

NEWFIELD EXPLORATION CO /DE/
Form 10-Q
May 03, 2016

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 March 31, 2016

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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

As of April 29, 2016, there were 198,485,340 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)

| | March 31, 2016 | December 31, 2015 |
|---|----------------------|-------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$537 | \$ 5 |
| Accounts receivable, net | 245 | 262 |
| Inventories | 31 | 34 |
| Derivative assets | 234 | 284 |
| Other current assets | 41 | 40 |
| Total current assets | 1,088 | 625 |
| Oil and gas properties, net — full cost method (\$900 and \$780 were excluded from amortization at March 31, 2016 and December 31, 2015, respectively) | 3,403 | 3,819 |
| Other property and equipment, net | 170 | 172 |
| Derivative assets | 65 | 105 |
| Long-term investments | 21 | 20 |
| Other assets | 30 | 27 |
| Total assets | \$4,777 | \$ 4,768 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$49 | \$ 41 |
| Accrued liabilities | 398 | 533 |
| Advances from joint owners | 51 | 58 |
| Asset retirement obligations | 3 | 2 |
| Derivative liabilities | 24 | 13 |
| Total current liabilities | 525 | 647 |
| Other liabilities | 59 | 48 |
| Derivative liabilities | 7 | 9 |
| Long-term debt | 2,429 | 2,467 |
| Asset retirement obligations | 193 | 192 |
| Deferred taxes | 26 | 26 |
| Total long-term liabilities | 2,714 | 2,742 |
| 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 March 31, 2016 and December 31, 2015; 198,823,081 and 164,102,786 shares issued at March 31, 2016 and December 31, 2015, respectively) | 2 | 2 |
| Additional paid-in capital | 3,221 | 2,436 |
| Treasury stock (at cost, 685,517 and 612,469 shares at March 31, 2016 and December 31, 2015, respectively) | (24) | (22) |
| Accumulated other comprehensive gain (loss) | (2) | (2) |
| Retained earnings (deficit) | (1,659) | (1,035) |
| Total stockholders' equity | 1,538 | 1,379 |

| | | |
|--|---------|----------|
| Total liabilities and stockholders' equity | \$4,777 | \$ 4,768 |
|--|---------|----------|

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

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

| | Three Months Ended March 31, | |
|---|------------------------------------|----------|
| | 2016 | 2015 |
| Oil, gas and NGL revenues | \$284 | \$349 |
| Operating expenses: | | |
| Lease operating | 61 | 75 |
| Transportation and processing | 63 | 49 |
| Production and other taxes | 10 | 13 |
| Depreciation, depletion and amortization | 177 | 237 |
| General and administrative | 44 | 63 |
| Ceiling test and other impairments | 506 | 792 |
| Other | 1 | 4 |
| Total operating expenses | 862 | 1,233 |
| Income (loss) from operations | (578) | (884) |
| Other income (expense): | | |
| Interest expense | (41) | (44) |
| Capitalized interest | 9 | 7 |
| Commodity derivative income (expense) | (17) | 153 |
| Other, net | 1 | 8 |
| Total other income (expense) | (48) | 124 |
| Income (loss) before income taxes | (626) | (760) |
| Income tax provision (benefit): | | |
| Current | (2) | 3 |
| Deferred | — | (283) |
| Total income tax provision (benefit) | (2) | (280) |
| Net income (loss) | \$(624) | \$(480) |
| Earnings (loss) per share: | | |
| Basic | \$(3.52) | \$(3.30) |
| Diluted | \$(3.52) | \$(3.30) |
| Weighted-average number of shares outstanding for basic earnings (loss) per share | 177 | 145 |
| Weighted-average number of shares outstanding for diluted earnings (loss) per share | 177 | 145 |

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

NEWFIELD EXPLORATION COMPANY
 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(In millions)
 (Unaudited)

| | Three Months Ended March 31, | |
|---|------------------------------------|---------|
| | 2016 | 2015 |
| Net income (loss) | \$(624) | \$(480) |
| Other comprehensive income (loss): | | |
| Unrealized gain (loss) on investments, net of tax | — | — |
| Other comprehensive income (loss), net of tax | — | — |
| Comprehensive income (loss) | \$(624) | \$(480) |

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)

| | Three Months Ended March 31, | |
|--|------------------------------------|---------|
| | 2016 | 2015 |
| Cash flows from operating activities: | | |
| Net income (loss) | \$(624) | \$(480) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation, depletion and amortization | 177 | 237 |
| Deferred tax provision (benefit) | — | (283) |
| Stock-based compensation | 8 | 15 |
| Unrealized (gain) loss on derivative contracts | 99 | (32) |
| Ceiling test and other impairments | 506 | 792 |
| Other, net | 4 | 6 |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in accounts receivable | 15 | 38 |
| (Increase) decrease in inventories | (4) | 2 |
| (Increase) decrease in other current assets | (1) | 4 |
| (Increase) decrease in other assets | (4) | 1 |
| Increase (decrease) in accounts payable and accrued liabilities | (102) | (105) |
| Increase (decrease) in advances from joint owners | (6) | 14 |
| Increase (decrease) in other liabilities | 4 | (4) |
| Net cash provided by (used in) operating activities | 72 | 205 |
| Cash flows from investing activities: | | |
| Additions to oil and gas properties | (273) | (511) |
| Acquisitions of oil and gas properties | (1) | — |
| Proceeds from sales of oil and gas properties | 3 | 29 |
| Additions to other property and equipment | (4) | (4) |
| Net cash provided by (used in) investing activities | (275) | (486) |
| Cash flows from financing activities: | | |
| Proceeds from borrowings under credit arrangements | 536 | 701 |
| Repayments of borrowings under credit arrangements | (575) | (1,147) |
| Proceeds from issuance of senior notes | — | 691 |
| Debt issue costs | — | (8) |
| Proceeds from issuances of common stock, net | 776 | 815 |
| Purchases of treasury stock, net | (2) | (1) |
| Other | — | (1) |
| Net cash provided by (used in) financing activities | 735 | 1,050 |
| Increase (decrease) in cash and cash equivalents | 532 | 769 |
| Cash and cash equivalents, beginning of period | 5 | 14 |
| Cash and cash equivalents, end of period | \$537 | \$783 |

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 Shares | Amount | Treasury Stock Shares | Amount | Additional Paid-in Capital | Retained Earnings (Deficit) | Accumulated Other Comprehensive Gain (Loss) | Total Stockholders' Equity |
|----------------------------|---------------------------|--------|-----------------------------|----------|----------------------------------|-----------------------------------|--|----------------------------------|
| Balance, December 31, 2015 | 164.1 | \$ 2 | (0.6) | \$ (22) | \$ 2,436 | \$ (1,035) | \$ (2) | \$ 1,379 |
| Issuances of common stock | 34.7 | — | | | 776 | | | 776 |
| Stock-based compensation | | | | | 9 | | | 9 |
| Treasury stock, net | | | (0.1) | (2) | — | | | (2) |
| Net income (loss) | | | | | | (624) | | (624) |
| Balance, March 31, 2016 | 198.8 | \$ 2 | (0.7) | \$ (24) | \$ 3,221 | \$ (1,659) | \$ (2) | \$ 1,538 |

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 operations are focused primarily on large scale, onshore liquids-rich resource plays in the United States. Our principal areas of operation are the Anadarko and Arkoma basins of Oklahoma, the Williston Basin of North Dakota, the Uinta Basin of Utah and the Maverick and Gulf Coast basins of Texas. In addition, we have oil developments 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. 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, 2015.

