills and category expertise vary by business unit or site

- Skills and category expertise controlled centrally

- Skills, category expertise coordinated across businesses and sites

Technology

- Technology decisions and usage vary by business unit or locale

- Technology decisions and deployment made at corporate level

- Technology decisions and deployment coordinated across sites

Performance

- Metrics used vary by business unit or locale

- Standard metrics used at corporate level

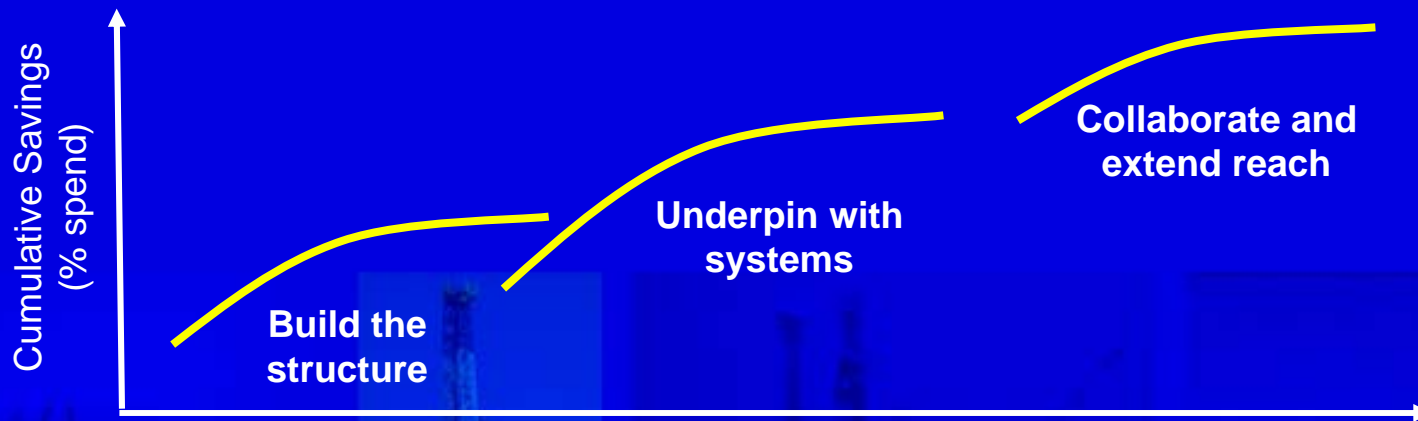
- Standard metrics used enterprise-wide, but support for local variances

Procurement Philosophy



- *Success is driven by being a low cost and efficient operator.*
 - *Apache maintains a strong “Sense of Urgency” in our business practices. Projects are initiated and completed on time and on budget. On time delivery is critical for success.*
 - *“Tough But Fair” - We believe in paying a fair price for quality materials, equipment and services we purchase. Suppliers must be competitive and qualified to perform.*
 - *We believe in competition for business based on quality products, services, and price. We generally avoid “sole source alliances” and sole source relationships that might compromise competitive pricing.*
 - *We expect quality in all products and services and expect our suppliers to stand behind all products and services.*
 - *We believe in “transparency” in all business transactions. Suppliers and employees are held to high ethical and legal standards at all times.*
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- *We believe that strategic sourcing through key suppliers will reduce costs and improve overall efficiency (e.g. we actively manage spending categories regionally and globally)*

Procurement Roadmap



2006 - 2007

2007 - 2008

2008+

Activities

- Rollout updated policy and procedures
- Monitor channel use
- Build spend database
- Implement category strategy

- Electronically enable procurement, inventory management, and contracts management (SAP)
- Build our market intelligence
- Build "role model" suppliers

- Set in place more global benefit agreements (opt-ins)
- Develop low cost sourcing strategies

Organization

- Move to center-led organizational model
- Train personnel throughout applicable regions

- Train procurement team to use SAP for primary job functions
- Plan for SAP admin support

- Shift operational resources into supplier adoption, strategic sourcing, and contract compliance roles

Key Challenges

- Change Management
- Managing and monitoring manual processes

- Change management
- Supplier adoption
- Technically matching our current processes where we can

- Resource needs and location to deliver global vs. regional buying and negotiation
- Choosing best path to certify international new supply sources

New approach to contracting

- *Strive to leverage spending globally (where applicable) for large non-specialty capital items (e.g. committed tonnage for casing, tubing, and line pipe)*
- *Develop a managed set of trusted suppliers for most non-pipe goods and services, examples include:*
 - *long term contracts and buyback agreements at the region and corporate level with key suppliers for wellheads*
 - *Regional market basket suppliers for valves, fittings, consumables*
- *Identify and exploit “value added” opportunities with motivated suppliers (e.g. combining purchase with freight, inspection, and return privileges to reduce costs)*
- *Leverage our understanding of inventory at the local levels to best utilize reconditioned and reclaimed equipment; build a common platform for reference*

Key messages for supply chain partners

- *Apache is investing at a strong pace*
- *We are very committed to building local, regional and (in some cases) global trusted supplier relationships with energized, dependable partners*
- *We welcome all innovations in goods supply and service models and are willing to push the envelop to insure quality, timely delivery in support of our business*
- *The bottom-line: we are a company highly motivated to create value and we welcome all comers with that same desire*

Key Ingredients to Apache Over 52 Years



Raymond Plank's basic tenets (founder and Chairman)

- *Values are Your Compass;*
 - *Sense of urgency*
 - *Strong work ethic*
 - *Self-respect*
 - *Open & direct*
 - *Build up rather than tear down ("not for sale")*
- *Words to live by*
 - *"Leave the world a little better than you found it"*
 - *"Take the difficult steps first"*
 - *"Beaten paths are for beaten men"*
 - *"Don't build your house to look down on others"*
 - *"Conduct yourself accordingly"*
 - *Individuals - Avoid arrogance and self-serving actions*
 - *Countries - We're the guest; they're the host*
 - *Governments – Avoid irresistible temptation to micro-manage others' affairs (honor their practices)*

