APACHE CORP
Form 10-K
March 01, 2019
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
or
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 1-4300
APACHE CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	41-0747868
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

One Post Oak Central, 2000 Post Oak Boulevard, Suite 100, Houston, Texas 77056-4400
(Address of principal executive offices)
Registrant's telephone number, including area code (713) 296-6000
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.625 par value	New York Stock Exchange, Chicago Stock Exchange and NASDAQ Global Select Market
7.75% Notes Due 2029	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: Common Stock, $0.625 par value
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [X] No [ ]
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [X]
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]
Indicate by check mark whether the registrant has submitted electronically, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ]
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [ ] Emerging growth company [ ]
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):
Yes [ ] No [X]

Aggregate market value of the voting and non-voting common equity held by non-affiliates of registrant as of June 30, 2018	$17,879,965,309
Number of shares of registrant’s common stock outstanding as of January 31, 2019	375,405,587

Documents Incorporated By Reference

Portions of registrant’s proxy statement relating to registrant’s 2019 annual meeting of stockholders have been incorporated by reference in Part II and Part III of this annual report on Form 10-K.

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DESCRIPTION

FORWARD-LOOKING STATEMENTS AND RISK

This Annual Report on Form 10-K includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical facts included or incorporated by reference in this report, including, without limitation, statements regarding our future financial position, business strategy, budgets, projected revenues, projected costs and plans, and objectives of management for future operations, are forward-looking statements. Such forward-looking statements are based on our examination of historical operating trends, the information that was used to prepare our estimate of proved reserves as of December 31, 2018, and other data in our possession or available from third parties. In addition, forward-looking statements generally can be identified by the use of forward-looking terminology such as “may,” “will,” “could,” “expect,” “intend,” “project,” “estimate,” “anticipate,” “plan,” “believe,” or “conti terminology. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to have been correct. Important factors that could cause actual results to differ materially from our expectations include, but are not limited to, our assumptions about:

- the market prices of oil, natural gas, NGLs, and other products or services;
- our commodity hedging arrangements;
- the supply and demand for oil, natural gas, NGLs, and other products or services;
- production and reserve levels;
- drilling risks;
- economic and competitive conditions;
- the availability of capital resources;
- capital expenditure and other contractual obligations;
- currency exchange rates;
- weather conditions;
- inflation rates;
- the availability of goods and services;
- legislative, regulatory, or policy changes;
- terrorism or cyber attacks;
- occurrence of property acquisitions or divestitures;
- the integration of acquisitions;
- the securities or capital markets and related risks such as general credit, liquidity, market, and interest-rate risks; and
- other factors disclosed under Items 1 and 2—Business and Properties—Estimated Proved Reserves and Future Net Cash Flows, Item 1A—Risk Factors, Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations, Item 7A—Quantitative and Qualitative Disclosures About Market Risk and elsewhere in this Form 10-K.

All subsequent written and oral forward-looking statements attributable to the Company, or persons acting on its behalf, are expressly qualified in their entirety by the cautionary statements. Except as required by law, we assume no duty to update or revise our forward-looking statements based on changes in internal estimates or expectations or otherwise.

DEFINITIONS

All defined terms under Rule 4-10(a) of Regulation S-X shall have their statutorily prescribed meanings when used in this report. As used in this document:

"3-D" means three-dimensional.
"4-D" means four-dimensional.
"b/d" means barrels of oil or natural gas liquids per day.
"bbl" or "bbls" means barrel or barrels of oil or natural gas liquids.
"bcf" means billion cubic feet of natural gas.
"boe" means barrel of oil equivalent, determined by using the ratio of one barrel of oil or NGLs to six Mcf of gas.
"boe/d" means boe per day.
"Btu" means a British thermal unit, a measure of heating value.
"Liquids" means oil and natural gas liquids.
"LNG" means liquefied natural gas.
"Mb/d" means Mbbls per day.
"Mbbls" means thousand barrels of oil or natural gas liquids.
"Mboe" means thousand boe.
"Mboe/d" means Mboe per day.
"Mcf" means thousand cubic feet of natural gas.
"Mcf/d" means Mcf per day.
"MMbbls" means million barrels of oil or natural gas liquids.
"MMboe" means million boe.
"MMBtu" means million Btu.
"MMBtu/d" means MMBtu per day.
"MMcf" means million cubic feet of natural gas.
"MMcf/d" means MMcf per day.
"NGL" or "NGLs" means natural gas liquids, which are expressed in barrels.
"NYMEX" means New York Mercantile Exchange.
"oil" includes crude oil and condensate.
"PUD" means proved undeveloped.
"SEC" means United States Securities and Exchange Commission.
"Tcf" means trillion cubic feet of natural gas.
"U.K." means United Kingdom.
"U.S." means United States.