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. Beginning in the fourth quarter of 2014, crude oil prices declined significantly primarily due to global supply and demand imbalances. Crude oil prices continued to decline in 2015 and have remained depressed in the first quarter of 2016. Other risks and uncertainties that could affect us in the current 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, access to credit markets, regulatory risks and ability to meet financial ratios and covenants in our financing agreements.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America 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)

Restricted Cash

We have restricted cash of \$17 million included in "Other assets" on our consolidated balance sheet at March 31, 2016 that represents amounts held in escrow accounts to satisfy future plug and abandonment obligations for our China operations. These amounts are restricted as to their current use and will be released as we plug and abandon wells and facilities in our China field. Consistent with our other plug and abandonment activities, changes in restricted cash are included in cash flows from operating activities in our consolidated statement of cash flows.

New Accounting Requirements

In March 2016, the Financial Accounting Standards Board (FASB) issued guidance regarding the simplification of share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The guidance is effective for interim and annual periods beginning after December 15, 2016, with early adoption permitted. We are currently evaluating the impact of this guidance on our financial statements.

In February 2016, the FASB issued guidance regarding the accounting for leases. The guidance requires recognition of most lease assets and liabilities by lessees for those leases classified as operating leases. 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.

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 are currently evaluating the impact of this guidance on our financial statements.

In August 2014, the FASB issued guidance regarding disclosures of uncertainties about an entity's ability to continue as a going concern. The guidance applies prospectively to all entities, requiring management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern and disclose certain information when substantial doubt is raised. We will adopt this guidance for the annual period ending December 31, 2016.

In May 2014, the FASB issued guidance regarding the accounting for revenue from contracts with customers. The guidance may be applied retrospectively or using a modified retrospective approach to adjust retained earnings (deficit). In July 2015, the FASB approved a deferral of the effective date by one year. As a result, the guidance is effective for interim and annual periods beginning on or after December 15, 2017. We are currently evaluating the impact of this guidance on our financial statements.

2. Accounts Receivable

Accounts receivable consisted of the following:

| | March 31, 2016 | December 31, 2015 |
|---------|----------------|-------------------|
| Revenue | \$97 | \$ 94 |

| | | |
|--------------------------------|-------|--------|
| Joint interest | 119 | 125 |
| Other | 45 | 59 |
| Reserve for doubtful accounts | (16) | (16) |
| Total accounts receivable, net | \$245 | \$ 262 |

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. At March 31, 2016 and December 31, 2015, the crude oil inventory from our China operations consisted of approximately 180,000 and 335,000 barrels of crude oil, respectively.

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NEWFIELD EXPLORATION COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

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.

In addition to the derivative strategies outlined in our Annual Report on Form 10-K for the year ended December 31, 2015, we also utilize swaptions from time to time. A swaption is an option to exercise a swap where the buyer (counterparty) of the swaption purchases the right from the seller (Newfield), but not the obligation, to enter into a fixed-price swap with the seller on a predetermined date (expiration date). The swap price is a fixed price determined at the time of the swaption contract. If the swaption is exercised, the contract will become a swap treated consistent with our other fixed-price swaps.

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 credit default swaps 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 March 31, 2016, we had outstanding derivative positions as set forth in the tables below.

Crude Oil

| Period and Type of Instrument | NYMEX Contract Price Per Bbl | | | | | | Estimated Fair Value Asset (Liability) (In millions) |
|-----------------------------------|------------------------------|--------------------------------|--|---|---------------------------------|-----------------------------------|---|
| | Volume in MBbls | Swaps (Weighted Average) | Purchased Calls (Weighted Average) ⁽²⁾ | Sold Puts (Weighted Average) ⁽¹⁾ | Floors (Weighted Average) | Ceilings (Weighted Average) | |
| 2016: | | | | | | | |
| Fixed-price swaps | 920 | \$42.32 | \$ | —\$ | —\$ | —\$ | —\$ — |
| Fixed-price swaps with sold puts: | 7,057 | | | | | | |
| Fixed-price swaps | | 89.98 | — | — | — | — | 339 |
| Sold puts | | — | — | 74.42 | — | — | (231) |
| Collars with sold puts: | 4,673 | | | | | | |
| Collars | | — | — | — | 90.00 | 96.10 | 225 |
| Sold puts | | — | — | 75.00 | — | — | (156) |
| Swaptions ⁽³⁾ | — | 42.67 | — | — | — | — | (14) |
| Purchased calls | 8,181 | — | 73.35 | — | — | — | 1 |
| 2017: | | | | | | | |
| Fixed-price swaps | 4,380 | 45.38 | — | — | — | — | 2 |
| Fixed-price swaps with sold puts: | 4,468 | | | | | | |

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| | | | | | | |
|-------------------------|-------|---|-------|-------|-------|--------|
| Fixed-price swaps | 88.37 | — | — | — | — | 190 |
| Sold puts | — | — | 73.28 | — | — | (128) |
| Collars with sold puts: | 2,080 | | | | | |
| Collars | — | — | — | 90.00 | 95.59 | 93 |
| Sold puts | — | — | 75.00 | — | — | (64) |
| Purchased calls | 6,548 | — | 73.81 | — | — | 5 |
| Total | | | | | | \$ 262 |

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NEWFIELD EXPLORATION COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

(1) For the volumes with sold puts, if the market prices remain below our sold puts at contract settlement, we will receive the market price plus the following:

- the difference between our floors and our sold puts for collars with sold puts; or
- the difference between our swaps and our sold puts for fixed-price swaps with sold puts.

We have effectively locked in the spreads noted above (less the deferred call premium) for a portion of the volumes with sold puts through the use of purchased calls.

