

NEWFIELD EXPLORATION CO /DE/
Form 10-Q
August 01, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from _____ to _____ .

Commission File Number: 1-12534

NEWFIELD EXPLORATION COMPANY
(Exact name of registrant as specified in its charter)
Delaware 72-1133047
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification Number)

4 Waterway Square Place
Suite 100
The Woodlands, Texas 77380
(Address and Zip Code of principal executive offices)

(281) 210-5100
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>	Emerging growth company <input type="checkbox"/>
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(Do not check if a smaller reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of July 31, 2017, there were 199,319,211 shares of the registrant's common stock, par value \$0.01 per share, outstanding.

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NEWFIELD EXPLORATION COMPANY
CONSOLIDATED BALANCE SHEET
(In millions, except share data)
(Unaudited)

	June 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$522	\$ 555
Short-term investments	25	25
Accounts receivable, net	224	232
Inventories	19	16
Derivative assets	33	75
Other current assets	60	46
Total current assets	883	949
Oil and gas properties, net — full cost method (\$1,246 and \$1,238 were excluded from amortization at June 30, 2017 and December 31, 2016, respectively)	3,479	3,140
Other property and equipment, net	166	167
Derivative assets	1	—
Long-term investments	23	19
Restricted cash	32	25
Other assets	11	12
Total assets	\$4,595	\$ 4,312
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$44	\$ 33
Accrued liabilities	546	498
Advances from joint owners	73	54
Asset retirement obligations	2	2
Derivative liabilities	13	97
Total current liabilities	678	684
Other liabilities	67	63
Derivative liabilities	—	3
Long-term debt	2,432	2,431
Asset retirement obligations	156	154
Deferred taxes	55	39
Total long-term liabilities	2,710	2,690
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Preferred stock (\$0.01 par value, 5,000,000 shares authorized; no shares issued)	—	—
Common stock (\$0.01 par value, 300,000,000 shares authorized at June 30, 2017 and December 31, 2016; 200,728,889 and 200,150,392 shares issued at June 30, 2017 and December 31, 2016, respectively)	2	2
Additional paid-in capital	3,278	3,247
Treasury stock (at cost, 1,397,293 and 1,195,809 shares at June 30, 2017 and December 31, 2016, respectively)	(52)	(44)
Accumulated other comprehensive income (loss)	(1)	(2)
Retained earnings (deficit)	(2,020)	(2,265)
Total stockholders' equity	1,207	938

Total liabilities and stockholders' equity	\$4,595	\$ 4,312
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The accompanying notes to consolidated financial statements are an integral part of this statement.

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NEWFIELD EXPLORATION COMPANY
CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

(In millions, except per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Oil, gas and NGL revenues	\$402	\$381	\$819	\$665
Operating expenses:				
Lease operating	58	62	114	123
Transportation and processing	71	66	143	129
Production and other taxes	13	11	27	21
Depreciation, depletion and amortization	110	160	216	337
General and administrative	51	58	98	102
Ceiling test and other impairments	—	522	—	1,028
Other	—	—	1	1
Total operating expenses	303	879	599	1,741
Income (loss) from operations	99	(498)	220	(1,076)
Other income (expense):				
Interest expense	(37)	(38)	(75)	(79)
Capitalized interest	15	11	31	20
Commodity derivative income (expense)	28	(133)	81	(150)
Other, net	2	—	4	1
Total other income (expense)	8	(160)	41	(208)
Income (loss) before income taxes	107	(658)	261	(1,284)
Income tax provision (benefit):				
Current	2	6	—	4
Deferred	7	3	16	3
Total income tax provision (benefit)	9	9	16	7
Net income (loss)	\$98	\$(667)	\$245	\$(1,291)
Earnings (loss) per share:				
Basic	\$0.49	\$(3.36)	\$1.23	\$(6.87)
Diluted	\$0.49	\$(3.36)	\$1.22	\$(6.87)
Weighted-average number of shares outstanding for basic earnings (loss) per share	199	198	199	188
Weighted-average number of shares outstanding for diluted earnings (loss) per share	200	198	200	188
Comprehensive income (loss):				
Net income (loss)	\$98	\$(667)	\$245	\$(1,291)
Other comprehensive income (loss), net of tax	1	—	1	—
Comprehensive income (loss)	\$99	\$(667)	\$246	\$(1,291)

The accompanying notes to consolidated financial statements are an integral part of this statement.

NEWFIELD EXPLORATION COMPANY
CONSOLIDATED STATEMENT OF CASH FLOWS

(In millions)

(Unaudited)

	Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities:		
Net income (loss)	\$245	\$(1,291)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation, depletion and amortization	216	337
Deferred tax provision (benefit)	16	3
Stock-based compensation	20	19
Unrealized (gain) loss on derivative contracts	(46)	296
Ceiling test and other impairments	—	1,028
Other, net	7	6
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	8	(1)
Increase (decrease) in accounts payable and accrued liabilities	5	(41)
Other items, net	(4)	22
Net cash provided by (used in) operating activities	467	378
Cash flows from investing activities:		
Additions to oil and gas properties	(507)	(471)
Acquisitions of oil and gas properties	(6)	(495)
Proceeds from sales of oil and gas properties	28	29
Additions to other property and equipment	(8)	(8)
Redemptions of investments	25	—
Purchases of investments	(25)	—
Net cash provided by (used in) investing activities	(493)	(945)
Cash flows from financing activities:		
Proceeds from borrowings under credit arrangements	—	536
Repayments of borrowings under credit arrangements	—	(575)
Proceeds from issuances of common stock, net	2	777
Purchases of treasury stock, net	(8)	(11)
Other	(1)	—
Net cash provided by (used in) financing activities	(7)	727
Increase (decrease) in cash and cash equivalents	(33)	160
Cash and cash equivalents, beginning of period	555	5
Cash and cash equivalents, end of period	\$522	\$165

The accompanying notes to consolidated financial statements are an integral part of this statement.

NEWFIELD EXPLORATION COMPANY
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(In millions)

(Unaudited)

	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance, December 31, 2016	200.2	\$ 2	(1.2)	\$ (44)	\$ 3,247	\$ (2,265)	\$ (2)	\$ 938
Issuances of common stock	0.5	—			2			2
Stock-based compensation					29			29
Treasury stock, net			(0.2)	(8)	—			(8)
Net income (loss)						245		245
Other comprehensive income (loss), net of tax							1	1
Balance, June 30, 2017	200.7	\$ 2	(1.4)	\$ (52)	\$ 3,278	\$ (2,020)	\$ (1)	\$ 1,207

The accompanying notes to consolidated financial statements are an integral part of this statement.

NEWFIELD EXPLORATION COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Organization and Summary of Significant Accounting Policies

Organization and Principles of Consolidation

We are an independent energy company engaged in the exploration, development and production of crude oil, natural gas and natural gas liquids (NGLs). Our U.S. operations are onshore and focus primarily on large scale, liquids-rich resource plays. Our principal areas of operation are the Anadarko and Arkoma basins of Oklahoma, the Williston Basin of North Dakota and the Uinta Basin of Utah. In addition, we have oil producing assets offshore China.

Our consolidated financial statements include the accounts of Newfield Exploration Company, a Delaware corporation, and its subsidiaries. We proportionately consolidate our interests in oil and natural gas exploration and production ventures and partnerships in accordance with industry practice. All significant intercompany balances and transactions have been eliminated. Unless otherwise specified or the context otherwise requires, all references in these notes to "Newfield," "we," "us," "our" or the "Company" are to Newfield Exploration Company and its subsidiaries.

These unaudited consolidated financial statements reflect, in the opinion of our management, all adjustments, consisting only of normal and recurring adjustments, necessary to fairly state our financial position as of, and results of operations, for the periods presented. These financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all disclosures required for financial statements prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). Interim period results are not necessarily indicative of results of operations or cash flows for a full year.

These consolidated financial statements and notes should be read in conjunction with our audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2016.

Risks and Uncertainties

As an independent oil and natural gas producer, our revenue, profitability and future rate of growth are substantially dependent on prevailing prices for oil, natural gas and NGLs. Historically, the energy markets have been very volatile, and there can be no assurance that commodity prices will not be subject to wide fluctuations in the future. A substantial or extended decline in commodity prices could have a material adverse effect on our financial position, results of operations, cash flows, access to capital and on the quantities of oil, natural gas and NGL reserves that we can economically produce. Other risks and uncertainties that could affect us in a volatile commodity price environment include, but are not limited to, counterparty credit risk for our receivables, responsibility for decommissioning liabilities for offshore interests we no longer own, inability to access credit markets, regulatory risks and our ability to meet financial ratios and covenants in our financing agreements.

Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities; disclosure of contingent assets and liabilities at the date of the financial statements; the reported amounts of revenues and expenses during the reporting period; and the quantities and values of proved oil, natural gas and NGL reserves used in calculating depletion and assessing impairment of our oil and gas properties. Actual results could differ significantly from these estimates. Our most

significant estimates are associated with the quantities of proved oil, natural gas and NGL reserves, the timing and amount of transfers of our unevaluated properties into our amortizable full cost pool, the recoverability of our deferred tax assets and the fair value of our derivative contracts.

Reclassifications

Certain reclassifications have been made to prior years' reported amounts in order to conform to the current year presentation. These reclassifications did not impact our net income (loss), stockholders' equity or cash flows.

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NEWFIELD EXPLORATION COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

New Accounting Requirements

In November 2016, the Financial Accounting Standards Board (FASB) issued guidance regarding the classification and presentation of changes in restricted cash on the statement of cash flows. The guidance requires that a statement of cash flows explains the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents using a retrospective approach. The guidance is effective for interim and annual periods beginning after December 15, 2017. We do not expect this guidance to have a material impact on our financial statements.

In May 2014, the FASB issued guidance regarding the accounting for revenue from contracts with customers. The guidance is effective for interim and annual periods beginning after December 15, 2017 and may be applied retrospectively or using a modified retrospective approach to adjust retained earnings (deficit). We expect to apply the guidance in the first quarter of 2018 using the modified retrospective approach to adjust retained earnings (deficit). We are in the process of comparing our current revenue recognition policies to the new requirements for each of our revenue categories. While we have not identified any material differences in the amount and timing of revenue recognition for the categories we have reviewed to date, our evaluation is not complete, and we have not concluded on the overall impacts of adopting the new requirements.

In January 2016, the FASB issued guidance regarding several broad topics related to the recognition and measurement of financial assets and liabilities. The guidance is effective for interim and annual periods beginning after December 15, 2017. We do not expect this guidance to have a material impact on our financial statements.

In February 2016, the FASB issued guidance regarding the accounting for leases. The guidance requires recognition of most leases on the balance sheet. The guidance requires lessees and lessors to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The guidance is effective for interim and annual periods beginning after December 15, 2018. We are currently evaluating the impact of this guidance on our financial statements.

2. Accounts Receivable

Accounts receivable consisted of the following:

	June	December
	30,	31,
	2017	2016
	(In millions)	
Revenue	\$ 144	\$ 163
Joint interest	65	53
Other	31	32
Reserve for doubtful accounts	(16)	(16)
Total accounts receivable, net	\$ 224	\$ 232

3. Inventories

Inventories primarily consist of tubular goods and well equipment held for use in our oil and natural gas operations, and oil produced but not sold in our China operations. Inventories are carried at the lower of cost or net realizable value. At June 30, 2017 and December 31, 2016, the crude oil inventory from our China operations consisted of

approximately 105,400 and 11,500 barrels of crude oil, respectively.

4. Derivative Financial Instruments

Commodity Derivative Instruments

We utilize derivative strategies that consist of either a single derivative instrument or a combination of instruments to manage the variability in cash flows associated with the forecasted sale of our future domestic oil and natural gas production. While the use of derivative instruments may limit or partially reduce the downside risk of adverse commodity price movements, their use also may limit future income from favorable commodity price movements. Our derivative strategies are outlined in our Annual Report on Form 10-K for the year ended December 31, 2016.

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NEWFIELD EXPLORATION COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

Our oil and gas derivative contracts are settled based upon reported prices on the NYMEX. The estimated fair value of these contracts is based upon various factors, including closing exchange prices on the NYMEX, over-the-counter quotations, estimated volatility, non-performance risk adjustments using counterparty rates of default and time to maturity. The calculation of the fair value of options requires the use of an option-pricing model. See Note 5, "Fair Value Measurements."

At June 30, 2017, we had outstanding derivative positions as set forth in the tables below.

Crude Oil

Period and Type of Instrument	Volume in MBbls	NYMEX Contract Price Per Bbl					Estimated Fair Value Asset (Liability) (In millions)
		Swaps (Weighted Average)	Purchased Calls (Weighted Average) ⁽²⁾	Sold Puts (Weighted Average) ⁽¹⁾	Collars Floors Ceilings (Weighted Average)		
2017:							
Fixed-price swaps	3,128	\$45.43	\$	—\$	—\$	—\$	—\$ (4)
Fixed-price swaps with sold puts:	2,208						
Fixed-price swaps		87.95	—	—	—	—	91
Sold puts		—	—	73.08	—	—	(61)
Purchased calls	2,208	—	73.08	—	—	—	—
Total							\$ 26

(1) For the fixed-price swaps with sold puts, if the market price remains below our sold puts at contract settlement, we will receive the market price plus the difference between our swaps and our sold puts.

(2) As a result of our purchased calls, we have effectively locked in the spread between our fixed-price swaps and sold puts (less the deferred call premium).

We deferred the premiums related to the purchased calls until contract settlement. At June 30, 2017, the deferred premiums totaled \$5 million.

Natural Gas

Period and Type of Instrument	Volume in MMBtus	NYMEX Contract Price Per MMBtu			Estimated Fair Value Asset (Liability) (In millions)
		Swaps (Weighted Average)	Collars Floors Ceilings (Weighted Average)		
2017:					
Fixed-price swaps	13,800	\$2.73	\$	—\$	—\$ (4)
Collars	28,520	—	2.84	3.25	(2)

2018:

Fixed-price swaps	10,950	3.01	—	—	—
Collars	18,150	—	3.00	3.55	1
Total					\$ (5)

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NEWFIELD EXPLORATION COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

Additional Disclosures about Derivative Financial Instruments

We had derivative financial instruments recorded in our consolidated balance sheet as assets (liabilities) at their respective estimated fair value, as set forth below.

	Derivative Assets				Derivative Liabilities			
	Gross		Offset in Balance Sheet		Gross		Offset in Balance Sheet	
	Fair Value	Balance Sheet	Location	Current/Noncurrent	Fair Value	Balance Sheet	Location	Current/Noncurrent
	(In millions)				(In millions)			
June 30, 2017								
Oil positions	\$95	\$(62)	\$33	\$ —	\$(69)	\$62	\$(7)	\$ —
Natural gas positions	9	(8)	—	1	(14)	8	(6)	—
Total	\$104	\$(70)	\$33	\$ 1	\$(83)	\$70	\$(13)	\$ —
December 31, 2016								
Oil positions	\$226	\$(151)	\$75	\$ —	\$(197)	\$151	\$(46)	\$ —
Natural gas positions	10	(10)	—	—	(64)	10	(51)	(3)
Total	\$236	\$(161)	\$75	\$ —	\$(261)	\$161	\$(97)	\$(3)

The amount of gain (loss) recognized in "Commodity derivative income (expense)" in our consolidated statement of operations and comprehensive income related to our derivative financial instruments follows:

	Three Months Ended June 30, 2017		Six Months Ended June 30, 2017	
	2017	2016	2017	2016
	(In millions)			
Derivatives not designated as hedging instruments:				
Realized gain (loss) on oil positions	\$19	\$58	\$45	\$129
Realized gain (loss) on natural gas positions	(4)	6	(10)	17
Total realized gain (loss)	15	64	35	146
Unrealized gain (loss) on oil positions	(4)	(149)	(3)	(232)
Unrealized gain (loss) on natural gas positions	17	(48)	49	(64)
Total unrealized gain (loss)	13	(197)	46	(296)
Total	\$28	\$(133)	\$81	\$(150)

The use of derivative transactions involves the risk that the counterparties, which generally are financial institutions, will be unable to meet the financial terms of such transactions. Our derivative contracts are with multiple counterparties to minimize our exposure to any individual counterparty, and we have netting arrangements with all of our counterparties that provide for offsetting payables against receivables from the separate derivative instruments with that counterparty. At June 30, 2017, 10 of our 15 counterparties accounted for approximately 84% of our contracted volumes, with the largest counterparty accounting for approximately 13%.

At June 30, 2017, approximately 83% of our volumes subject to derivative instruments are with lenders under our credit facility. Our credit facility, senior notes and substantially all of our derivative instruments contain provisions that provide for cross defaults and acceleration of those debt and derivative instruments in certain situations.

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NEWFIELD EXPLORATION COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

5. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The authoritative guidance requires disclosure of the framework for measuring fair value and requires that fair value measurements be classified and disclosed in one of the following categories:

- Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. We consider active markets as those in which transactions for the assets or liabilities occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability. This category includes those derivative instruments that we Level value using observable market data. Substantially all of these inputs are observable in the marketplace
- 2: throughout the full term of the derivative instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Instruments in this category include non-exchange traded derivatives such as over-the-counter commodity fixed-price swaps. Measured based on prices or valuation models that require inputs that are both significant to the fair value Level measurement and less observable from objective sources (i.e., supported by little or no market activity). Level 3
- 3: instruments primarily include derivative instruments, such as commodity options (i.e., price collars, sold puts, purchased calls or swaptions).

We use a modified Black-Scholes option pricing valuation model for option and swaption derivative contracts that considers various inputs including: (a) forward prices for commodities, (b) time value, (c) volatility factors, (d) counterparty credit risk and (e) current market and contractual prices for the underlying instruments.

Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of the fair value of assets and liabilities and their placement within the fair value hierarchy.

The determination of the fair values of our derivative contracts incorporates various factors, which include not only the impact of our non-performance risk on our liabilities but also the credit standing of the counterparties involved. We utilize counterparty rate of default values to assess the impact of non-performance risk when evaluating both our liabilities to, and receivables from, counterparties.

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NEWFIELD EXPLORATION COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

Recurring Fair Value Measurements

The following table summarizes the valuation of our assets and liabilities that are measured at fair value on a recurring basis.

	Fair Value Measurement Classification			
	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)			
	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		Total
As of December 31, 2016:				
Money market fund investments	\$ 320	\$ —	\$ —	\$ 320
Deferred compensation plan assets	6	—	—	6
Equity securities available-for-sale	9	—	—	9
Oil and gas derivative swap contracts	—	50	—	50
Oil and gas derivative option contracts	—	—	(75)	(75)
Stock-based compensation liability awards	(11)	—	—	(11)
Total	\$ 324	\$ 50	\$ (75)	\$ 299
As of June 30, 2017:				
Money market fund investments	\$ 289	\$ —	\$ —	\$ 289
Deferred compensation plan assets	7	—	—	7
Equity securities available-for-sale	11	—	—	11
Oil and gas derivative swap contracts	—	83	—	83
Oil and gas derivative option contracts	—	—	(62)	(62)
Stock-based compensation liability awards	(12)	—	—	(12)
Total	\$ 295	\$ 83	\$ (62)	\$ 316

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NEWFIELD EXPLORATION COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

Level 3 Fair Value Measurements

The following table sets forth a reconciliation of changes in the fair value of financial assets and liabilities classified as Level 3 in the fair value hierarchy for the indicated periods.

	Derivatives (In millions)
Balance at January 1, 2016	\$ (308)
Unrealized gains (losses) included in earnings	(4)
Purchases, issuances, sales and settlements:	
Settlements	131
Transfers into Level 3	—
Transfers out of Level 3 ⁽¹⁾	46
Balance at June 30, 2016	\$ (135)
Change in unrealized gains or losses included in earnings relating to Level 3 instruments still held at June 30, 2016	\$ 43
Balance at January 1, 2017	\$ (75)
Unrealized gains (losses) included in earnings	(17)
Purchases, issuances, sales and settlements:	
Settlements	30
Transfers into Level 3	—
Transfers out of Level 3	—
Balance at June 30, 2017	\$ (62)
Change in unrealized gains or losses included in earnings relating to Level 3 instruments still held at June 30, 2017	\$ (10)

During the second quarter of 2016, we transferred \$46 million of derivative option contracts out of the Level 3 (1) hierarchy. The transfer was the result of our Level 3 swaptions being exercised by the counterparties as swaps in June 2016.

Qualitative Disclosures about Unobservable Inputs for Level 3 Fair Value Measurements

Derivatives. The calculation of the fair value of our option contracts requires the use of an option-pricing model. The estimated future prices are compared to the strike prices fixed by our derivative contracts, and the resulting estimated future cash inflows or outflows over the contractual life are discounted to calculate the fair value. These pricing and discounting variables are sensitive to market volatility as well as changes in future price forecasts and interest rates. Significant increases (decreases) in the quoted forward prices for commodities generally lead to corresponding decreases (increases) in the fair value measurement of our oil and gas derivative contracts. Significant changes in the volatility factors utilized in our option-pricing model can cause significant changes in the fair value measurement of our oil and gas derivative contracts. Historically, we have not experienced significant changes in the fair value of our derivative contracts resulting from changes in counterparty credit risk as the counterparties for all of our derivative transactions have an "investment grade" credit rating. See Note 4, "Derivative Financial Instruments."

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NEWFIELD EXPLORATION COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

Quantitative Disclosures about Unobservable Inputs for Level 3 Fair Value Measurements

Instrument Type	Estimated Fair Value (Asset or Liability) (In millions)	Valuation Technique	Quantitative Information about Level 3 Fair Value Measurements	
			Unobservable Input	Range
Oil option contracts	\$ (61)	Modified Black-Scholes	Oil price volatility	24.27 % —99.30%
			Credit risk	0.01 % —1.39%
Natural gas option contracts	\$ (1)	Modified Black-Scholes	Natural gas price volatility	24.42 % —46.56%
			Credit risk	0.01 % —1.39%

Fair Value of Debt

The estimated fair value of our notes, based on quoted prices in active markets (Level 1) as of the indicated dates, was as follows:

	June 30, 2017	December 31, 2016
	(In millions)	
5¾% Senior Notes due 2022	\$ 793	\$ 789
5 % Senior Notes due 2024	1,041	1,044
5 % Senior Notes due 2026	726	714

Any amounts outstanding under our revolving credit facility and money market lines of credit as of the indicated dates are stated at cost, which approximates fair value. See Note 10, "Debt."

6. Oil and Gas Properties

Oil and gas properties consisted of the following:

	June 30, 2017	December 31, 2016
	(In millions)	
Proved	\$22,536	\$21,998
Unproved	1,246	1,238
Gross oil and gas properties	23,782	23,236
Accumulated depreciation, depletion and amortization	(9,794)	(9,587)
Accumulated impairment	(10,509)	(10,509)
Net oil and gas properties	\$3,479	\$3,140

Costs withheld from amortization as of June 30, 2017 consisted of the following:

Costs Incurred In				
	2017	2016	2015	2014
				& Total
				Prior

	(In millions)				
Acquisition costs	\$77	\$532	\$339	\$156	\$1,104
Exploration costs	—	—	—	—	—
Capitalized interest	31	51	33	27	142
Total costs withheld from amortization	\$108	\$583	\$372	\$183	\$1,246

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

We capitalized approximately \$31 million and \$30 million of interest and direct internal costs during the three months ended June 30, 2017 and 2016, respectively, and \$64 million and \$56 million during the six months ended June 30, 2017 and 2016, respectively.

At June 30, 2017, the ceiling value of our reserves was calculated based upon SEC pricing of \$48.95 per barrel for oil and \$3.01 per MMBtu for natural gas. Using these prices, our ceiling for the U.S. exceeded the net capitalized costs of oil and gas properties and no ceiling test impairment was required at June 30, 2017. Using SEC pricing, our ceiling for China exceeded the net capitalized costs of oil and gas properties and no ceiling test impairment was required at June 30, 2017.

Future declines in SEC pricing or downward revisions to our estimated proved reserves could result in additional ceiling test impairments of our oil and gas properties in subsequent periods.

Bohai Bay (China) Sales Agreement

On May 22, 2017, we closed our previously disclosed sale transaction with certain of our joint venture partners to divest our non-operated interest in the Bohai Bay field in China for approximately \$32 million, including customary post-close adjustments. Upon completion of our assessment, the sale of our Bohai Bay assets did not significantly alter the relationship between capitalized costs and proved reserves for our China full cost pool and, as such, all proceeds were recorded as adjustments to our China full cost pool with no gain or loss recognized.

7. Other Property and Equipment

Other property and equipment consisted of the following:

	June	December
	30,	31,
	2017	2016
	(In millions)	
Furniture, fixtures and equipment	\$157	\$ 150
Gathering systems and equipment	116	115
Accumulated depreciation and amortization	(107)	(98)
Net other property and equipment	\$166	\$ 167

8. Income Taxes

The effective tax rates for the three months ended June 30, 2017 and 2016 were 8.8% and (1.4)%, respectively. The effective tax rates for the six months ended June 30, 2017 and 2016 were 6.3% and (0.6)%, respectively.

Due to the ceiling test impairments of our oil and gas properties in 2015, we moved from a deferred tax liability position to a deferred tax asset position in most taxing jurisdictions. We consider it more likely than not that the related tax benefits will not be realized and therefore, we recorded a full valuation allowance on our domestic and China deferred tax assets.

As of June 30, 2017, we did not have a liability for uncertain tax positions, and as such, we did not accrue related interest or penalties. The tax years 2011 and 2013 through 2016 remain open to examination for federal income tax purposes and by the other major taxing jurisdictions to which we are subject.

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(Unaudited)

9. Accrued Liabilities

Accrued liabilities consisted of the following:

	June	December
	30,	31,
	2017	2016
	(In millions)	
Revenue payable	\$220	\$ 196
Accrued capital costs	149	92
Accrued lease operating expenses	31	37
Employee incentive expense	24	48
Accrued interest on debt	67	67
Taxes payable	15	15
Other	40	43
Total accrued liabilities	\$546	\$ 498

10. Debt

Our debt consisted of the following:

	June	December
	30,	31,
	2017	2016
	(In millions)	
Senior unsecured debt:		
5¾% Senior Notes due 2022	\$750	\$ 750
5 % Senior Notes due 2024	1,000	1,000
5 % Senior Notes due 2026	700	700
Total senior unsecured debt	2,450	2,450
Debt issuance costs	(18)	(19)
Total long-term debt	\$2,432	\$ 2,431

Credit Arrangements

We have a revolving credit facility that matures in June 2020 and provides borrowing capacity of \$1.8 billion. As of June 30, 2017, the largest individual loan commitment by any lender was 12% of total commitments.

Subject to compliance with restrictive covenants in our credit facility, our available borrowing capacity (before any amounts drawn) under our money market lines of credit with various institutions, the availability of which is at the discretion of those financial institutions, was \$125 million at June 30, 2017.

Loans under the credit facility bear interest, at our option, equal to (a) the Alternate Base Rate (as defined in the Credit Agreement), plus a margin that is based on a grid of our debt rating (100 basis points per annum at June 30, 2017) or (b) the Adjusted Eurodollar Rate (as defined in the Credit Agreement), plus a margin that is based on a grid of our debt rating (200 basis points per annum at June 30, 2017).

Under our credit facility, we pay commitment fees on available but undrawn amounts based on a grid of our debt rating (37.5 basis points per annum at June 30, 2017). We incurred aggregate commitment fees under our credit facility of approximately \$1 million and \$3 million for the three and six months ended June 30, 2017, respectively, which were recorded in "Interest expense" on our consolidated statement of operations and comprehensive income. For the three and six months ended June 30, 2016, we incurred commitment fees under our credit facility of approximately \$2 million and \$4 million, respectively. We incurred approximately \$3 million of financing costs related to amending our revolving credit facility in March 2016, which were also included in "Interest expense" on our consolidated statement of operations and comprehensive income.

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(Unaudited)

Our credit facility has restrictive financial covenants that include the maintenance of a ratio of total debt to book capitalization not to exceed 0.6 to 1.0 and the maintenance of a ratio of net income before gain or loss on the disposition of assets, interest expense, income taxes and noncash items (such as depreciation, depletion and amortization expense, unrealized gains and losses on commodity derivatives and ceiling test impairments) to interest expense of at least 2.5 to 1.0. At June 30, 2017, we were in compliance with all of our debt covenants.

As of June 30, 2017, we had no letters of credit outstanding under our credit facility. Letters of credit are subject to a fronting fee of 20 basis points and annual fees based on a grid of our debt rating (200 basis points at June 30, 2017).

The credit facility includes events of default relating to customary matters, including, among other things, nonpayment of principal, interest or other amounts; violation of covenants; inaccuracy of representations and warranties in any material respect when made; a change of control; or certain other material adverse changes in our business. Our senior notes also contain standard events of default. If any of the foregoing defaults were to occur, our lenders under the credit facility could terminate future lending commitments, and our lenders under both the credit facility and our notes could declare the outstanding borrowings due and payable. In addition, our credit facility, senior notes and substantially all of our derivative arrangements contain provisions that provide for cross defaults and acceleration of those debt and derivative instruments in certain situations.

11. Commitments and Contingencies

We have various commitments for firm transportation, operating lease agreements for office space and other agreements. For further information, see Note 12, "Commitments and Contingencies," in our Annual Report on Form 10-K for the year ended December 31, 2016. There have been no material changes to the commitments disclosed at year-end 2016, other than noted below.

In March 2017, we signed an agreement for firm natural gas transportation capacity for production from the Anadarko Basin. The table below summarizes the value of the obligation by year as of June 30, 2017.

	Total 2017	2018	2019	2020	2021	Thereafter
	(In millions)					
Firm transportation	\$186	\$ —	\$ 9	\$ 18	\$ 18	\$ 123

We have been named as a defendant in a number of lawsuits and are involved in various other disputes, all arising in the ordinary course of our business, such as (a) claims from royalty owners for disputed royalty payments, (b) commercial disputes, (c) personal injury claims and (d) property damage claims. Although the outcome of these lawsuits and disputes cannot be predicted with certainty, we do not expect these matters to have a material adverse effect on our financial position, cash flows or results of operations.

12. Stockholders' Equity Activity

During the first quarter of 2016, we issued 34.5 million additional shares of common stock through a public equity offering for net proceeds of approximately \$776 million. A portion of the proceeds was used to acquire additional properties in the Anadarko Basin STACK play and to repay borrowings under our credit facility and money market lines of credit. The remainder was available for general corporate purposes.

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(Unaudited)

13. Earnings Per Share

The following is the calculation of basic and diluted weighted-average shares outstanding and earnings per share (EPS) for the indicated periods.

	Three Months Ended June 30, 2017		Six Months Ended June 30, 2016	
	2017	2016	2017	2016
	(In millions, except per share data)			
Net income (loss)	\$98	\$(667)	\$245	\$(1,291)
Weighted-average shares (denominator):				
Weighted-average shares — basic	199	198	199	188
Dilution effect of stock options and unvested restricted stock awards and restricted stock units outstanding at end of period	1	—	1	—
Weighted-average shares — diluted	200	198	200	188
Excluded due to anti-dilutive effect	1	2	1	2
Earnings (loss) per share:				
Basic	\$0.49	\$(3.36)	\$1.23	\$(6.87)
Diluted	\$0.49	\$(3.36)	\$1.22	\$(6.87)

14. Stock-Based Compensation

Our stock-based compensation expense consisted of the following:

	Three Months Ended June 30, 2017		Six Months Ended June 30, 2016	
	2017	2016	2017	2016
	(In millions)			
Equity awards	\$13	\$9	\$29	\$18
Liability awards — cash-settled restricted stock units—	7	2	10	
Total stock-based compensation	13	16	31	28
Capitalized in oil and gas properties	(5)	(5)	(10)	(9)
Net stock-based compensation expense	\$8	\$11	\$21	\$19

As of June 30, 2017, we had approximately \$59 million of total unrecognized stock-based compensation expense related to unvested stock-based compensation awards that vest within four years. On June 30, 2017, the last reported sales price of our common stock on the New York Stock Exchange was \$28.46 per share.

During the first quarter of 2017, we changed our qualified retirement requirements for existing market-based restricted stock units and all subsequently issued equity and liability awards. An employee becomes eligible for qualified retirement based on a combination of years of service and age. Under the revised requirements, qualified retirement allows an employee to continue vesting between 50% and 100% of awards with no additional service requirement

beyond a six-month notification period. This change resulted in the accelerated recognition of stock-based compensation expense for unvested market-based restricted stock units previously issued to eligible employees and all new equity and liability awards issued to eligible employees.

Equity Awards

Equity awards consist of service-based and market-based restricted stock awards and restricted stock units, stock options and stock purchase options under the Employee Stock Purchase Plan (ESPP). In May 2017, Newfield adopted the 2017 Omnibus Incentive Plan, as amended (2017 Plan), which replaced the 2011 Omnibus Stock Plan as the vehicle for granting

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equity-based compensation awards. At June 30, 2017, we had approximately (1) 10.4 million shares available for issuance under our 2017 Plan if all future awards are stock options, or (2) 6.2 million shares available for issuance under our 2017 Plan if all future awards are restricted stock awards or restricted stock units.

Restricted Stock and Restricted Stock Units. The following table provides information about restricted stock awards and restricted stock unit activity (excluding cash-settled restricted stock units, which are discussed below).

	Weighted-Average Service-Based		Weighted-Average Market-Based		Weighted-Average Grant		Total
	Shares	Date Fair Value per Share	Shares		Date Fair Value per Share		Shares
	(In thousands, except per share data)						
Non-vested shares outstanding at January 1, 2017	1,574	\$ 35.56	859		\$ 26.28		2,433
Granted	341	38.40	323	(1)	50.22		664
Forfeited	(40)	22.79	(48)		30.27		(88)
Vested	(128)	34.19	(386)		22.85		(514)
Non-vested shares outstanding at June 30, 2017	1,747	\$ 36.28	748		\$ 38.13		2,495

In February 2017, we granted approximately 323,000 restricted stock units, which based on achievement of certain (1) criteria, could vest within a range of 0% to 200% of shares granted upon completion of the period ending December 31, 2019.

Employee Stock Purchase Plan. During the first six months of 2017, options to purchase approximately 61,000 shares of our common stock were issued under our ESPP. The fair value of each option was \$10.73 per share. The fair value of the options granted was determined using the Black-Scholes option valuation method assuming no dividends, a risk-free interest rate of 0.61%, an expected life of six months and weighted-average volatility of 40.2%.

Stock Options. As of June 30, 2017, we had approximately 160,000 stock options outstanding and exercisable. These outstanding stock options expire in January 2018. No stock options have been granted since 2008, except for ESPP options as discussed above.

Liability Awards

Liability awards consist of service-based awards that are settled in cash instead of shares, as discussed below.

Cash-Settled Restricted Stock Units. The value of the cash-settled restricted stock units, and the associated stock-based compensation expense, is based on the Company's stock price at the end of each period. As of June 30, 2017, we had a liability of \$12 million related to these awards. The following table provides information about cash-settled restricted stock unit activity.

	Cash-Settled Restricted Stock Units (In thousands)
Non-vested units outstanding at January 1, 2017	460

Granted	241	
Forfeited	(22)
Vested	(31)
Non-vested units outstanding at June 30, 2017	648	

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15. Segment Information

While we only have operations in the oil and gas exploration and production industry, we are organizationally structured along geographic operating segments. Our current operating segments are the United States and China. The accounting policies of our operating segments are the same as those described in Note 1, "Organization and Summary of Significant Accounting Policies," in our Annual Report on Form 10-K for the year ended December 31, 2016.

The following tables provide the geographic operating segment information for the three and six-month periods ended June 30, 2017 and 2016. Income tax allocations have been determined based on statutory rates in the applicable geographic segment. Our income tax allocation for our China operations is based on the combined statutory rates for China and the United States.

	Dome	China	Total
	(In millions)		
Three Months Ended June 30, 2017:			
Oil, gas and NGL revenues	\$361	\$ 41	\$402
Operating expenses:			
Lease operating	45	13	58
Transportation and processing	71	—	71
Production and other taxes	13	—	13
Depreciation, depletion and amortization	100	10	110
General and administrative	49	2	51
Allocated income tax (benefit)	30	10	
Net income (loss) from oil and gas properties	\$53	\$	