References to "Apache," the "Company," "we," "us," and "our" include Apache Corporation and its consolidated subsidiaries unless otherwise specifically stated.

With respect to information relating to our working interest in wells or acreage, "net" oil and gas wells or acreage is determined by multiplying gross wells or acreage by our working interest therein. Unless otherwise specified, all references to wells and acres are gross.

PART I

ITEMS 1 and 2. BUSINESS AND PROPERTIES

GENERAL

Apache Corporation, a Delaware corporation formed in 1954, is an independent energy company that explores for, develops, and produces natural gas, crude oil, and natural gas liquids. Apache currently has exploration and production operations in three geographic areas: the U.S., Egypt, and offshore the U.K. in the North Sea (North Sea). Apache also has exploration interests in Suriname that may, over time, result in a reportable discovery and development opportunity.

Our common stock, par value $0.625 per share, has been listed on the New York Stock Exchange (NYSE) since 1969, on the Chicago Stock Exchange (CHX) since 1960, and on the NASDAQ Global Select Market (NASDAQ) since 2004. Through our website, www.apachecorp.com, you can access, free of charge, electronic copies of the charters of the committees of our Board of Directors, other documents related to our corporate governance (including our Code of Business Conduct and Ethics and Apache's Corporate Governance Principles), and documents we file with the SEC, including our annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, as well as any amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. Included in our annual and quarterly reports are the certifications of our principal executive officer and our principal financial officer that are required by applicable laws and regulations. Access to these electronic filings is available as soon as reasonably practicable after we file such material with, or furnish it to, the SEC. You may also request printed copies of our corporate charter, bylaws, committee charters, or other governance documents free of charge by writing to our corporate secretary at the address on the cover of this report. Our reports filed with the SEC are made available on its website at www.sec.gov. From time to time, we also post announcements, updates, and investor information on our website in addition to copies of all recent press releases. Information on our website or any other website is not incorporated by reference into, and does not constitute a part of, this Annual Report on Form 10-K.

Properties to which we refer in this document may be held by subsidiaries of Apache Corporation.

BUSINESS STRATEGY

Our VISION is to be the premier exploration and production company, contributing to global progress by helping meet the world's energy needs.

Our MISSION is to grow in an innovative, safe, environmentally responsible, and profitable manner for the long-term benefit of our stakeholders.

Our STRATEGY is to take a differentiated approach to the exploration and production of cost-advantaged hydrocarbons through innovation, technology, optimization, continuous improvement, and relentless focus on costs to deliver top-tier, long-term returns.

Rigorous management of the Company's asset portfolio plays a key role in optimizing shareholder value over the long term. Over the past several years, Apache has entered into a series of transactions that have upgraded its portfolio of assets, enhanced its capital allocation process to further optimize investment returns, and increased focus on internally generated exploration with full-cycle, returns-focused growth. These efforts included the monetization of certain non-strategic assets; including exiting operations in Canada and Australia, divesting of its interest in the Scottish Area Gas Evacuation (SAGE) system and pipeline in the North Sea, and selling other non-core leasehold and asset positions. The Company made strategic decisions to allocate the proceeds of these divestitures to more impactful development opportunities, including development of our Alpine High discovery in the Delaware Basin. We now have a diversified portfolio that features strong free cash flow generating assets in Egypt and the North Sea, which benefit from premium Brent crude oil pricing, and top-tier assets in the Permian Basin, the combination of which are the Company's foundation for returns-focused growth.