(2) We deferred the premiums related to the purchased calls until contract settlement. At March 31, 2016, the deferred premiums totaled \$21 million.

(3) During the first quarter of 2016, we sold crude oil swaption contracts that, if exercised on their expiration date in June 2016, would protect 4,416 MBbls of July through December 2016 production with \$42.67 per Bbl fixed price swaps.

Natural Gas

| Period and Type of Instrument | Volume in MMMBtus | NYMEX Contract Price Per MMBtu | | | | Estimated Fair Value Asset (Liability) (In millions) |
|-------------------------------|----------------------|--------------------------------|------------------------------------|--|-----------------------------------|---|
| | | Swaps (Weighted Average) | Sold Puts (Weighted Average) | Collars Floors (Weighted Average) | Ceilings (Weighted Average) | |
| 2016: | | | | | | |
| Swaptions ⁽¹⁾ | — | \$2.28 | \$ | —\$ | —\$ | (8) |
| Collars | 8,250 | — | — | 4.00 | 4.54 | 15 |
| 2017: | | | | | | |
| Fixed-price swaps | 27,375 | 2.73 | — | — | — | (1) |
| Collars | 29,200 | — | — | 2.64 | 2.93 | — |
| Total | | | | | | \$ 6 |

During the first quarter of 2016, we sold natural gas swaption contracts that, if exercised on their expiration date in (1) June 2016, would protect 36,800 MMBtus of July through December 2016 production with \$2.28 per MMBtu fixed price swaps.

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.

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NEWFIELD EXPLORATION COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

| | Derivative Assets | | | | Derivative Liabilities | | | |
|-----------------------|-------------------|-------------------------|------------------------|------------|------------------------|-------------------------|------------------------|------------|
| | Gross Fair Value | Offset in Balance Sheet | Balance Sheet Location | Noncurrent | Gross Fair Value | Offset in Balance Sheet | Balance Sheet Location | Noncurrent |
| | (In millions) | | | | (In millions) | | | |
| March 31, 2016 | | | | | | | | |
| Oil positions | \$803 | \$(519) | \$219 | \$ 65 | \$(541) | \$ 519 | \$(15) | \$ (7) |
| Natural gas positions | 15 | — | 15 | — | (9) | — | (9) | — |
| Total | \$818 | \$(519) | \$234 | \$ 65 | \$(550) | \$ 519 | \$(24) | \$ (7) |
| December 31, 2015 | | | | | | | | |
| Oil positions | \$1,005 | \$(638) | \$262 | \$ 105 | \$(660) | \$ 638 | \$(13) | \$ (9) |
| Natural gas positions | 22 | — | 22 | — | — | — | — | — |
| Total | \$1,027 | \$(638) | \$284 | \$ 105 | \$(660) | \$ 638 | \$(13) | \$ (9) |

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

| | Three Months Ended March 31, 2016 | | 2015 | |
|--|-----------------------------------|-------|------|--|
| | (In millions) | | | |
| Derivatives not designated as hedging instruments: | | | | |
| Realized gain (loss) on oil positions | \$71 | \$96 | | |
| Realized gain (loss) on natural gas positions | 11 | 25 | | |
| Total realized gain (loss) | 82 | 121 | | |
| Unrealized gain (loss) on oil positions | (83) | 37 | | |
| Unrealized gain (loss) on natural gas positions | (16) | (5) | | |
| Total unrealized gain (loss) | (99) | 32 | | |
| Total | \$(17) | \$153 | | |

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 separate derivative instruments with that counterparty. At March 31, 2016, 10 of our 15 counterparties accounted for approximately 85% of our contracted volumes, with the largest counterparty accounting for approximately 12%.

At March 31, 2016, approximately 86% 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.

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.
- Level 2: 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

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NEWFIELD EXPLORATION COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

value using observable market data. Substantially all of these inputs are observable in the marketplace 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 and certain investments.

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 instruments primarily include derivative instruments, such as commodity options (i.e., price collars, sold puts, purchased calls or swaptions) and other financial investments.

Our valuation models for derivative contracts are primarily industry-standard models (i.e., Black-Scholes) that consider 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.

Our valuation model for the Stockholder Value Appreciation Program (SVAP) was a Monte Carlo simulation that was based on a probability model and considers various inputs including: (a) the measurement date stock price, (b) time value and (c) historical and implied volatility.

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 and the impact of credit enhancements (such as cash deposits, letters of credit and priority interests), if any. We utilize credit default swap values to assess the impact of non-performance risk when evaluating both our liabilities to, and receivables from, counterparties.

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(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 |
| | (In millions) | | | |
| As of December 31, 2015: | | | | |
| Money market fund investments | \$2 | \$ — | \$ — | \$2 |
| Deferred compensation plan assets | 5 | — | — | 5 |
| Equity securities available-for-sale | 8 | — | — | 8 |
| Oil and gas derivative swap contracts | — | 675 | — | 675 |
| Oil and gas derivative option contracts | — | — | (308) | (308) |
| Stock-based compensation liability awards | (12) | — | — | (12) |
| Total | \$3 | \$ 675 | \$ (308) | \$370 |
| As of March 31, 2016: | | | | |
| Money market fund investments | \$529 | \$ — | \$ — | \$529 |
| Deferred compensation plan assets | 5 | — | — | 5 |
| Equity securities available-for-sale | 8 | — | — | 8 |
| Oil and gas derivative swap contracts | — | 530 | — | 530 |
| Oil and gas derivative option and swaption contracts | — | — | (262) | (262) |
| Stock-based compensation liability awards | (14) | — | — | (14) |
| Total | \$528 | \$ 530 | \$ (262) | \$796 |

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NEWFIELD EXPLORATION COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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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 | Stock-Based Compensation | Total |
|--|-------------|-----------------------------|---------|
| Balance at January 1, 2015 | \$(381) | \$ (3) | \$(384) |
| Realized or unrealized gains (losses) included in earnings | (21) | (5) | (26) |
| Purchases, issuances, sales and settlements: | | | |
| Settlements | 70 | — | 70 |
| Transfers into Level 3 | — | — | — |
| Transfers out of Level 3 | — | — | — |
| Balance at March 31, 2015 | \$(332) | \$ (8) | \$(340) |
| Change in unrealized gains or losses included in earnings relating to Level 3 instruments still held at March 31, 2015 | \$(4) | \$ (5) | \$(9) |
| Balance at January 1, 2016 | \$(308) | \$ — | \$(308) |
| Realized or unrealized gains (losses) included in earnings | (46) | — | (46) |
| Purchases, issuances, sales and settlements: | | | |
| Settlements | 92 | — | 92 |
| Transfers into Level 3 | — | — | — |
| Transfers out of Level 3 | — | — | — |
| Balance at March 31, 2016 | \$(262) | \$ — | \$(262) |
| Change in unrealized gains or losses included in earnings relating to Level 3 instruments still held at March 31, 2016 | \$(32) | \$ — | \$(32) |

Qualitative Disclosures about Unobservable Inputs for Level 3 Fair Value Measurements

Derivatives. Our valuation models for Level 3 derivative contracts are primarily industry-standard models that consider various factors, including certain significant unobservable inputs such as volatility factors and counterparty credit risk. 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, regional price differences 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," for additional discussion of our derivative instruments.

Stock-Based Compensation. The calculation of the fair value of the SVAP liability required the use of a probability-based Monte Carlo simulation, which included unobservable inputs. The simulation predicted multiple scenarios of future stock returns over the performance period, which were discounted to calculate the fair value. The

fair value was recognized over a service period derived from the simulation. The SVAP performance period and program ended December 31, 2015.

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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 | \$ (269) | Black-Scholes | Oil price volatility | 29.27 % —62.39% |
| | | | Credit risk | 0.02 % —2.06% |
| Natural gas option and swaption contracts | \$ 7 | Black-Scholes | Natural gas price volatility | 25.51 % —70.20% |
| | | | Credit risk | 0.03 % —2.06% |

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:

| | March 31, 2016 | December 31, 2015 |
|---------------------------|----------------|-------------------|
| | (In millions) | |
| 5¾% Senior Notes due 2022 | \$ 732 | \$ 668 |
| 5 % Senior Notes due 2024 | 945 | 831 |
| 5 % Senior Notes due 2026 | 644 | 542 |

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. Please see Note 10, "Debt."

6. Oil and Gas Properties

Oil and gas properties consisted of the following:

| | March 31, 2016 | December 31, 2015 |
|--|----------------|-------------------|
| | (In millions) | |
| Proved | \$21,704 | \$21,568 |
| Unproved | 900 | 780 |
| Gross oil and gas properties | 22,604 | 22,348 |
| Accumulated depreciation, depletion and amortization | (9,214) | (9,048) |
| Accumulated impairment | (9,987) | (9,481) |
| Net oil and gas properties | \$3,403 | \$3,819 |

Costs withheld from amortization as of March 31, 2016 consisted of the following:

| Costs Incurred In | 2016 | 2015 | 2014 | 2013 | Total |
|-------------------|---------------|------|------|------|-------|
| | (In millions) | | | | |

| | | | | | |
|---|-------|-------|-------|-------|-------|
| Acquisition costs | \$23 | \$339 | \$165 | \$123 | \$650 |
| Exploration costs | 125 | 34 | — | — | 159 |
| Capitalized interest | 9 | 33 | 49 | — | 91 |
| Total costs withheld from amortization (unproved) | \$157 | \$406 | \$214 | \$123 | \$900 |

We capitalized approximately \$26 million and \$32 million of interest and direct internal costs during the three months ended March 31, 2016 and 2015, respectively.

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NEWFIELD EXPLORATION COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

At March 31, 2016, the ceiling value of our reserves was calculated based upon SEC pricing of \$46.23 per barrel for oil and \$2.40 per MMBtu for natural gas, adjusted for market differentials. Using these prices, our ceiling for the U.S. did not exceed the net capitalized costs of oil and gas properties resulting in a ceiling test writedown. Our domestic ceiling test writedown was approximately \$461 million (\$461 million after tax due to a full valuation allowance on related deferred tax assets) for the three months ended March 31, 2016.

Using SEC pricing, our ceiling for China at March 31, 2016 did not exceed the net capitalized costs of oil and gas properties, resulting in a ceiling test writedown for the three months of approximately \$45 million (\$45 million after tax due to a full valuation allowance on related deferred tax assets).

The continued decline of SEC pricing for oil and natural gas reserves subsequent to March 31, 2016 will likely result in additional ceiling test writedowns in the second quarter of 2016 and possibly thereafter.

7. Other Property and Equipment

Other property and equipment consisted of the following:

| | March 31, 2016 | December 31, 2015 |
|---|----------------------|-------------------------|
| | (In millions) | |
| Furniture, fixtures and equipment | \$ 155 | \$ 152 |
| Gathering systems and equipment | 115 | 115 |
| Accumulated depreciation and amortization | (100) | (95) |
| Net other property and equipment | \$ 170 | \$ 172 |

8. Income Taxes

The following table presents a reconciliation of the United States statutory income tax rate to our effective income tax rate.

| | Three Months Ended March 31, | |
|---|------------------------------------|--------|
| | 2016 | 2015 |
| U.S. statutory income tax rate | 35.0 % | 35.0 % |
| State and local income taxes, net of federal effect | 0.8 | 2.2 |
| Valuation allowance, domestic | (34.4) | — |
| Valuation allowance, international | (3.0) | — |
| Foreign tax on foreign earnings | 2.3 | (0.3) |
| Other | (0.4) | (0.1) |
| Effective income tax rate | 0.3 % | 36.8 % |

Due to the ceiling test writedowns of our oil and gas properties in 2015, we moved from a deferred tax liability position to a deferred tax asset position in various taxing jurisdictions. With the continuation of low commodity price levels, we consider it more likely than not that the related tax benefits will not be realized and therefore, we have a valuation allowance on our domestic and China deferred tax assets. These valuation allowances significantly reduced our effective income tax rate in the first quarter of 2016.

As of March 31, 2016, 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 through 2015 remain open to examination for federal income tax purposes and by the other major taxing jurisdictions to which we are subject.

9. Accrued Liabilities

Accrued liabilities consisted of the following:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

| | March | December |
|----------------------------------|---------------|----------|
| | 31, | 31, |
| | 2016 | 2015 |
| | (In millions) | |
| Revenue payable | \$ 141 | \$ 164 |
| Accrued capital costs | 108 | 128 |
| Accrued lease operating expenses | 37 | 48 |
| Employee incentive expense | 17 | 53 |
| Accrued interest on debt | 31 | 66 |
| Taxes payable | 20 | 25 |
| Other | 44 | 49 |
| Total accrued liabilities | \$ 398 | \$ 533 |

10. Debt

Our debt consisted of the following:

| | March | December |
|---|---------------|----------|
| | 31, | 31, |
| | 2016 | 2015 |
| | (In millions) | |
| Senior unsecured debt: | | |
| Revolving credit facility — LIBOR based loans (matures in 2020) | \$— | \$— |
| Money market lines of credit ⁽¹⁾ | — | 39 |
| Total credit arrangements | — | 39 |
| 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 | 2,489 |
| Debt issuance costs | (21) | (22) |
| Total long-term debt | \$2,429 | \$ 2,467 |

Because we have the ability and intent to use our available credit facility capacity to repay borrowings under our (1) money market lines of credit as of the indicated dates, amounts outstanding under these obligations, if any, are classified as long-term debt.

Credit Arrangements

In March 2016, we entered into the fifth amendment to our Credit Agreement. This amendment changed certain definitions related to our financial covenants and decreased our interest rate coverage ratio from 3.0:1.0 to 2.5:1.0. Our borrowing capacity remains at \$1.8 billion and the facility maturity date remains June 2020. We incurred approximately \$3 million of financing costs related to this amendment, which were included in "Interest expense" on our consolidated statement of operations. As of March 31, 2016, the largest individual loan commitment by any lender was 12% of total commitments.

During the first quarter of 2016, our debt rating was downgraded by rating agencies, and as a result, our borrowing costs increased by 50 basis points. In addition, 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 reduced from \$195 million at December 31, 2015 to \$160 million at March 31, 2016. This borrowing capacity is subject to compliance with restrictive covenants in our credit facility.

Loans under the credit facility bear interest, at our option, equal to (a) a rate per annum equal to the higher of the prime rate announced from time to time by JPMorgan Chase Bank, N.A. or the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System during the last preceding business day plus 50 basis points, plus a

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margin that is based on a grid of our debt rating (125 basis points per annum at March 31, 2016) or (b) the London Interbank Offered Rate, plus a margin that is based on a grid of our debt rating (225 basis points per annum at March 31, 2016).

Under our credit facility, we pay commitment fees on available but undrawn amounts based on a grid of our debt rating (42.5 basis points per annum at March 31, 2016). We incurred aggregate commitment fees under our credit facility of approximately \$2 million and \$1 million for each of the three-month periods ended March 31, 2016 and 2015, respectively, which were recorded in "Interest expense" on our consolidated statement of operations.

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 maintenance of a ratio of earnings 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 writedowns) to interest expense of at least 2.5 to 1.0. At March 31, 2016, we were in compliance with all of our debt covenants.

As of March 31, 2016, 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 (225 basis points at March 31, 2016).

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.

Senior Notes and Senior Subordinated Notes

In March 2015, we issued \$700 million of 5 % Senior Notes due 2026 and received net proceeds of \$691 million (net of offering costs of approximately \$9 million). These notes were issued at par to yield 5 %. In April 2015, we used the net proceeds and cash on hand to redeem our \$700 million aggregate principal amount of 6 % Senior Subordinated Notes due 2020. In connection with the redemption, we paid a premium of \$24 million. The premium was recorded under the caption "Other income (expense) — Other, net" on our consolidated statement of operations. In addition, associated unamortized offering costs and discounts of approximately \$8 million were charged to interest expense during the second quarter of 2015 as a result of the redemption.

11. Commitments and Contingencies

In May 2015, a lawsuit was filed against the Company alleging certain plugging and abandonment predecessor-in-interest liabilities related to offshore assets sold by the Company in 2010. The lawsuit alleges damages of approximately \$23 million. The Company has responded to the petition, denied the allegations and is vigorously defending the case. The court has held that the Company must bear a "portion" of the plugging and abandonment costs, but the "exact percentage" of such costs should be determined in arbitration. The court case is stayed pending arbitration. An estimate of reasonably possible losses, if any, cannot be made at this time.

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. We received net proceeds of approximately \$776 million, a portion of which was used to repay borrowings under our credit facility and money market lines of credit.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

During the first quarter of 2015, we issued 25.3 million additional shares of common stock through a public equity offering. We received net proceeds of approximately \$815 million, which were used primarily to repay all borrowings under our credit facility and money market lines of credit that were outstanding at that time.

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 March 31, 2016 2015 (In millions, except per share data) | |
|--|---|----------|
| Net income (loss) | \$(624) | \$(480) |
| Weighted-average shares (denominator): | | |
| Weighted-average shares — basic | 177 | 145 |
| Dilution effect of stock options and unvested restricted stock awards and restricted stock units outstanding at end of period ⁽¹⁾ | — | — |
| Weighted-average shares — diluted | 177 | 145 |
| Earnings (loss) per share: | | |
| Basic | \$(3.52) | \$(3.30) |
| Diluted | \$(3.52) | \$(3.30) |

The effect of unvested restricted stock awards or restricted stock units and stock options has not been included in the calculation of shares outstanding for diluted EPS for the three months ended March 31, 2016 and 2015, as their effect would have been anti-dilutive. Had we recognized net income for the quarter, incremental shares attributable to the assumed vesting of unvested restricted stock awards and restricted stock units and the assumed exercise of outstanding stock options would have increased diluted weighted-average shares outstanding by 1.2 million and 1.3 million shares for the three months ended March 31, 2016 and 2015, respectively.

14. Stock-Based Compensation

Our stock-based compensation consisted of the following:

| | Three Months Ended March 31, 20162015 (In millions) | |
|---------------|--|------|
| Equity awards | \$9 | \$10 |

Liability awards:

| | | |
|--|------|------|
| Cash-settled restricted stock units | 3 | 7 |
| Stockholder Value Appreciation Program | — | 5 |
| Total liability awards | 3 | 12 |
| Total stock-based compensation | 12 | 22 |
| Capitalized in oil and gas properties | (4) | (7) |
| Net stock-based compensation expense | \$8 | \$15 |

As of March 31, 2016, we had approximately \$66 million of total unrecognized stock-based compensation expense related to unvested stock-based compensation awards that vest within four years.

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(Unaudited)

Equity Awards

Equity awards consist of service-based and performance- or market-based restricted stock awards and restricted stock units, stock options and stock purchase options under the Employee Stock Purchase Plan (ESPP). At March 31, 2016, we had approximately (1) 5.9 million shares available for issuance under our 2011 Omnibus Stock Plan, as amended (2011 Plan), if all future awards are stock options, or (2) 3.1 million shares available for issuance under our 2011 Plan if all future awards are restricted stock awards or restricted stock units.

Restricted Stock. The following table provides information about restricted stock awards and restricted stock unit activity.

| | Service-Based Shares | Weighted- Average Grant Date Fair Value per Share | Performance/ Market-Based Shares | Weighted- Average Grant Date Fair Value per Share | Total Shares |
|--|-------------------------|--|--|--|-----------------|
| (In thousands, except per share data) | | | | | |
| Non-vested shares outstanding at January 1, 2016 | 1,700 | \$ 30.30 | 1,074 | \$ 23.76 | 2,774 |
| Granted ⁽¹⁾ | 308 | 23.97 | 436 | 28.94 | 744 |
| Forfeited | (8) | 27.17 | — | — | (8) |
| Vested | (215) | 30.08 | (5) | 56.49 | (220) |
| Non-vested shares outstanding at March 31, 2016 | 1,785 | \$ 29.24 | 1,505 | \$ 25.14 | 3,290 |

(1) In February 2016, we granted approximately 436,000 shares of restricted stock units, which based on achievement of certain performance criteria, could vest within a range of 0% to 200% of shares granted.

Employee Stock Purchase Plan. During the first three months of 2016, options to purchase approximately 65,000 shares of our common stock were granted under our ESPP. The fair value of each option was \$9.20 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 0.47%, an expected life of six months and weighted-average volatility of 47.9%.

Stock Options. As of March 31, 2016, we had approximately 190,000 stock options outstanding and exercisable. No stock options have been granted since 2008, except for ESPP options as discussed above.

Liability Awards

Liability awards consist of performance 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. On March 31, 2016, the last reported sales price of our common stock on the New York Stock Exchange was \$33.25 per share. As of March 31, 2016, we had a liability of \$14 million for future cash settlement upon vesting of awards and unrecognized cash-settled stock-based compensation expense of approximately \$14 million. 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, 2016 | 708 |
| Granted | 295 |
| Forfeited | (14) |
| Vested | (4) |
| Non-vested units outstanding at March 31, 2016 | 985 |

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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, 2015.

The following tables provide the geographic operating segment information for the three-month periods ended March 31, 2016 and 2015. Income tax allocations have been determined based on statutory rates in the applicable geographic segment. Our income tax allocation of our China operations is based on the combined statutory rates for China and the United States.

| | Domestic | China | Total |
|--|---------------|---------|----------|
| | (In millions) | | |
| Three Months Ended March 31, 2016: | | | |
| Oil, gas and NGL revenues | \$235 | \$49 | \$284 |
| Operating expenses: | | | |
| Lease operating | 47 | 14 | 61 |
| Transportation and processing | 63 | — | 63 |
| Production and other taxes | 10 | — | 10 |
| Depreciation, depletion and amortization | 133 | 44 | 177 |
| General and administrative | 43 | 1 | 44 |
| Ceiling test and other impairments | 461 | 45 | 506 |
| Other | 1 | — | 1 |
| Allocated income tax (benefit) | (194) | (33) | |
| Net income (loss) from oil and gas properties | \$(329) | \$(22) | |
| Total operating expenses | | | 862 |
| Income (loss) from operations | | | (578) |
| Interest expense, net of interest income, capitalized interest and other | | | (31) |
| Commodity derivative income (expense) | | | (17) |
| Income (loss) from operations before income taxes | | | \$(626) |
| Total assets | \$4,540 | \$237 | \$4,777 |
| Additions to long-lived assets | \$261 | \$— | \$261 |

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(Unaudited)

| | Domestic | China | Total |
|--|---------------|-------|----------|
| | (In millions) | | |
| Three Months Ended March 31, 2015: | | | |
| Oil, gas and NGL revenues | \$303 | \$46 | \$349 |
| Operating expenses: | | | |
| Lease operating | 65 | 10 | 75 |
| Transportation and processing | 49 | — | 49 |
| Production and other taxes | 13 | — | 13 |
| Depreciation, depletion and amortization | 212 | 25 | 237 |
| General and administrative | 61 | 2 | 63 |
| Ceiling test and other impairments | 792 | — | 792 |
| Other | 3 | 1 | 4 |
| Allocated income tax (benefit) | (330) |) 5 | |
| Net income (loss) from oil and gas properties | \$(562) |) \$3 | |
| Total operating expenses | | | 1,233 |
| Income (loss) from operations | | | (884) |
| Interest expense, net of interest income, capitalized interest and other | | | (29) |
| Commodity derivative income (expense) | | | 153 |
| Income (loss) from operations before income taxes | | | \$(760) |
| Total assets | \$8,978 | \$673 | \$9,651 |
| Additions to long-lived assets | \$396 | \$12 | \$408 |

16. Supplemental Cash Flow Information

The following table presents information about investing and financing activities that affect recognized assets and liabilities but do not result in cash receipts or payments for the indicated periods.

| | Three Months Ended March 31, 2016 | 2015 |
|--|---|------|
| | (In millions) | |
| Non-cash investing and financing activities excluded from the statement of cash flows: | | |
| (Increase) decrease in receivables for property sales | \$ 2 | \$ 7 |
| (Increase) decrease in accrued capital expenditures | 20 | 109 |
| (Increase) decrease in asset retirement costs | — | 3 |

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

We are an independent energy company engaged in the exploration, development and production of crude oil, natural gas and natural gas liquids. Our operations are focused primarily on large scale, onshore liquids-rich resource plays in the United States. Our principal areas of operation are the Anadarko and Arkoma basins of Oklahoma, the Williston Basin of North Dakota, the Uinta Basin of Utah and the Maverick and Gulf Coast basins of Texas. In addition, we have oil developments offshore China.

Significant first quarter 2016 highlights include:

34.5 million additional shares of common stock issued through a public equity offering for net proceeds of approximately \$776 million, a portion of which was used to repay all outstanding borrowings under our credit facility and money market lines of credit. The remainder is being used for general corporate purposes including funding our 2016 capital budget, as needed;

- total domestic production increased 1% from the fourth quarter of 2015 to 13.3 MMBOE. Compared to the first quarter of 2015, first quarter of 2016 domestic production increased 17%;

production in the first quarter of 2016 in the Anadarko Basin of Oklahoma was 7.1 MMBOE, up 50% over the same period of 2015 and 4% over the fourth quarter of 2015. Anadarko Basin crude oil production increased more than 70% over the first quarter of 2015;

• China production was up approximately 15% to 1.6 MMBbls over the fourth quarter of 2015 and approximately 81% over the first quarter of 2015; and

trend of lower consolidated lease operating expense, both recurring and major expense, continued with a 9% decrease (11% on a per BOE basis) in the first quarter of 2016 compared to the fourth quarter of 2015. Compared to the first quarter of 2015, first quarter of 2016 consolidated lease operating expense decreased 33% on a per BOE basis.

All consolidated and domestic BOE calculations above exclude natural gas produced and consumed in operations of 1.5 Bcf for the first quarter of 2016, 1.7 Bcf for the fourth quarter of 2015 and 2.2 Bcf for the first quarter of 2015.

Results of Operations

Our operations consist of exploration, development and production activities in the United States and China.

Domestic Revenues and Production. Revenues during the first quarter of 2016 were \$68 million lower than the same period of 2015. The lower revenues were attributable to a 34% decrease in the average revenue per BOE compared to the first quarter of 2015. We increased our domestic liquids production by 15% and gas production by 20% compared to the first quarter of 2015, reducing the impact of lower prices by \$27 million and \$15 million, respectively. Our Anadarko Basin oil, gas and NGL production increased by 71%, 47% and 35%, respectively. Williston Basin production increased by 20% primarily due to the sale of natural gas fuel and flare volumes that were previously produced and consumed in operations. Production in our other domestic basins declined as compared to the first quarter of 2015 due to the reduction of our development activities in those areas.

China Revenues and Production/Liftings. Revenues from China of \$49 million for the first quarter of 2016 were 7% higher than the comparable period of 2015, which is primarily due to achieving full production levels for the six development wells in the Pearl development in May 2015, partially offset by a 41% decrease in price per barrel for crude oil and condensate. Our first quarter 2016 liftings increased 737 MBbls, or approximately 81%, over the first

quarter of 2015. During the first quarter of 2016, we managed Pearl well production performance and maintained a plateau of 14,600 barrels of oil per day (net).

The following table reflects our production/liftings and average realized commodity prices:

| | Three Months Ended March 31, | | Percentage Increase (Decrease) | |
|------------------------------------|------------------------------------|---------|--------------------------------------|---|
| | 2016 | 2015 | | |
| Production/Liftings: | | | | |
| Domestic: ⁽¹⁾ | | | | |
| Crude oil and condensate (MBbls) | 5,335 | 4,950 | 8 | % |
| Natural gas (Bcf) | 32.9 | 27.3 | 20 | % |
| NGLs (MBbls) | 2,476 | 1,849 | 34 | % |
| Total (MBOE) | 13,288 | 11,355 | 17 | % |
| China: ⁽²⁾ | | | | |
| Crude oil and condensate (MBbls) | 1,643 | 906 | 81 | % |
| Total: | | | | |
| Crude oil and condensate (MBbls) | 6,978 | 5,856 | 19 | % |
| Natural gas (Bcf) | 32.9 | 27.3 | 20 | % |
| NGLs (MBbls) | 2,476 | 1,849 | 34 | % |
| Total (MBOE) | 14,931 | 12,261 | 22 | % |
| Average Realized Prices: | | | | |
| Domestic: ⁽³⁾ | | | | |
| Crude oil and condensate (per Bbl) | \$25.72 | \$38.21 | (33) | % |
| Natural gas (per Mcf) | 1.83 | 2.70 | (32) | % |
| NGLs (per Bbl) | 14.75 | 19.96 | (26) | % |
| Crude oil equivalent (per BOE) | 17.70 | 26.64 | (34) | % |
| China: | | | | |
| Crude oil and condensate (per Bbl) | \$29.89 | \$50.78 | (41) | % |
| Total: | | | | |
| Crude oil and condensate (per Bbl) | \$26.70 | \$40.15 | (33) | % |
| Natural gas (per Mcf) | 1.83 | 2.70 | (32) | % |
| NGLs (per Bbl) | 14.75 | 19.96 | (26) | % |
| Crude oil equivalent (per BOE) | 19.04 | 28.43 | (33) | % |

(1) Excludes natural gas produced and consumed in operations of 1.5 Bcf and 2.2 Bcf during the three months ended March 31, 2016 and 2015, respectively.

(2) Represents our net share of volumes sold regardless of when produced.

(3) Had we included the realized effects of derivative contracts, the average realized prices for our domestic crude oil and natural gas production would have been as follows:

| | Three Months Ended March 31, | |
|------------------------------------|------------------------------------|---------|
| | 2016 | 2015 |
| Crude oil and condensate (per Bbl) | \$38.96 | \$57.51 |
| Natural gas (per Mcf) | 2.18 | 3.62 |

Operating Expenses.

The following table presents information about our operating expenses:

| | Unit-of-Production | | | | Total Amount | | | |
|--|-----------------------------------|---------|--------------------------------|----|-----------------------------------|-------|--------------------------------|----|
| | Three Months Ended March 31, 2016 | | Percentage Increase (Decrease) | | Three Months Ended March 31, 2016 | | Percentage Increase (Decrease) | |
| | (Per BOE) | | | | (In millions) | | | |
| Domestic: | | | | | | | | |
| Lease operating | \$3.51 | \$5.76 | (39) |)% | \$47 | \$ 65 | (29) |)% |
| Transportation and processing | 4.77 | 4.33 | 10 | % | 63 | 49 | 29 | % |
| Production and other taxes | 0.71 | 1.18 | (40) |)% | 10 | 13 | (29) |)% |
| Depreciation, depletion and amortization | 10.06 | 18.62 | (46) |)% | 133 | 212 | (37) |)% |
| General and administrative | 3.20 | 5.31 | (40) |)% | 43 | 61 | (29) |)% |
| Ceiling test and other impairments | 34.68 | 69.78 | (50) |)% | 461 | 792 | (42) |)% |
| Other | 0.05 | 0.23 | (78) |)% | 1 | 3 | (73) |)% |
| Total operating expenses | 56.98 | 105.21 | (46) |)% | 758 | 1,195 | (37) |)% |
| China: | | | | | | | | |
| Lease operating | \$8.93 | \$10.37 | (14) |)% | \$14 | \$ 10 | 53 | % |
| Depreciation, depletion and amortization | 26.75 | 27.93 | (4) |)% | 44 | 25 | 74 | % |
| General and administrative | 0.85 | 2.64 | (68) |)% | 1 | 2 | (42) |)% |
| Ceiling test impairment | 27.52 | — | 100 | % | 45 | — | 100 | % |
| Other | — | 1.31 | (100) |)% | — | 1 | (100) |)% |
| Total operating expenses | 64.05 | 42.25 | 52 | % | 104 | 38 | >100 | % |
| Total: | | | | | | | | |
| Lease operating | \$4.08 | \$6.09 | (33) |)% | \$61 | \$ 75 | (18) |)% |
| Transportation and processing | 4.25 | 4.01 | 6 | % | 63 | 49 | 29 | % |
| Production and other taxes | 0.65 | 1.10 | (41) |)% | 10 | 13 | (29) |)% |
| Depreciation, depletion and amortization | 11.89 | 19.31 | (38) |)% | 177 | 237 | (25) |)% |
| General and administrative | 2.94 | 5.11 | (42) |)% | 44 | 63 | (30) |)% |
| Ceiling test and other impairments | 33.89 | 64.62 | (48) |)% | 506 | 792 | (36) |)% |
| Other | 0.06 | 0.31 | (81) |)% | 1 | 4 | (77) |)% |
| Total operating expenses | 57.76 | 100.55 | (43) |)% | 862 | 1,233 | (30) |)% |

Domestic Operations. Excluding the effect of ceiling test impairments, our operating expenses for domestic operations for the three months ended March 31, 2016 decreased 37% over the same period of 2015 stated on a per BOE basis. The primary components within our operating expenses are as follows:

Lease operating expense decreased 39% on a per BOE basis primarily due to lower service costs combined with higher production volumes. Service costs per BOE declined primarily in our Anadarko, Williston and Uinta basins due to our increased focus on cost-reduction initiatives combined with downward service cost pressures in the industry due to a lower commodity price environment.

Transportation and processing expense per BOE increased 10% primarily due to increased gas processing fees in the Williston Basin. Additionally, oil transportation costs increased in the Williston Basin due to utilization of pipelines initiated in the second half of 2015. These pipeline costs allow for improved realized oil prices.

Production and other taxes decreased 40% per BOE consistent with lower revenue totals. As a percent of total revenue, production and other taxes were 4.0% and 4.4% for the three months ended March 31, 2016 and 2015, respectively. Our 2016 rate is lower as our development has been focused in areas with lower taxes due to horizontal well credits.

Depreciation, depletion and amortization (DD&A) decreased 46% on a per BOE basis primarily due to the impact of non-cash ceiling test impairments during 2015. We expect a further decrease in the second quarter of 2016 as a result of the impairment recorded in the first quarter of 2016.

General and administrative (G&A) expenses decreased 29% during the first quarter of 2016 compared to the first quarter of 2015. We have lower employee-related expenses of \$17 million due to a reduction of headcount and lower severance costs as compared to the prior year. In addition, lower gross stock-based compensation expense resulted in \$10 million in lower G&A expenses. For the three months ended March 31, 2016, we capitalized \$17 million (\$1.29 per BOE) of direct internal costs as compared to \$25 million (\$2.19 per BOE) during the comparable quarter of 2015. This decrease in capitalization is consistent with the reduced exploration and development activities in the Uinta, Williston and Maverick basins during the first quarter of 2016.

At March 31, 2016, we recorded a ceiling test impairment of \$461 million due to a net decrease in the discounted value of our proved reserves. The primary reason for the change in value was an 8% decrease in crude oil SEC pricing and a 7% decrease in natural gas SEC pricing since December 31, 2015. These commodity price decreases are partially offset by the impact of current service cost reductions in reserve estimates. At March 31, 2015, we recorded a ceiling test impairment of \$788 million due to a net decrease in the discounted value of our proved reserves. The primary reason for the change in value was a 13% decrease in crude oil SEC pricing partially offset by the impact of current service cost reductions in reserve estimates. During the first quarter of 2015, we recorded a \$4 million rig impairment associated with our decision to indefinitely lay down both company-owned drilling rigs in the Uinta Basin.

China Operations. Excluding the effect of the \$45 million non-cash ceiling test impairment, China operating expenses for the three months ended March 31, 2016 decreased 14% over the same period of 2015 stated on a per BOE basis. The primary components within our operating expenses are as follows:

On a per BOE basis, lease operating expense was 14% lower primarily due to higher production volumes.

DD&A increased by 74% primarily due to an 81% increase in lifting volumes, partially offset by the impact of non-cash ceiling test impairments during 2015.

At March 31, 2016, we recorded a non-cash ceiling test impairment of \$45 million due to a net decrease in the discounted value of our proved reserves. The primary reason for the change in value was an 8% decrease in crude oil SEC pricing since December 31, 2015.

Interest Expense. The following table presents information about interest expense. Interest expense associated with unproved oil and gas properties is capitalized into oil and gas properties.

| | Three Months Ended March 31, 2016 2015 | |
|------------------------------|--|-----|
| | (In millions) | |
| Gross interest expense: | | |
| Credit arrangements | \$6 | \$4 |
| Senior notes | 35 | 28 |
| Senior subordinated notes | — | 12 |
| Total gross interest expense | 41 | 44 |

| | | |
|----------------------|------|------|
| Capitalized interest | (9) | (7) |
| Net interest expense | \$32 | \$37 |

Gross interest expense decreased for the three months ended March 31, 2016, as compared to the three months ended March 31, 2015, primarily due to the redemption of our 6 % Senior Subordinated Notes due 2020 in April 2015. This decrease was offset by the additional interest expense associated with our \$700 million 5 % Senior Notes due 2026 issued in March 2015 and \$3 million of financing costs related to the fifth amendment to our Credit Agreement.

Capitalized interest increased for the three months ended March 31, 2016, as compared to the three months ended March 31, 2015, due to an increase in the average amount of unproved oil and gas properties.

Commodity Derivative Income (Expense). The fluctuations in commodity derivative income (expense) from period to period are due to the volatility of oil and natural gas prices and changes in our outstanding derivative instruments during these periods. The \$17 million loss recognized in "Commodity derivative income (expense)" in our consolidated statement of operations related to our derivative financial instruments is comprised of a \$82 million realized gain and a \$99 million unrealized loss. The amount of unrealized gain (loss) on derivatives is the result of the change in the total fair value of our derivative positions from the prior year. The components of the change in the fair value of our net derivative asset (liability) follow:

| | Positions Settled in the Three Months Ended March 31, 2016 (In millions) | Positions Settling After March 31, 2016 | Total |
|--|--|--|--------|
| Net derivative asset at December 31, 2015 | \$ 82 | \$ 285 | \$ 367 |
| Settled positions ⁽¹⁾ | (82) | — | (82) |
| Change in fair value of remaining positions and fair value of new positions | — | (17) | (17) |
| Total unrealized gain (loss) | (82) | (17) | (99) |
| Net derivative asset (liability) at March 31, 2016 | \$ — | \$ 268 | \$ 268 |

Represents the fair value of positions included in the net derivative asset as of December 31, 2015 that have settled during 2016. Actual settlement amounts differ due to the changes in the fair value of the positions between the balance sheet date and the settlement date and are reflected in the realized gain (loss) noted in Note 4, "Derivative Financial Instruments".

Taxes. The effective tax rates for the three months ended March 31, 2016 and 2015 were 0.3% and 36.8%, respectively. Our effective tax rate for both periods was different than the federal statutory rate of 35% due to the change in valuation allowances, non-deductible expenses, state income taxes, the differences between international and U.S. federal statutory rates, and the impact of our China earnings being taxed both in the U.S. and China. