

Registration number: 4614761

# Apache North Sea Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2020

# **Apache North Sea Limited**

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## **Apache North Sea Limited**

### **Company Information**

<b>Directors</b>	J W Sauer S Greig T R Custer K H Neupert B C Rodgers R M Littlewood
<b>Company secretary</b>	Cargil Management Services Limited
<b>Registered office</b>	27/28 Eastcastle Street London W1W 8DH United Kingdom
<b>Bankers</b>	Citibank N.A. Canada Square Canary Wharf London E14 5LB
<b>Auditors</b>	Ernst & Young LLP 4th Floor 2 Marischal Square Broad Street Aberdeen AB10 1BL

## **Apache North Sea Limited**

### **Strategic Report for the Year Ended 31 December 2020**

The directors present their strategic report for the year ended 31 December 2020.

#### **Fair review of the business**

Apache Corporation entered the North Sea in 2003 after acquiring an approximate 97 percent working interest in the Forties field. Since acquiring Forties, Apache Corporation has actively invested in the assets and has established a large inventory of drilling prospects through successful exploration programs and the interpretation of 4-D seismic data. Apache Corporation also has a non-operated interest in the Nelson field acquired in 2011. The North Sea assets play a strategic role in Apache Corporation's portfolio by providing competitive investment opportunities and potential reserve upside with high-impact exploration potential near existing infrastructure.

Apache North Sea Limited ("Apache"), averaged 1 rig in 2020, drilling 1 platform development well and completing 11 well workovers in the Forties field. Apache averaged production of 10.1 million barrels of oil equivalent generating \$433 million of revenue. Production decreased 7% from 2019, primarily due to natural field decline but this was slightly offset by a 2% increase in operating efficiency during 2020.

The results for 2020 reflect a reduction in capital costs incurred by 12% compared to the prior year in response to lower realised commodity prices. Apache's crude oil production is sold under term, entitlement volume contracts with a market based index price plus a differential to capture the higher market value under this type of arrangement. Crude oil market prices fluctuate in response to many factors that are outside of Apache's control. Average realized crude prices for 2020 were down 35% compared to 2019, a direct result of the decreasing benchmark oil prices over the past year resulting from the COVID-19 pandemic and related third-party actions. Crude oil prices realized in 2020 averaged \$42.63 per barrel.

During 2020, Apache added approximately 2.3 MMBOE from drilling success in the Forties field. However, given the crude oil price collapse due to the global pandemic, Apache assessed its oil and gas property for impairment based on the net book value of its assets as of 31 December, 2020. Proved oil and gas property impairments totalling \$7 million were recognised, bringing the assets to their estimated fair values as a result of lower forecasted commodity prices, changes to planned development activity, and increasing market uncertainty.

The company has considered all new and amended International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) that are mandatorily effective for the year ending 31 December 2020. There were no changes affecting the company during the year to 31 December 2020.

Apache Corporation continues to prudently manage its capital program against a volatile price environment and the prolonged effects of the COVID-19 pandemic. In response to the current crises, Apache's immediate course of action has been to actively reduce its cost structure, protect its balance sheet, and manage operations to preserve cash flow. Apache Corporation plans to maintain a conservative investment approach into 2021 with an expected capital program remaining relatively unchanged to the prior year with plans to invest \$44M, assuming Brent pricing of approximately \$50 per barrel. One platform rig in the North Sea will run between Forties and Beryl Assets (owned by Apache Beryl I Limited) and one semi-submersible rig will be split between Forties and Beryl.

On January 4, 2021, Apache Corporation announced that its Board of Directors were authorized to proceed with the implementation of a holding company reorganization, in connection with which, Apache created APA Corporation, a new holding company (APA). Upon completion of the holding company reorganization, Apache Corporation will be a wholly-owned subsidiary of APA, and APA Corporation will be the ultimate parent company of Apache North Sea Limited. The Holding Company Reorganization was completed during the first quarter of 2021.

## Apache North Sea Limited

### Strategic Report for the Year Ended 31 December 2020 (continued)

The company's key financial and other performance indicators during the year were as follows:

	Unit	2020	2019
Production Revenue	\$million	433.00	721.00
Capital expenditure	\$million	65.00	74.00
Average Crude Oil Price	\$	42.63	65.94
Average Lease Operating expense *	\$/boe	19.22	17.81

\* Lease Operating Expense (direct operating costs, repair & maintenance and workover costs)

On 31 December, 2020 Apache had 0 employees. All employees were employed through another group company.

#### *Non Financial KPIs*

##### *Environment, Health and Safety management*

	2020	2019
Discharges to the environment		
- Oil to Sea (tonnes)	226	198
Number of lost time incidents	3	-

	2020	2019
<i>Operational Success:</i>		
Annual production (mmboe)	10	11
Reserves (decrease)/ increase (%)	(18)	(5)

Apache operates an integrated Environmental and Energy Management System (management system). The management system establishes the methodology for managing Apache's environmental and energy performance, ensuring compliance with environmental and energy legislation, fulfilling policy commitments and continuously improving environmental performance. The management system specifies the structure, responsibilities, practices, procedures and resources for meeting these commitments. The management system is certified to the International Standard Organisation (ISO) ISO140001:2015 and ISO50001:2018.

Apache will implement a greenhouse gas (GHG) management system with a view to achieving the ISO 14064 certification in 2022 to manage the Net Zero Emissions Regulations.

## **Apache North Sea Limited**

### **Strategic Report for the Year Ended 31 December 2020 (continued)**

#### **Principal risks and uncertainties**

The COVID-19 pandemic and the actions taken by third parties, including, but not limited to, governmental authorities, businesses, and consumers, in response to the pandemic have adversely impacted the global economy and created significant volatility in the global financial markets. Business closures, restrictions on travel, “stay-at-home” or “shelter-in-place” orders, and other restrictions on movement within and among communities have significantly reduced demand for and the prices of oil, natural gas, and NGLs. A continued prolonged period of such reduced demand, may materially adversely affect Apache’s business, financial condition, cash flows, and results of operations.

The unprecedented nature of the current situation resulting from the COVID-19 pandemic makes it impossible for the Company to identify all potential risks related to the pandemic or estimate the ultimate adverse impact that the pandemic may have on its business, financial condition, cash flows, or results of operations.

In addition, our business activities continue to be subject to risks or uncertainties that impact the ability to maximize economic recovery. The volatility and prolonged low price of oil, decreasing reserve size opportunities and capital constraints translates into further challenges to transform discovery opportunities into viable commercial developments. Other risks and uncertainties include:

- Ability to sell crude oil may be adversely affected by pipeline capacity constraints and various transportation interruptions
- Uncertainty and economic instability due to UK’s withdrawal from the European Union may have a significant long-term effect on operating results
- Harsh operating conditions in the UKCS and high degree of operational risk
- Financial capability of ultimate Parent Company and ability to access capital
- Discontinuation and uncertain cessation date of LIBOR and the adoption of an alternative reference rate may impact financing costs
- Discoveries or acquisitions of additional reserves are needed to avoid a material decline in reserves and production
- Negative public perception regarding Apache and/or our industry could have an adverse effect on our operations
- Changes in Tax rules and regulations
- Sensitivity to currency rate fluctuations
- Costs associated with the relative maturity of the basin
- Changes to existing regulations related to emissions could adversely impact the business
- Cyber-attacks targeting systems and infrastructure used by the oil and gas industry

## **Apache North Sea Limited**

### **Strategic Report for the Year Ended 31 December 2020 (continued)**

#### **Section 172(1) statement**

This section of the Strategic Report describes how the directors of the Company have had regard to the matters set out in section 172 (1), and forms the directors' statement required under section 414CZA, of the Companies Act 2006.

Apache adopts a code of business conduct and ethics for the directors and employees of the company. Every employee and Director receives training on this code of Business Conduct and Ethics at regular intervals and must recertify compliance annually. The code can be accessed on the Governance page of APA Corporation's website [www.APAcorp.com](http://www.APAcorp.com)

The directors have performed their duties and acted in a way that they considered, in good faith, to be most likely to promote the success of the Company, and effectively engaged with and encouraged participation from the Company's stakeholders under Section 172-(1) (a) to (f). In doing so, the Directors have regard, amongst other matters, to:

The likely consequences of any decision in the long term

The global economy and the energy industry have been deeply impacted by the effects of the COVID-19 pandemic and related third-party actions. Uncertainty in the oil markets and the negative demand implications from the COVID-19 pandemic continue to impact oil supply and demand. As with previous changes in a volatile price environment, Apache has continued to respond quickly and decisively, taking the following actions:

- Establishing and implementing a wide range of fit-for-purpose protocols and procedures to ensure a safe and productive work environment across the Company's diversified global onshore and offshore operations.
- Reducing capital investment by limiting planned activity.
- Completing an organizational redesign focused on centralizing certain operational activities in an effort to capture greater efficiencies and cost savings.

## **Apache North Sea Limited**

### **Strategic Report for the Year Ended 31 December 2020 (continued)**

Apache's mission is to grow in an innovative, safe, environmentally responsible, and profitable manner for the long-term benefit of its stakeholders. Apache is focused on rigorous portfolio management, disciplined financial structure, and optimization of returns.

The Company is committed to the health and safety of our coworkers, minimising our environmental impacts supporting our communities and building a culture of integrity, accountability and transparency.

The health and safety of our employees, contractors and communities is not negotiable and will not be compromised. Safety underpins our Core Values and is at the forefront of decision-making at every level of the Apache organization.

Apache Corporation has a sophisticated, companywide system for Environment, Health and Safety (EH&S) incident reporting and response. Incidents are recorded and tracked in the incident reporting and management software system. Each incident is actively managed through to resolution of the event, to assess and mitigate impacts, determine causal factors and report externally as needed. We ask our contractors to instil Apache's core values of safety and environmental responsibility in their own organizations, and we require contractors to demonstrate that they have effective safety management systems in place.

Protecting the environment is part of the mission and core values that guide Apache's daily work. We continue to reduce environmental impacts at all stages of our operations through the thoughtful evaluation and implementation of new technologies, practices and procedures that not only reduce impacts but often reduce operating costs as well. We are working to decrease operational process-related GHG emissions and energy use by optimizing the efficiency of our operations. For example, in the Forties field, we are using rig-based drill cutting treatment and processing facilities on the platform which negates the need to return materials to shore for treatment and disposal. This process reduces environmental impacts as well as the potential for safety incidents associated with transport.

Apache's rigorous management systems, corporate goals and compensation metrics further support a focus and relentless pursuit of continuous improvement on Environmental, Social and Governance (ESG) issues with a focus on air, water, people and communities.

- For air-related issues, we intend to be at the forefront of the industry's efforts to measure, disclose and mitigate emissions.
- For water related issues, we are focused on preserving freshwater resources and leveraging technology to maximise water reuse via our industry-leading produced water recycling program.
- With regard to people and communities, we are focused on being welcomed in our local area, providing jobs for local populations and enabling community input.

Full sustainability report is available on the Sustainability page of APA Corporation's website [www.apacorp.com/sustainability](http://www.apacorp.com/sustainability).

#### **Engagement with employees**

Apache North Sea Limited does not have any employees as these are contracted through Apache North Sea Production Limited who acts as a service company on behalf of Apache North Sea Limited and Apache Beryl I Limited. The engagement of these employees is addressed in the Statutory Accounts of Apache North Sea Production Limited.



## **Apache North Sea Limited**

### **Strategic Report for the Year Ended 31 December 2020 (continued)**

#### **Engagement with suppliers, customers and other relationships**

The Company transacts with many approved suppliers, covering service companies working directly with Apache and personal service companies contracted through Apache's approved employment agencies. All have agreed contract payment terms as reported in the bi-annual Payment Performance Practices review. Engagement can be illustrated as follows;

- Contractor vetting process – Comprehensive contractor management process addresses the full lifecycle of vendor engagement from selection and evaluation through to monitoring and post-contract review. This includes contractor engagement meetings and ongoing contractor assessments
- SEQual – Apache in partnership with other North Sea Operators developed a new supplier assessment scheme for the Oil & Gas Industry
- ARIBA – In 2020 Apache on-boarded over 1000 suppliers to the ARIBA Procurement to Pay System, facilitating efficient electronic purchasing and invoicing.
- Brexit – To ensure a smooth transition post Brexit, Apache worked closely with its key suppliers and actively participated in industry led initiatives.
- Industry Workgroups – Apache continues to play an active part in many O&G UK and OGA initiatives, Brexit, Continuous Improvement Network, Legal issues forum, ASTG
- Contract Management Provider – Work has commenced on a new Master Service Provider (MSP) and Vendor Management System (VMS) to cover the US and UK contingent labour requirements enhancing the process for both contractors and labour providers.
- Local community outreach and philanthropy

The need to foster the Company's business relationships with customers is delegated by the Directors to a dedicated centralised Marketing Group within Apache Corporation.

The Company holds regular Technical Committee and Operating Committee meetings with Joint Venture Partners in order to share information in line with Joint Venture Operating Agreements.

## **Apache North Sea Limited**

### **Strategic Report for the Year Ended 31 December 2020 (continued)**

#### ***Financial risk management***

##### ***Cash flow risk, credit risk and liquidity risk***

###### **Cash Flow Risk**

The key cash flow risks are foreign exchange rates and commodity prices. Crude oil and natural gas price volatility, affect both revenue and direct cost. Fluctuations in commodity prices impact operating cost elements both directly and indirectly. They directly impact costs such as power, fuel and chemicals, which are commodity price based. Commodity prices also affect industry activity and demand, thus indirectly impacting the cost of items such as rig rates, labour, boats, helicopters, materials and supplies. Prices have historically been very volatile because of unpredictable events such as economic growth or retraction, weather, political climate, and global supply and demand. These factors have been heightened as a result of the continuing negative demand implications of the COVID-19 pandemic. Apache continually monitors its market risk exposure, including the impact and developments related to the COVID-19 pandemic, which introduced significant volatility in the financial markets subsequent to the year ended December 31, 2019.

Our operations are sensitive to fluctuations in foreign currency exchange rates particularly between the US dollar and the British pound. The vast majority of Apache's revenue is US dollar denominated while the majority of costs are British pound driven. A stronger British pound will drive relative costs up but do not have an equivalent impact on revenues - thus reducing margins.

###### **Credit risk**

The principal financial assets are cash, trade receivables and intercompany loans payable to Apache from direct or indirect subsidiaries of Apache Corporation.

Apache is exposed to risk of financial loss from trade, joint venture, joint interest billing and other receivables. The credit risk is primarily attributable to trade receivables which relate to sales of crude oil and natural gas. The creditworthiness of any potential customer is reviewed and in some cases the relevant counterparty is required to post a letter of credit or provide other financial assurance.

In March 2018, Apache Corporation and certain affiliates entered into a revolving credit facility with commitments totalling \$4.0 billion. In March 2019, the terms of this facility was extended by one year to March 2024 (subject to Apache Corporation's remaining one-year extension option) pursuant to Apache's exercise of an extension option. The Company can increase commitments up to \$5.0 billion by adding new lenders or obtaining the consent of any increasing existing lenders. The facility includes a letter of credit sub-facility of up to \$3.0 billion, of which \$2.08 billion was committed as of 31 December 2020. The facility is for general corporate purposes. Letters of credit are available for security needs, including in respect of North Sea decommissioning obligations. As of December 31, 2020, there were \$150 million of borrowings and an aggregate £633 million and \$40 million in letters of credit outstanding in total under this corporate facility. As of December 31, 2019, there were no borrowings or letters of credit outstanding under this facility. The £633 million in outstanding letters of credit were issued to support North Sea decommissioning obligations, the terms of which required such support after Standard & Poor's reduced the Company's credit rating from BBB to BB+ on March 26, 2020.

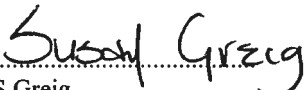
###### **Liquidity risk**

Apache has no third party debt. The level of current assets is such that it does not have any reliance on intercompany funding for day-to-day operations.

**Apache North Sea Limited**

**Strategic Report for the Year Ended 31 December 2020 (continued)**

Approved by the Board on 28 September 2021 and signed on its behalf by:

  
.....  
S Greig  
Director

## **Apache North Sea Limited**

### **Directors' Report for the Year Ended 31 December 2020**

The directors present their report and the financial statements for the year ended 31 December 2020.

#### **Directors of the company**

The directors who were appointed to, resigned from, or served in office during the year were as follows:

G L Ables (resigned 1 April 2020)

J A Graham (resigned 1 April 2020)

J W Sauer

S Greig (appointed 1 April 2020)

R J J Chelte (appointed 1 April 2020 and resigned 17 May 2021)

T R Custer

K H Neupert (appointed 1 April 2020)

B C Rodgers

The following director was appointed after the year end:

R M Littlewood (appointed 17 May 2021)

#### **Going concern**

The company's business activities, together with the factors likely to affect its future development and performance, are set out in the Strategic Report on pages 2 to 9. The Strategic Report also considers financial risk management such as cash flow risk, credit risk and liquidity risk on page 8.

The financial statements have been prepared under the going concern basis and the directors have reviewed the going concern period to 30 September 2022. The company has considerable proved reserves within the Forties field and in its assessment has taken account of the three year plan for the Forties field along with other developments that are in progress. The company is able to demonstrate that it is in the position of being able to fund future development and operating costs out of cash flow generated from its operations for a full range of commodity prices and that it is not reliant on its operating parent undertaking, Apache Corporation, to provide funding in the near term. If Apache North Sea Limited were in a position to require funding, the company may be dependent on the financial support of its parent or other group undertakings.

The directors have considered the liquidity and solvency of Apache Corporation and based on this assessment they believe the company will be able to continue in operational existence for the foreseeable future given the support provided by their operating parent company, Apache Corporation. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

#### **Dividends**

The directors do not recommend a dividend.

#### **Political donations**

The company made no political donations during the year ended 31 December 2020.

## **Apache North Sea Limited**

### **Directors' Report for the Year Ended 31 December 2020 (continued)**

#### **Disclosure of information to the auditors**

The directors who were members of the board at the time of approving the directors' report are listed on page 1. Having made enquiries of fellow directors and of the company's auditors, each of these directors confirms that:

- to the best of each director's knowledge and belief, there is no information (that is, information needed by the company's auditors in connection with preparing their report) of which the company's auditors are unaware; and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information.

#### **Environmental report**

We have considered the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) when preparing this report. These recommendations encourage businesses to increase disclosure of climate-related information, with an emphasis on financial disclosure. Apache North Sea Limited supports these recommendations and are committed to disclosing the relevant information which can be found below.

#### **Governance**

Please refer to page 6 of the Strategic Report for further information on processes adopted to reduce environmental impacts.

Please refer to Section 172(1) statement within the Strategic Report for more information on Apache's mission and core values with regards to environmental impacts.

## Apache North Sea Limited

### Directors' Report for the Year Ended 31 December 2020 (continued)

#### Emissions and energy consumption

##### Data Records and Methodology

The EU Emission Trading Scheme (ETS) Monitoring and Reporting Regulation (MRR) has been followed for the data records and carbon dioxide (CO<sub>2</sub>) calculation methodology. The calculation methodology for the remaining greenhouse gases is described in the OPRED (Offshore Petroleum Regulator for Environment and Decommissioning) Environmental Emissions Monitoring System (EEMS).

Summary of scope 1 (direct) greenhouse gas emissions for the year ended 31 December 2020:

	2020	2019
Scope 1 : Direct GHG emissions (tCO <sub>2</sub> e)	<u>374,936</u>	<u>393,114</u>

Summary of scope 2 (indirect) greenhouse gas emissions for the year ended 31 December 2020:

	2020	2019
Scope 2 : Indirect GHG emissions (tCO <sub>2</sub> e)	<u>-</u>	<u>-</u>

Summary of scope 3 (other indirect) greenhouse gas emissions for the year ended 31 December 2020:

	2020	2019
Flaring (GJ)	<u>1</u>	<u>2</u>

Summary of energy consumption for the year ended 31 December 2020:

	2020	2019
Energy Consumption (MWh)	<u>1,124,334</u>	<u>1,080,225</u>

#### Intensity ratio

During the year ended 31 December 2020 the intensity ratio (kg CO<sub>2</sub>/boe) was 35.80% (2019 - 39.40%).

## **Apache North Sea Limited**

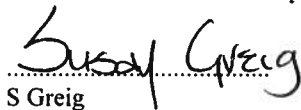
### **Directors' Report for the Year Ended 31 December 2020 (continued)**

#### **Reappointment of auditors**

In accordance with section 485 of the Companies Act 2006, a resolution for the re-appointment of Ernst & Young LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

The Directors have taken advantage of section 414C(11) to disclose in the Strategic Report certain information otherwise required to be disclosed in the Directors Report

Approved by the Board on 28 September 2021 and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'S Greig', is written over a horizontal dotted line.

S Greig  
Director

## **Apache North Sea Limited**

### **Statement of Directors' Responsibilities**

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework' (FRS 101). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis, unless they consider that to be inappropriate.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



## **Apache North Sea Limited**

### **Independent Auditor's Report to the Members of Apache North Sea Limited**

#### **Opinion**

We have audited the financial statements of Apache North Sea Limited (the "company") for the year ended 31 December 2020, which comprise the Statement of Profit or Loss, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, and the related notes 1 to 26, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Conclusions relating to going concern**

In auditing the financial statements, we have concluded that the director's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern until 30 September 2022.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

#### **Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

## **Apache North Sea Limited**

### **Independent Auditor's Report to the Members of Apache North Sea Limited (continued)**

#### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

#### **Matters on which we are required to report by exception**

In the light of our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

#### **Responsibilities of directors**

As explained more fully in the Statement of Directors' Responsibilities set out on page 14, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

#### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

#### **Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud**

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

## Apache North Sea Limited

### Independent Auditor's Report to the Members of Apache North Sea Limited (continued)

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are those that relate to the reporting framework (FRS 101 and the Companies Act 2006) and the relevant direct and indirect tax compliance regulation in the United Kingdom. In addition, the Company has to comply with laws and regulations relating to its operations, including health and safety, employees, GDPR and anti-bribery and corruption.
- We understood how the company is complying with those frameworks by making enquires of management to understand how the Company maintains and communicates its policies and procedures in these areas and corroborated this by reviewing supporting documentation.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by considering the risk of management override and by assuming revenue to be a fraud risk.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved enquiry with management and considering whether any events or conditions during the audit might have indicated non-compliance with laws and regulations. Our procedures on journal entries testing included a focus on journals meeting our defined risk criteria including those posted by those charged with governance, based on our understanding of the business and enquiry with management. Where instances of higher risk journals were identified, we performed additional audit procedures to address each identified risk. These procedures included testing transactions back to source information. We incorporated unpredictability into our testing of manual journals and into our testing of revenue recognition.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

#### Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

.....  
Gemma Noble (Senior Statutory Auditor)  
For and on behalf of Ernst & Young LLP, Statutory Auditor  
Aberdeen

29 September 2021  
Date:.....

# Apache North Sea Limited

## Statement of Profit or Loss for the Year Ended 31 December 2020

	Note	2020 \$ 000	2019 \$ 000
Revenue	4	432,526	721,416
Cost of sales		<u>(430,180)</u>	<u>(418,459)</u>
<b>Gross profit</b>		<b>2,346</b>	<b>302,957</b>
Administrative expenses		<u>(18,155)</u>	<u>(16,004)</u>
<b>Operating (loss)/profit</b>	<b>5</b>	<b><u>(15,809)</u></b>	<b><u>286,953</u></b>
Finance income	9	18,431	38,993
Finance costs	10	<u>(72,534)</u>	<u>(85,138)</u>
		<u>(54,103)</u>	<u>(46,145)</u>
<b>(Loss)/profit on ordinary activities before tax</b>		<b>(69,912)</b>	<b>240,808</b>
Tax charge on (loss)/profit on ordinary activities	11	<u>(11,700)</u>	<u>(84,900)</u>
<b>(Loss)/profit for the year</b>		<b><u>(81,612)</u></b>	<b><u>155,908</u></b>

The above results were derived from continuing operations.

The notes on pages 22 to 50 form an integral part of these financial statements.

# Apache North Sea Limited

## Statement of Comprehensive Income for the Year Ended 31 December 2020

	Note	2020 \$ 000	2019 \$ 000
(Loss)/profit for the year		(81,612)	155,908
<b>Items that will not be reclassified subsequently to profit or loss</b>			
Remeasurements of post employment benefit obligations (net)	22	<u>(2,353)</u>	<u>2,831</u>
<b>Total comprehensive (loss)/income for the year</b>		<u><b>(83,965)</b></u>	<u><b>158,739</b></u>

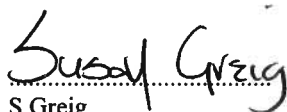
# Apache North Sea Limited

(Registration number: 4614761)

## Statement of Financial Position as at 31 December 2020

	Note	2020 \$ 000	2019 \$ 000
<b>Non-current assets</b>			
Intangible assets	12	7,959	1,223
Property, plant and equipment	14	1,041,236	1,097,117
Retirement benefit obligations	22	17,130	17,336
Right of use assets	13	73,462	97,702
		<u>1,139,787</u>	<u>1,213,378</u>
<b>Current assets</b>			
Inventory	16	61,669	54,342
Trade and other receivables	17	1,363,010	1,159,021
Cash and cash equivalents		529	41,244
		<u>1,425,208</u>	<u>1,254,607</u>
<b>Creditors: Amounts falling due within one year</b>			
Trade and other payables	18	(845,676)	(714,882)
Current portion of long term lease liabilities	21	(35,772)	(41,830)
Creditors: Amounts falling due within one year		<u>(881,448)</u>	<u>(756,712)</u>
<b>Net current assets</b>		<u>543,760</u>	<u>497,895</u>
<b>Total assets less current liabilities</b>		<u>1,683,547</u>	<u>1,711,273</u>
Provisions	19	(675,810)	(584,360)
Deferred tax liabilities	11	(169,739)	(184,146)
Long term lease liabilities	21	(40,300)	(61,104)
<b>Non-current liabilities</b>		<u>(885,849)</u>	<u>(829,610)</u>
<b>Net assets</b>		<u>797,698</u>	<u>881,663</u>
<b>Capital and reserves</b>			
Called up share capital	20	181,918	181,918
Share premium reserve		34,221	34,221
Retained earnings		581,559	665,524
<b>Total shareholders' funds</b>		<u>797,698</u>	<u>881,663</u>

Approved by the Board on 28 September 2021 and signed on its behalf by:



S Greig  
Director

The notes on pages 22 to 50 form an integral part of these financial statements.

# Apache North Sea Limited

## Statement of Changes in Equity for the Year Ended 31 December 2020

	Share capital \$ 000	Share premium \$ 000	Retained earnings \$ 000	Total \$ 000
At 1 January 2020	181,918	34,221	665,524	881,663
Loss for the year	-	-	(81,612)	(81,612)
Other comprehensive income	-	-	(2,353)	(2,353)
Total comprehensive income	-	-	(83,965)	(83,965)
At 31 December 2020	181,918	34,221	581,559	797,698

	Share capital \$ 000	Share premium \$ 000	Retained earnings \$ 000	Total \$ 000
At 1 January 2019	181,918	34,221	506,785	722,924
Profit for the year	-	-	155,908	155,908
Other comprehensive income	-	-	2,831	2,831
Total comprehensive income	-	-	158,739	158,739
At 31 December 2019	181,918	34,221	665,524	881,663

The notes on pages 22 to 50 form an integral part of these financial statements.  
Page 21

# **Apache North Sea Limited**

## **Notes to the Financial Statements for the Year Ended 31 December 2020**

### **1 General information**

Apache North Sea Limited ("the company") is a private company limited by share capital incorporated in the United Kingdom and domiciled in Scotland. The registered address of the company is 27/28 Eastcastle Street, London W1W 8DH. The company's principal activity is the appraisal, development and production of crude oil and natural gas in the North Sea.

These financial statements were authorised for issue by the Board on 28 September 2021.

### **2 Accounting policies**

#### **Summary of significant accounting policies and key accounting estimates**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

The Company has considered all new and amended International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) that are mandatorily effective for the year ending 31 December 2020. In the current year, the following new and revised standards and interpretations have been adopted. None of these have a material impact on the company's annual results.

- References to Conceptual Framework in IFRS Standards
- IFRS 3 Business Combinations - Definition of a Business
- IFRS 7 Financial Instruments: Disclosures - Interest Rate Benchmark Reform
- IFRS 9 Financial Instruments - Interest Rate Benchmark Reform
- IFRS 16 Leases - Covid19 Related Rent Concessions
- IAS 1 Presentation of Financial Statements - Definition of Material
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material
- IAS 39 Financial Instruments: Recognition and Measurement - Interest Rate Benchmark Reform



## **Apache North Sea Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)**

#### **2 Accounting policies (continued)**

##### **Basis of preparation**

The financial statements of the company have been prepared in accordance with Financial Reporting Standard (“FRS”) 101 and the Companies Act 2006 (“the Act”). FRS 101 sets out a reduced disclosure framework for a “qualifying entity”, as defined in the Standards, which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of International Financial Reporting Standards (“IFRS”).

The company is a qualifying entity for the purposes of FRS 101. Note 25 gives details of the company’s ultimate parent and from where consolidated financial statements within which the company is included may be obtained.

The financial statements are presented in US Dollars, the functional currency of the company, and all values are rounded to the nearest thousand except where otherwise indicated.

The rate of exchange used for 31 December 2020 is £1:\$1.3671 (2019 - £1:\$1.3245)

##### **Summary of disclosure exemptions**

The company has taken advantage of the following disclosure exemptions under FRS 101:

(a) the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:

(i) paragraph 79(a)(iv) of IAS 1;

(ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment;

(iii) paragraph 118(e) of IAS 38 Intangible Assets;

(b) the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B-38D, 111 and 134-136 of IAS 1;

(c) the requirements of IAS 7 Statement of Cash Flows;

(d) the requirements of paragraphs 17 and 18A of IAS 24 Related Party Disclosures;

(e) the requirements in IAS 24 to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;

(f) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;

(g) the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share Based Payments;

(h) the requirements of IFRS 7, Financial Instruments; Disclosure; and

(i) the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement.

## **Apache North Sea Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)**

#### **2 Accounting policies (continued)**

##### **Going concern**

The company's business activities, together with the factors likely to affect its future development and performance, are set out in the Strategic Report on pages 2 to 9. The Strategic Report also considers financial risk management such as cash flow risk, credit risk and liquidity risk on page 8.

The financial statements have been prepared under the going concern basis and the directors have reviewed the going concern period to 30 September 2022. The company has considerable proved reserves within the Forties field and in its assessment has taken account of the three year plan for the Forties field along with other developments that are in progress. The company is able to demonstrate that it is in the position of being able to fund future development and operating costs out of cash flow generated from its operations for a full range of commodity prices and that it is not reliant on its operating parent undertaking, Apache Corporation, to provide funding in the near term. If Apache North Sea Limited were in a position to require funding, the company may be dependent on the financial support of its parent or other group undertakings.

The directors have considered the liquidity and solvency of Apache Corporation and based on this assessment they believe the company will be able to continue in operational existence for the foreseeable future given the support provided by their operating parent company, Apache Corporation. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

##### **Basis of consolidation**

As a wholly owned subsidiary of Apache Corporation, the company has taken exemption from the requirement to prepare consolidated financial statements in accordance with Companies Act 2006 section 401.

##### **Changes in accounting policy**

None of the standards, interpretations and amendments effective for the first time from 1 January 2020 have had a material effect on the financial statements.

## **Apache North Sea Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)**

#### **2 Accounting policies (continued)**

##### **Revenue recognition**

###### *Recognition*

The company earns revenue from the sale of crude oil and natural gas products from interests in the UK.

Sales of crude oil, natural gas and natural gas liquids ("NGLs") are included in revenue when production is sold to a customer in fulfillment of performance obligations under the terms of agreed contracts. Performance obligations primarily comprise delivery of oil, gas or NGLs at a delivery point, as negotiated within each contract. Each barrel of oil or NGL, cubic feet of natural gas, or other unit of measure is separately identifiable and represents a distinct performance obligation to which the transaction price is allocated. Performance obligations are satisfied at a point in time once control of the product has been transferred to the customer. The company considers a variety of facts and circumstances in assessing the point of control transfer, including but not limited to: whether the purchaser can direct the use of the hydrocarbons, the transfer of significant risks and rewards, the company's right to payment and transfer of legal title. The time between delivery and when payments are due is not significant.

The company sells its crude oil under contracts with a market-based index. Revenue is measured at the fair value of the consideration received or receivable and is net of discounts, customs duties and sales taxes.

Generally, revenues from the production of oil and natural gas properties in which the group has an interest with joint operation partners are recognised on the basis of the group's working interest in those properties (the entitlement method). Due to the contractual arrangements with the purchasers of the company's entitlement to oil and gas production whereby the purchasers have agreed to buy all of the company's share of oil and gas production, any difference between the quantity of production paid and the customers' entitlement to production is recognised as deferred income or overlift of entitlement as appropriate.

##### **Finance income and costs policy**

Interest income and interest cost is recognised in the Statement of Profit or Loss as it accrues (using the effective interest rate that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Interest income and similar income includes interest on intercompany loans and cash balances.

Interest cost and similar charges includes interest payable on intercompany loans and finance charges.

##### **Foreign currency transactions and balances**

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the respective functional currency of the entity at the rates prevailing on the reporting period date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the initial transaction dates.

Non-monetary items measured in terms of historical cost in a foreign currency are not retranslated.

## **Apache North Sea Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)**

#### **2 Accounting policies (continued)**

##### **Taxation**

The tax expense for the period comprises current and deferred tax and includes corporation tax and supplementary charge. Tax is recognised in the Statement of Profit or Loss, except when a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates taxable income.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and on unused tax losses or tax credits in the company. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

##### **Depreciation**

All costs relating to a development are accumulated and not depreciated until the commencement of production. Depreciation is calculated on a unit of production basis based on the proved and probable reserves of the asset. Any reassessment of reserves affects the depreciation rate prospectively.

##### **Fixed assets**

**Oil and gas expenditure – Exploration and Evaluation ("E&E") assets**

Directly identifiable costs incurred to purchase, lease, or otherwise acquire specific mineral interests in unproved properties are capitalised as intangible E&E assets when incurred.

When commercially viable reserves are discovered on or otherwise attributed to the E&E asset the carrying value of the E&E asset is transferred from intangible assets to development assets within Property, Plant and Equipment.

**Oil and gas expenditure – Development and Production ("D&P") assets**

Costs of bringing a field into production, including the cost of facilities, wells and sub-sea equipment are capitalised as a D&P asset. Normally each individual field development will form an individual D&P asset but there may be cases, such as phased developments, or multiple fields around a single production facility when fields are grouped together to form a single D&P asset.

## **Apache North Sea Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)**

#### **2 Accounting policies (continued)**

##### **Impairment**

A review is carried out each reporting date for any indication that the carrying value of the company's E&E and D&P assets may be impaired.

For E&E assets, where an impairment triggering event is identified, the assets are assessed for impairment along with the corresponding cash generating unit ("CGU") to which the E&E assets are associated. Where the carrying value of an E&E asset exceeds its recoverable amount, it is considered impaired and is written down to its recoverable amount.

For D&P assets where there are indications of impairment or reversal of impairment, an impairment test is carried out on the CGU to which it is attached. The company's CGUs are those assets which generate largely independent cash flows and are normally, but not always, single developments or production areas. The impairment test involves comparing the carrying value with the recoverable value of a CGU. The recoverable amount of a CGU is determined as the higher of its fair value less costs to sell and value in use, where the value in use is determined from estimated future net cash flows. Any additional depreciation or reversal of depreciation resulting from the impairment testing is charged/credited to the Statement of Profit or Loss.

##### **Investments**

Fixed asset investments are measured initially at cost. The carrying value of investments are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

##### **Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

##### **Trade receivables**

Trade receivables are amounts due from customers for petroleum products sold in the ordinary course of business.

Trade receivables are recognised initially at the transaction price. A provision for the impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables. The accounting policy on Financial Instruments contains details of impairment of receivables.

## **Apache North Sea Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)**

#### **2 Accounting policies (continued)**

##### **Underlift/overlift**

Underlift or overlift of entitlement to production is valued at the higher of the cost or year end contract price where fixed, or otherwise at the market price prevailing.

##### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined using a moving average cost formula.

##### **Trade payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

##### **Leases**

###### *Definition*

A lease is a contract, or a part of a contract, that conveys the right to use an asset or a physically distinct part of an asset ("the underlying asset") for a period of time in exchange for consideration. Further, the contract must convey the right to the company to control the asset or a physically distinct portion thereof. A contract is deemed to convey the right to control the underlying asset if, throughout the period of use, the company has the right to:

- Obtain substantially all the economic benefits from the use of the underlying asset, and;
- Direct the use of the underlying asset

Where contracts contain a lease coupled with an agreement to purchase or sell other goods or services (i.e., non-lease components), the company has made an accounting policy election, by class of underlying asset, to account for both components as a single lease component.

###### *Initial recognition and measurement*

The company initially recognises a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term.

The lease liability is measured at the present value of the lease payments to be made over the lease term.

The right-of-use asset is initially measured at the amount of the lease liability.

## Apache North Sea Limited

### Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

#### 2 Accounting policies (continued)

##### *Subsequent measurement*

After the commencement date, the company measures the lease liability by:

- (a) Increasing the carrying amount to reflect interest on the lease liability;
- (b) Reducing the carrying amount to reflect the lease payments made; and
- (c) Re-measuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in substance fixed lease payments or on the occurrence of other specific events.

Interest on the lease liability in each period during the lease term is the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability. Interest charges are included in finance cost in the Statement of Profit or Loss. Variable lease payments not included in the measurement of the lease liability, are included in operating expenses or ROU Assets in the period in which the event or condition that triggers them arises, commensurate with the leased activities and nature of the services performed.

##### *Lease modifications*

If a lease is modified, the modified contract is evaluated to determine whether it is or contains a lease. If a lease continues to exist, the lease modification will result in either a separate lease or a change in the accounting for the existing lease.

For a modification that fully or partially decreases the scope of the lease, IFRS 16 requires a lessee to decrease the carrying amount of the right-of-use asset to reflect partial or full termination of the lease. Any difference between those adjustments is recognised in the Statement of Profit or Loss at the effective date of the modification.

For all other lease modifications which are not accounted for as a separate lease, IFRS 16 requires the lessee to recognise the amount of the re-measurement of the lease liability as an adjustment to the corresponding right-of-use asset without affecting the Statement of Profit or Loss.

##### *Depreciation*

Depreciation is calculated on a straight-line method based on the total value of the contract payments to the lessor, apportioned equally over the term of the lease

##### *Short term and low value leases*

The company has made an accounting policy election, by class of underlying asset, not to recognise lease assets and lease liabilities for leases with a lease term of 12 months or less.

The company has made an accounting policy election on a lease-by-lease basis, not to recognise lease assets on leases for which the underlying asset is of low value.

Lease payments on short term and low value leases are accounted for on a straight line basis over the term of the lease or other systematic basis if considered more appropriate. Short term and low value lease payments are included in operating expenses in the Statement of Profit or Loss.

##### **Borrowings**

All borrowings are initially recorded at the amount of proceeds received, net of transaction costs. Borrowings are subsequently carried at amortised cost, with the difference between the proceeds, net of transaction costs, and the amount due on redemption being recognised as a charge to the Statement of Profit or Loss over the period of the relevant borrowing.

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

## Apache North Sea Limited

### Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

#### 2 Accounting policies (continued)

##### Provisions

###### Decommissioning provision

Provision for decommissioning is made when the underlying assets to be decommissioned are first placed in situ or when the assets are acquired, if later. The amount recognised is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding tangible fixed asset of an amount equivalent to the provision is also created. This is subsequently depreciated as part of the capital costs of the production facilities. Any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the fixed asset.

Unwinding of the discount of future decommissioning provisions is included as a separate financial item in the Statement of Profit or Loss under the Finance costs heading.

##### Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments.

##### Financial instruments

###### Initial recognition

The company recognises financial assets in the Statement of Financial Position when, and only when, the company becomes party to the contractual provisions of the financial instrument.

Financial assets are initially recognised at fair value. After initial recognition, financial assets are measured at amortised cost, fair value through Other Comprehensive Income or fair value through the Statement of Profit or Loss.

###### Classification

The company's financial assets consist of trade and other receivables, receivables from other group companies and cash balances.

###### Derecognition

###### *Financial assets*

The company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or the company transfers these rights or the company does not retain control of the financial asset.

##### Impairment of financial assets

###### *Measurement of Expected Credit Losses*

Impairment is based on an expected credit loss model. Under the expected credit loss model an allowance for losses is calculated based on a 12-month expected credit loss or a lifetime expected credit loss. The company has chosen to make allowance for expected losses on a lifetime basis.

For the current accounting period the financial assets are not impaired.



## **Apache North Sea Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)**

#### **2 Accounting policies (continued)**

##### **Defined benefit pension obligation**

For the defined benefit scheme, the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the Statement of Profit or Loss if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and interest income are shown in finance costs and finance income respectively. Actuarial gains and losses are recognised immediately in the Statement of Comprehensive Income.

The defined benefit scheme is funded, with the assets of the scheme held separately from those of the company, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset (where justifiable) or liability, net of the related deferred tax, is presented separately on the Statement of Financial Position.

#### **3 Critical accounting judgements and key sources of estimation uncertainty**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

##### **Critical accounting estimates and assumptions**

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

##### **Defined benefit pension scheme**

The cost of the defined benefit pension plan and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

Further details about pension obligations are given in Note 22.

##### **Decommissioning of oil and gas properties**

Decommissioning costs will be incurred by the company at the end of the operating life of the company's oil and gas assets. The company assesses its decommissioning provision at each reporting date. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors, including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing, extent and amount of expenditure may also change. As a result, there could be significant adjustments to the provisions established which would affect future financial results. The provision at the reporting date represents management's best estimate of the present value of the future decommissioning costs required.

The notes on pages 22 to 50 form an integral part of these financial statements.

## **Apache North Sea Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)**

#### **3 Critical accounting judgements and key sources of estimation uncertainty (continued)**

##### **Impairment of oil and gas assets**

Impairment exists when the carrying value of a cash generating unit exceeds its recoverable amount. The recoverable amount requires the use of estimates and assumptions such as long term oil prices, discount rates, operating costs, future capital requirements and operating performance. These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of a cash generating unit.

##### **Units of production ("UOP") depreciation of oil and gas assets**

Oil and gas assets are depreciated using the UOP method with production taken over proved and probable hydrocarbon reserves. This results in a depreciation charge proportional to the depletion of the anticipated remaining production from the field.

The life of each item, which is assessed at least annually, has regard to both its physical life limitations and present assessments of economically recoverable reserves of the field at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure. The calculation of the UOP rate of depreciation will be impacted to the extent that actual production in the future is different from the current forecast production based on total proved and probable reserves, or future capital expenditure estimates change. Changes to proved and probable reserves could arise due to changes in the factors or assumptions used in estimating reserves.

## Apache North Sea Limited

### Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

#### 4 Revenue

The analysis of the company's revenue for the year from continuing operations in the UK is as follows:

	2020	2019
	\$ 000	\$ 000
Sale of petroleum products	432,526	721,416

The company has three major customers who contributed 33.2% (\$142 million) 34.1% (\$146 million) and 32.7% (\$141 million) of its oil revenue in the 2020 financial year. In 2019, two major customers contributed 50% (\$358 million) and 50% (\$358 million) of the company's oil revenue.

#### 5 Operating (loss)/profit

Arrived at after charging:

	2020	2019
	\$ 000	\$ 000
Depreciation expense	203,363	213,492
Litigation accrual	9,570	-
Foreign exchange losses	1,772	1,903
Finance lease charges	3,439	4,146
Impairment loss	6,697	-
Gain on disposal of intangible assets	-	(872)

The Litigation accrual relates to a bonus/malice contract dispute with Schlumberger, which was settled in March 2021.

Further information on Impairment Loss can be found on Page 2 of the Strategic Report and Note 14 to the Financial Statements.

Finance lease charges represent amortisation of offices, company vehicle and expat housing, on behalf of Apache Group companies for North Sea operating activities, included within Admin expenses. The interest expense relating to the leases are reported within Finance costs.

#### 6 Auditors' remuneration

	2020	2019
	\$ 000	\$ 000
Audit of the financial statements	137	164
<b>Other fees to auditors</b>		
All other tax advisory services	135	6
All other assurance services	27	50
	162	56

The notes on pages 22 to 50 form an integral part of these financial statements.

## Apache North Sea Limited

### Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

#### 7 Directors' remuneration

In both years the directors were remunerated by another Apache group company, with management charges being passed on as appropriate. In 2020 four directors (2019: one) received remuneration, amounting to \$1,529,000 (2019 - \$732,000) representing overall compensation in respect of their services to Apache North Sea Limited. This includes \$46,000 in respect of employer's pension contributions (2019 - \$31,500).

During the year no director (2019 - no director) exercised stock options.

The emoluments of the highest paid director was \$922,000 (2019: \$732,000) and the company paid \$13,000 (2019: \$31,500) in respect of employer's pension contributions. Included in the emoluments of the highest paid director is \$201,000 severance pay for loss of office.

All directors' contracts of employment are held with another group company. The directors also hold office in other group undertakings. Emoluments paid to directors by other group companies are disclosed within their financial statements.

#### 8 Staff costs

The company has no employees. During the period, staff were seconded from Apache North Sea Production Limited, whose principal activity is the provision of services to other group companies. Staff costs are recharged to the relevant company within the group based on a time allocation.

Pension costs are charged to the company in respect of the defined benefit scheme plus contributions under the defined contribution scheme. See Note 22.

#### 9 Finance income

	2020	2019
	\$ 000	\$ 000
Interest income on bank deposits	41	131
Pension - other finance income	4,422	5,801
Interest income on intercompany loans	13,968	33,061
	<u>18,431</u>	<u>38,993</u>

#### 10 Finance costs

	2020	2019
	\$ 000	\$ 000
Interest cost on intercompany loans	30,022	35,555
Pension - other finance costs	3,805	5,137
Other finance costs	102	403
Accretion expense on decommissioning liability	35,054	38,198
Interest expense on leases	3,551	5,845
	<u>72,534</u>	<u>85,138</u>

The notes on pages 22 to 50 form an integral part of these financial statements.

## Apache North Sea Limited

### Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

#### 11 Tax on profit on ordinary activities

Tax charged/(credited) in the income statement

	2020 \$ 000	2019 \$ 000
<b>Current taxation</b>		
UK corporation tax	24,782	133,061
UK corporation tax adjustment to prior periods	<u>(106)</u>	<u>(672)</u>
	<u>24,676</u>	<u>132,389</u>
<b>Deferred taxation</b>		
Arising from origination and reversal of temporary differences	(51,042)	(47,124)
Offset against pension liabilities	1,431	1,407
Attributable to true-up of prior year balances	<u>36,635</u>	<u>(1,772)</u>
Total deferred taxation	<u>(12,976)</u>	<u>(47,489)</u>
<b>Tax expense in the income statement</b>	<u><b>11,700</b></u>	<u><b>84,900</b></u>

Upstream oil and gas production activities are taxed at a UK corporation tax rate of 30% (2019: 30%) plus a supplementary charge of 10% (2019: 10%) giving an overall statutory rate of 40% (2019: 40%). The 2019 figures are updated to reflect a reconciliation to the standard rate of 40% in alignment with the current year.

	2020 \$ 000	2019 Restated \$ 000
(Loss)/profit before tax	<u>(69,912)</u>	<u>240,808</u>
Corporation tax at standard rate	(27,965)	96,323
Expenses not subject to tax	6,558	2,686
Income taxed at different rates	3,376	581
Field allowances	(4,570)	(5,007)
Group relief received for no compensation	3,055	525
Net benefit on disposal of fixed assets	-	483
Other	(5,283)	(8,248)
True-up of prior year amounts	<u>36,529</u>	<u>(2,443)</u>
<b>Total tax charge</b>	<u><b>11,700</b></u>	<u><b>84,900</b></u>

The notes on pages 22 to 50 form an integral part of these financial statements.

# Apache North Sea Limited

## Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

### 11 Tax on profit on ordinary activities (continued)

The deferred tax rate is the same as the standard rate for upstream oil and gas production companies in the UK of 40% (2019 - 40%). Deferred tax assets are recognised to the extent there are sufficient future forecasted profits available against which the deferred tax assets can be utilised. All deferred tax assets of the company are recognised because in the opinion of the Directors, it is likely that sufficient profits will be available to recognise the deferred tax assets.

Amounts recognised in Other Comprehensive Income

	Before tax \$ 000	2020 Tax (expense) benefit \$ 000	Net of tax \$ 000	Before tax \$ 000	2019 Tax (expense) benefit \$ 000	Net of tax \$ 000
Remeasurements of post employment benefit obligations (net)	(3,922)	1,569	(2,353)	4,719	(1,888)	2,831

### Deferred tax liabilities

Deferred tax liabilities are made up as follows:

	2020 \$ 000	2019 \$ 000
Accelerated capital allowances	418,884	438,364
Decommissioning provision	(271,830)	(235,654)
Other timing differences	-	(16,471)
Right of Use Assets	29,385	39,081
Lease Liability	(30,429)	(41,174)
Inventory	23,729	-
	<u>169,739</u>	<u>184,146</u>

Deferred tax provision	2020 \$ 000	2019 \$ 000
Opening balance	184,146	233,042
Charged during the year	<u>(14,407)</u>	<u>(48,896)</u>
Closing balance	<u>169,739</u>	<u>184,146</u>

The notes on pages 22 to 50 form an integral part of these financial statements.

## Apache North Sea Limited

### Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

#### 12 Intangible assets

	Exploration expenditure \$ 000	Total \$ 000
<b>Cost</b>		
At 1 January 2020	1,223	1,223
Additions	<u>6,736</u>	<u>6,736</u>
At 31 December 2020	<u>7,959</u>	<u>7,959</u>
<b>Carrying amount</b>		
At 31 December 2020	<u><u>7,959</u></u>	<u><u>7,959</u></u>
At 31 December 2019	<u><u>1,223</u></u>	<u><u>1,223</u></u>

The notes on pages 22 to 50 form an integral part of these financial statements.

## Apache North Sea Limited

### Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

#### 13 Right of use assets

	Transport \$ 000	Machinery \$ 000	Property \$ 000	Total \$ 000
<b>Cost or valuation</b>				
At 1 January 2020	91,848	457	39,082	131,387
Additions	7,243	635	-	7,878
Disposals	(8,708)	(443)	(356)	(9,507)
Modifications	8,807	-	-	8,807
At 31 December 2020	<u>99,190</u>	<u>649</u>	<u>38,726</u>	<u>138,565</u>
<b>Depreciation</b>				
At 1 January 2020	27,854	313	5,518	33,685
Charge for the year	35,999	409	4,418	40,826
Eliminated on disposal	(8,708)	(443)	(257)	(9,408)
At 31 December 2020	<u>55,145</u>	<u>279</u>	<u>9,679</u>	<u>65,103</u>
<b>Carrying amount</b>				
At 31 December 2020	<u><u>44,045</u></u>	<u><u>370</u></u>	<u><u>29,047</u></u>	<u><u>73,462</u></u>
At 31 December 2019	<u><u>63,994</u></u>	<u><u>144</u></u>	<u><u>33,564</u></u>	<u><u>97,702</u></u>

Lease modifications represent the term extension of existing contracts for vessels partly offset by a reduction in the number of dedicated aircraft.



# Apache North Sea Limited

## Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

### 14 Property, plant and equipment

	Oil and gas assets \$ 000	Other tangibles \$ 000	Total \$ 000
<b>Cost or valuation</b>			
At 1 January 2020	7,488,445	59,685	7,548,130
Additions	57,825	10	57,835
Decommissioning movement	55,519	-	55,519
At 31 December 2020	<u>7,601,789</u>	<u>59,695</u>	<u>7,661,484</u>
<b>Depreciation</b>			
At 1 January 2020	6,402,825	48,188	6,451,013
Charge for the year	158,426	4,112	162,538
Impairment	6,697	-	6,697
At 31 December 2020	<u>6,567,948</u>	<u>52,300</u>	<u>6,620,248</u>
<b>Carrying amount</b>			
At 31 December 2020	<u>1,033,841</u>	<u>7,395</u>	<u>1,041,236</u>
At 31 December 2019	<u>1,085,620</u>	<u>11,497</u>	<u>1,097,117</u>

The 2020 decommissioning provision was revised upwards, in part due to an increase in exchange rate but also to reflect changes in the timing and costs associated with the decommissioning of the company's oil and gas assets.

## Apache North Sea Limited

### Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

#### 14 Property, plant and equipment (continued)

##### Impairment

##### Oil and gas assets

The company assesses the net book value of its oil and gas assets whenever events or changes indicate that their carrying value may not be recoverable. For the 2020 financial statements, the company conducted the review and due to an overall decrease in proved and probable reserves together with falling commodity prices, prompted an assessment of impairment. The results of this assessment concluded that impairment of assets in the Nelson cash generating unit (CGU ) was required in 2020, and an impairment of \$6.6 million was booked to bring the carrying value to its recoverable amount. However there was sufficient headroom within the Forties CGU to conclude that the impairment assessment on these assets was not sensitive to possible changes to Weighted Average Cost of Capital (WACC), oil price and other factors and hence no impairment was booked on these assets.

#### 15 Investments

<b>Subsidiaries</b>	<b>\$ 000</b>
<b>Cost</b>	
At 31 December 2019 and 31 December 2020	-
<b>Provision</b>	
At 31 December 2019 and 31 December 2020	-
<b>Carrying amount</b>	
At 31 December 2019 and 31 December 2020	-

Details of the subsidiary, as at 31 December 2020 are as follows:

Name of subsidiary	Principal activity	Country of incorporation Registered office	Proportion of ownership interest and voting rights held	
			2020	2019
Apache UK Pension Trustee Limited	Pension funding	United Kingdom 27-28 Eastcastle Street, London W1W 8DH	100%	100%

#### 16 Inventory

	2020	2019
	\$ 000	\$ 000
Raw materials and consumables	61,669	54,342

The company's proportionate share of raw materials and consumables are mainly capitalised within property, plant and equipment when taken from inventory.

The notes on pages 22 to 50 form an integral part of these financial statements.

## Apache North Sea Limited

### Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

#### 17 Trade and other receivables

	2020 \$ 000	2019 \$ 000
Trade receivables	35,197	51,762
Receivables from group undertakings	1,265,337	1,070,176
Deferred income	20,825	28,408
Corporation tax asset	35,484	-
Prepayments	3,144	3,314
Other receivables	3,023	5,361
<b>Total current trade and other receivables</b>	<b><u>1,363,010</u></b>	<b><u>1,159,021</u></b>

The fair value of those trade and other receivables classified as financial instrument loans and receivables approximates the carrying value of that asset.

The company's exposure to credit and market risks, including impairments and allowances for credit losses, relating to trade and other receivables is disclosed in the financial risk management section in the Strategic Report.

The intercompany loans, included within Receivables from group undertakings, amount to \$1,249,710,000 (2019: \$1,068,969,000) and currently bear interest at rates varying from 0.15% to 3.15%, (2019: 1.59% to 4.69%) with the rate depending on the terms of the loan agreement in place with each of the group companies. Loans are expected to expire in the years 2021-2025.

The company's exposure to credit and market risks, including maturity analysis, relating to trade and other receivables is disclosed in the financial risk review note.

#### 18 Trade and other payables

	2020 \$ 000	2019 \$ 000
Trade payables	3,766	7,706
Accrued expenses	35,087	38,371
Amounts due to group undertakings	777,483	639,018
Corporation tax liability	29,340	29,787
	<b><u>845,676</u></b>	<b><u>714,882</u></b>

The notes on pages 22 to 50 form an integral part of these financial statements.

## Apache North Sea Limited

### Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

#### 18 Trade and other payables (continued)

The fair value of the trade and other payables classified as financial instruments approximates the carrying value of that liability.

The company's exposure to market and liquidity risks, including maturity analysis, related to trade and other payables is disclosed in the financial risk management section in the Strategic Report.

The intercompany loan, included within Amounts due to group undertakings, amounts to \$688,910,000 (2019 : \$564,922,000) and currently bears interest at rates varying from 0% to 3.25% (2019: 0% to 4.92%). The loan is expected to expire in 2021.

#### 19 Provisions

	Decommissioning \$ 000	Total \$ 000
At 1 January 2020	584,360	584,360
Increase in existing provisions	56,396	56,396
Increase due to passage of time or unwinding of discount	35,054	35,054
At 31 December 2020	<u>675,810</u>	<u>675,810</u>

At 31 December 2020, the provision for the costs of decommissioning the company's oil and natural gas production facilities at the end of their economic lives was \$679,576,000 (2019 - \$589,136,000). These costs are expected to be incurred in the years 2020 - 2041. The provision has been estimated using existing technology, at current prices inflated at a rate of 1.5% and discounted using a rate of 6%.

The decommissioning costs estimated to be incurred in 2021 amounting to \$3,766,000 (2020: \$4,776,000) have been included in accrued expenses in Note 18.

#### 20 Called up share capital

##### Allotted, called up and fully paid shares

	No. 000	2020 \$ 000	No. 000	2019 \$ 000
Ordinary shares of £1 each	<u>108,125</u>	<u>181,918</u>	<u>108,125</u>	<u>181,918</u>

The notes on pages 22 to 50 form an integral part of these financial statements.

## Apache North Sea Limited

### Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

#### 21 Leases

##### Leases included in creditors

	31 December 2020 \$ 000	31 December 2019 \$ 000
Current portion of long term lease liabilities	35,772	41,830
Long term lease liabilities	<u>40,300</u>	<u>61,104</u>

##### Lease liabilities maturity analysis

A maturity analysis of lease liabilities based on undiscounted gross cash flow is reported in the table below:

	31 December 2020 \$ 000	31 December 2019 \$ 000
Less than one year	35,772	41,830
2 years	15,973	20,962
3 years	4,189	16,746
4 years and over	<u>20,138</u>	<u>23,396</u>
Total lease liabilities (undiscounted)	<u>76,072</u>	<u>102,934</u>

##### Total cash outflows related to leases

Total cash outflows related to leases are presented in the table below:

	31 December 2020 \$ 000	31 December 2019 \$ 000
<b>Payment</b>		
Right of use assets	44,454	54,681
Interest	<u>3,691</u>	<u>5,424</u>
Total cash outflow	<u>48,145</u>	<u>60,105</u>

The company enters into lease contracts on its own behalf and on behalf of other Apache Group companies for North Sea operating activities. The total future value of the minimum lease payments for operating leases shown above includes those lease contracts entered into on its own behalf and on behalf of other Apache Group companies. The company's Statement of Profit or Loss and Statement of Financial Position represents gross share inclusive of amounts billable to partners and other working interest owners. (i.e. it includes the lease for the Joint Venture Partnership).

## **Apache North Sea Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)**

#### **22 Retirement benefit obligations**

##### **Details of schemes**

Prior to 1 December 2007 the group operated a pension fund that had both a defined benefit section and a defined contribution section. Each scheme is explained below. The defined contribution section was closed on 30 November 2007. The defined benefit section is closed to new entrants. The assets of the fund are held in trust, separately from the assets of the company.

##### **Defined contribution scheme**

The defined contribution section of the group pension fund was replaced by a group personal pension scheme with effect from 1 November 2007. In April 2012 the contracts of all employees of Apache North Sea Limited as well as the defined contribution scheme were transferred to Apache North Sea Production Limited, whose principal activity is the provision of services to other group companies.

Apache Retirement Choices Pension Plan commenced 2019, which provided to consolidate the existing Apache Group Pension Plan into the Apache Retirement Choices Plan.

In relation to the defined contribution section of the group pension fund, the group personal pension scheme, and to the retirement choices plan, the company contributed \$nil during the year to 31 December 2020 (2019 - \$nil). Disclosures relating to the contributions made to these schemes during the year are made in the statutory accounts of Apache North Sea Production Limited, which currently makes the regular contributions in relation to these schemes. The contributions are then recharged to the relevant entity within the group.

##### **Defined benefit scheme**

Since the defined benefit section is closed to new entrants the current service cost, expressed as a percentage of pensionable salaries, will increase as the members of the fund approach retirement.

The benefit liabilities at 31 December 2020 have been projected on an approximate basis from a projection of the results of the last formal actuarial valuation of the plan for funding purposes as at 5 April 2019 and updated to 31 December 2020. The projections have been carried out using the Projected Unit Credit actuarial cost method by a qualified independent actuary.

The Plan is subject to UK pensions law and is regulated by the Pensions Regulator. Under the regulatory framework the Plan is subject to a full actuarial funding valuation on a triennial basis, with the most recent completed full valuation being carried out as at 5 April 2019. Any funding deficit arising is required to be addressed via a recovery plan.

The Plan is governed and administered by a Board of Trustees comprising representatives from both the sponsoring employer of the Plan and Plan members. The Board of Trustees is responsible for the administration of Plan assets and for determining the investment strategy. The assets are held by the Board of Trustees separately from the assets of the sponsoring employer.

The Board of Trustees are not aware of any amendments, curtailments or settlements which are relevant to the 31 December 2020 financial statements, in respect of the Plan.

## Apache North Sea Limited

### Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

#### 22 Retirement benefit obligations (continued)

Contributions payable to the pension scheme at the end of the year are \$253,000 (2019 - \$232,000). These were accrued within the financial statements of Apache North Sea Production Limited, being the payroll company for the North Sea Region.

The expected contributions to the plan for the next reporting period are \$4,952,000.

#### Risks

##### *Factors affecting risks to the Plan*

The Plan's liabilities are subject to risk from factors which include future changes in inflation rate, discount rates and life expectancy of the Plan members. The Plan's assets are subject to risk from factors which include future changes in the values of equities, government bonds and corporate bonds. These risks may result in the Board of Trustees requesting the sponsoring employer to make additional contributions to the Plan in the future.

During 2020, there have been significant movements in financial markets precipitated by, amongst other things, the outbreak of the COVID-19 virus. While there remains considerable uncertainty, these movements continue to impact the Plan.

##### *Reconciliation of scheme assets and liabilities to assets and liabilities recognised*

The amounts recognised in the statement of financial position are as follows:

	31 December 2020 \$ 000	31 December 2019 \$ 000
Fair value of scheme assets	261,927	228,100
Present value of scheme liabilities	<u>(233,377)</u>	<u>(199,206)</u>
	<b>28,550</b>	<b>28,894</b>
Related deferred tax (liability)	<u>(11,420)</u>	<u>(11,558)</u>
<b>Defined benefit pension scheme surplus</b>	<b><u>17,130</u></b>	<b><u>17,336</u></b>

The company has recognised the defined benefit pension scheme surplus as an asset in the Statement of Financial Position as the pension scheme deed and rules permits suspension, or reduction, of contributions.

##### *Scheme assets*

Changes in the fair value of scheme assets are as follows:

	2020 \$ 000	2019 \$ 000
Fair value at start of year	228,100	207,791
Return on plan assets, excluding amounts included in interest income	25,190	19,903
Interest income	4,422	5,801
Effect of changes in foreign exchange rates	9,815	8,502
Employer contributions	4,771	4,567
Benefit payments from plan assets	<u>(10,371)</u>	<u>(18,464)</u>
Fair value at end of year	<b><u>261,927</u></b>	<b><u>228,100</u></b>

The notes on pages 22 to 50 form an integral part of these financial statements.

## Apache North Sea Limited

### Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

#### 22 Retirement benefit obligations (continued)

##### *Analysis of assets*

The major categories of scheme assets are as follows:

	2020 \$ 000	2019 \$ 000
Cash and cash equivalents	2,585	657
Equity instruments	49,229	51,946
Debt instruments	210,113	175,497
	<u>261,927</u>	<u>228,100</u>

##### **Equity instruments for 2020**

Equity instruments for 2020 can be further categorised as follows:

	2020 \$ 000	2019 \$ 000
<b>Quoted</b>		
Overseas quoted equities	<u>49,229</u>	<u>51,946</u>

##### *Actual return on scheme's assets*

	2020 \$ 000	2019 \$ 000
Actual return on scheme assets	<u>29,612</u>	<u>25,704</u>

The pension scheme has not invested in any of the company's own financial instruments or in properties or other assets used by the company.

##### *Scheme liabilities*

Changes in the present value of scheme liabilities are as follows:

	2020 \$ 000	2019 \$ 000
Present value at start of year	199,206	187,133
Current service cost	2,619	2,813
Actuarial gains and losses arising from changes in financial assumptions	25,525	24,705
Actuarial gains and losses arising from experience adjustments	-	(4,681)
Effect of changes in foreign exchange rates	9,006	7,403
Interest expense	3,805	5,137
Benefit payments from plan assets	(10,371)	(18,464)
Effect of changes in demographic assumptions	3,587	(4,840)
Present value at end of year	<u>233,377</u>	<u>199,206</u>

The notes on pages 22 to 50 form an integral part of these financial statements.



# Apache North Sea Limited

## Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

### 22 Retirement benefit obligations (continued)

#### *Principal actuarial assumptions*

The significant actuarial assumptions used to determine the present value of the defined benefit obligation at the statement of financial position date are as follows:

	2020 %	2019 %
Discount rate	1.40	2.10
Future salary increases	4.50	4.50
Future pension increases	2.90	2.90
Inflation	3.00	3.00

#### *Post retirement mortality assumptions*

	2020 Years	2019 Years
Current UK pensioners at retirement age	27.40	28.80
Future UK pensioners at retirement age	28.50	29.30

#### *Amounts recognised in statement of profit or loss*

	2020 \$ 000	2019 \$ 000
<b>Amounts recognised in operating profit</b>		
Current service cost	2,619	2,813
<b>Amounts recognised in finance income or costs</b>		
Net interest	(617)	(664)
Effect of changes in foreign currency exchange rates	(809)	(1,099)
Recognised in other finance cost	(1,426)	(1,763)
<b>Total recognised in the statement of profit or loss</b>	<b>1,193</b>	<b>1,050</b>

The notes on pages 22 to 50 form an integral part of these financial statements.

# Apache North Sea Limited

## Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

### 22 Retirement benefit obligations (continued)

#### *Amounts taken to the Statement of Comprehensive Income*

	2020	2019
	\$ 000	\$ 000
Effect of changes in demographic assumptions	(3,587)	4,840
Actuarial gains and losses arising from experience adjustments	-	4,681
Return on plan assets	25,190	19,903
Changes in financial assumptions	(25,525)	(24,705)
Deferred tax	<u>1,569</u>	<u>(1,888)</u>
Amounts recognised in the Statement of Comprehensive Income	<u>(2,353)</u>	<u>2,831</u>

The notes on pages 22 to 50 form an integral part of these financial statements.

## Apache North Sea Limited

### Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

#### 22 Retirement benefit obligations (continued)

##### Sensitivity analysis

A sensitivity analysis for the principal assumptions used to measure scheme liabilities is set out below:

	2020		2019	
	+ 0.25%	- 0.25%	+ 0.25%	- 0.25%
	%	%	%	%
<b>Adjustment to discount rate</b>				
Present value of total obligation	(4.80)	5.10	(5.00)	5.40
	2020		2019	
	+ 0.25%	- 0.25%	+ 0.25%	- 0.25%
	%	%	%	%
<b>Adjustment to rate of inflation</b>				
Present value of total obligation	4.70	(4.50)	5.20	(4.80)
	2020		2019	
	+ 0.25%	- 0.25%	+ 0.25%	- 0.25%
	%	%	%	%
<b>Adjustment to rate of salary growth</b>				
Present value of total obligation	0.50	(0.50)	0.50	(0.50)

The weighted average duration of the defined benefit obligation at 31 December 2020 is 20 years (2019: 21 years).

##### *Maturity analysis of benefit payments*

	Between 1-2 years \$ 000	Between 2-5 years \$ 000	Between 5-10 years \$ 000	Total \$ 000
2020	5	19	42	66
2019	5	16	38	59

#### 23 Dividends

No dividend was paid in 2020 or 2019.

#### 24 Commitments

##### Capital commitments

The total amount contracted for but not provided in the financial statements was \$18,569,000 (2019 - \$30,337,000).

The notes on pages 22 to 50 form an integral part of these financial statements.

## **Apache North Sea Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)**

#### **24 Commitments (continued)**

##### **Other financial commitments**

The total amount of other financial commitments not provided in the financial statements was \$23,103,000 (2019 - \$20,954,000).

#### **25 Parent and ultimate parent undertaking**

The company is a wholly owned subsidiary of Apache UK Corporation LDC, a company registered in the Cayman Islands.

The ultimate parent is Apache Corporation, which is registered in the United States of America.

The name of the parent undertaking of the group in whose consolidated financial statements the company's financial statements are consolidated is Apache Corporation.

The most senior parent entity producing publicly available financial statements is Apache Corporation. These financial statements are available upon request from One Post Oak Central, 2000 Post Oak Boulevard, Suite 100, Houston, Texas - 77056-4400, USA

#### **26 Non adjusting events after the financial period**

On January 4, 2021 Apache Corporation announced that its Board of Directors authorised the Company to proceed with the implementation of a holding company reorganisation, in connection with which, Apache created APA Corporation, a new holding company (APA). Upon completion of the holding company reorganisation, Apache Corporation is a wholly-owned subsidiary of APA. The holding company reorganisation was completed during the first quarter of 2021.