Additionally, in November 2018 the Company completed a transaction with Kayne Anderson Acquisition Corp. (KAAC) and its then wholly-owned subsidiary Altus Midstream LP (collectively, Altus) to create a publicly traded, pure-play, Permian Basin to Gulf Coast midstream C-corporation anchored by Apache's gathering, processing, and transmission assets at Alpine High. Subsequent to the transaction, KAAC was renamed to Altus Midstream Company (ALTM). This strategic transaction facilitates funding the capital intensive midstream infrastructure and enhances the allocation of Apache's capital to further development of the vast Alpine High upstream resource base, while maintaining control and a significant stake in the contributed assets.

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For a more in-depth discussion of the Company's 2018 results, divestitures, strategy, and its capital resources and liquidity, please see Part II, Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-K.

BUSINESS OVERVIEW

Subsequent to the Altus transaction, Apache management has established a new reporting segment for its Altus midstream business separate from upstream oil and gas development activities in the U.S. The following business overviews further describe the operations and activities for the Company's exploration and production properties and Altus midstream properties.

Exploration and Production Properties and Activities

Apache has exploration and production operations in three geographic areas: the U.S., Egypt, and the North Sea. Apache also has exploration interests in Suriname that may, over time, result in a reportable discovery and development opportunity.

The following table sets out a brief comparative summary of certain key 2018 data for each of Apache's operating areas. Additional data and discussion is provided in Part II, Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-K.

	Production	Percentage of Total Production		Production Revenue	Year-End Estimated Proved Reserves	Percentage of Total Estimated Proved Reserves		Gross Wells Drilled	Gross Productive Wells Drilled
	(In MMboe)			(In millions)	(In MMboe)				
United States	95.3	56	%	$ 3,279	892	72	%	335	327
Egypt[1]	54.4	32		2,748	205	17		115	99
North Sea[2]	20.3	12		1,321	137	11		10	9
Total	170.0	100	%	$ 7,348	1,234	100	%	460	435

(1) Apache's operations in Egypt, excluding a one-third noncontrolling interest, contributed 24 percent of 2018 production and accounted for 12 percent of year-end estimated proved reserves.

(2) Sales volumes from the North Sea for 2018 were 20.3 MMboe. Sales volumes may vary from production volumes as a result of the timing of liftings in the Beryl field.

United States

In 2018, Apache's U.S. operations contributed approximately 56 percent of production and 72 percent of estimated year-end proved reserves. Apache has access to significant liquid hydrocarbons across its 6.5 million gross acres in the U.S., 71 percent of which are undeveloped.

In the U.S., Apache has two onshore regions:

- The Permian region located in west Texas and New Mexico includes the Permian sub-basins: the Midland Basin, Central Basin Platform/Northwest Shelf, and Delaware Basin. Examples of shale plays within this region include the Woodford, Barnett, Pennsylvanian, Cline, Wolfcamp, Bone Spring, and Spraberry.
- The Midcontinent/Gulf Coast region includes the Granite Wash, Tonkawa, Marmaton, Cleveland, and other formations of the western Anadarko Basin, the Canyon Lime formation in the Texas panhandle, the Woodford-SCOOP and Stack plays located in central Oklahoma, and the Eagle Ford shale in east Texas.

Apache also has one offshore region in North America, the Gulf of Mexico region, which consists of both shallow and deep water exploration and production activities.

Permian Region The Permian region is one of Apache's core growth areas. Highlights of the Company's operations in the region include:

- Over 2.9 million gross acres with exposure to numerous plays focused primarily in the Midland Basin, the Central Basin Platform/Northwest Shelf, and the Delaware Basin.
- Estimated proved reserves of 770 MMboe at year-end 2018, representing 62 percent of the Company's worldwide proved reserves.

- Annual production of 210.9 Mboe/d increased 34 percent from 2017. Fourth-quarter 2018 production increased 6 percent from the prior sequential quarter and 33 percent from the fourth quarter of 2017, a reflection of the success of the Midland Basin drilling program and the continued production ramp up at Alpine High, which first came online in May 2017.
- In 2018, the Permian region averaged 17 rigs and drilled or participated in 284 wells, 238 of which were horizontal, with a 98 percent success rate.

In late 2016, Apache announced the discovery of a significant new resource play, "Alpine High." Apache's Alpine High acreage lies in the southern portion of the Delaware Basin, primarily in Reeves County, Texas. Apache has identified over 3,500 economic drilling locations in a wet gas play and over 1,000 locations in a dry gas play at Alpine High. Over the past year, the Company focused on transitioning to full-field development of the Alpine High play, optimizing spacing, patterns, and completions and building efficiencies to reduce drilling and lifting costs. During 2018, Apache drilled 100 wells at Alpine High with a 96 percent success rate, including many concept test wells drilled to verify its understanding of the play. Using data collected from strategic testing and delineation drilling, the Company is now optimizing wells drilled in Alpine High and focusing on economic rich gas development in 2019. Combined with multi-well pad drilling and revenue uplift expected from oil and NGLs present in the wet gas play, Alpine High is anticipated to generate strong cash margins and a competitive recycle ratio when compared to other Permian operations.

In addition to activity in Alpine High, the Permian region drilled or participated in 184 wells in 2018, with a 98 percent success rate.

Apache plans to continue focusing a majority of its capital activity in the Permian region during 2019, balancing capital investments between its larger development project at Alpine High and focused exploration and development programs on other core assets in its Permian region. During 2019, the Company expects to average approximately 12 drilling rigs in the Permian region, which includes five rigs at Alpine High largely focused on development drilling.

Midcontinent/Gulf Coast Region Apache's Midcontinent/Gulf Coast region includes 1.7 million gross acres and over 3,000 producing wells primarily in western Oklahoma, the Texas Panhandle and the Eagle Ford shale in east Texas. In 2018, the region accounted for 10 percent of the Company's production and approximately 9 percent of the Company's year-end estimated proved reserves.

In 2018, Apache drilled 15 operated wells running a targeted program in the Woodford-SCOOP play and the Canyon Lime formation, which were all productive. In 2019, the region will continue its focus on high-grading acreage, building its inventory of future drilling locations, and pursuing potential divestiture opportunities for non-core positions.

Gulf of Mexico Region The Gulf of Mexico region comprises assets in the offshore waters of the Gulf of Mexico and onshore Louisiana. In addition to its interest in several deepwater exploration and development offshore leases, when the Company sold in 2013 substantially all of its offshore assets in water depths less than 1,000 feet, it retained a 50 percent ownership interest in all exploration blocks and in horizons below production in development blocks, and access to existing infrastructure. Apache's offshore technical teams continue to focus on evaluating subsalt and other deeper exploration opportunities in water depths less than 1,000 feet, which have been relatively untested by the industry, where high-potential deep hydrocarbon plays may exist. During 2018, Apache's Gulf of Mexico region participated in 4 non-operated exploratory wells with an average 26 percent working interest, of which three were successful. The region contributed 5.1 Mboe/d to the Company's total production for the year.

U.S. Marketing In general, most of the Company's U.S. natural gas production is sold at either monthly or daily index-based prices. The tenor of the Company's sales contracts span from daily to multi-year transactions. Natural gas is sold to a variety of customers that include local distribution, utility, and midstream companies as well as end-users, marketers, and integrated major oil companies. Apache strives to maintain a diverse client portfolio, which is intended to reduce the concentration of credit risk. Beginning in 2017, Apache began selling gas that was consumed in Mexico and to LNG export facilities in the U.S.

Apache primarily markets its U.S. crude oil production to integrated major oil companies, marketing and transportation companies, and refiners based on a West Texas Intermediate (WTI) price or other regional pricing indices (e.g. LLS, WTS, or Midland), adjusted for quality, transportation, and a market-reflective differential.

Apache's objective is to maximize the value of crude oil sold by identifying the best markets and most economical transportation routes available to move the product. Sales contracts are generally 30-day evergreen contracts that renew automatically until canceled by either party. These contracts provide for sales that are priced daily at prevailing market prices. Also, from time to time, the Company will enter into physical term sales contracts. These term contracts typically have a firm transportation commitment and often provide for the higher of prevailing market prices from multiple market hubs.

Apache's U.S. NGL production is sold under contracts with prices based on local supply and demand conditions, less the costs for transportation and fractionation, or on a weighted-average sales price received by the purchaser.
Apache has contracted takeaway capacity (through a combination of volume commitments and acreage/plant dedications) in the Permian Basin on the following third-party pipelines that are currently under construction and expected to be in operation in 2019 and 2020 as further described under "Altus: Midstream Properties and Activities" below:

(i) 550,000 dekatherms per day of residue gas for a 10-year term on the Gulf Coast Express Pipeline;

(ii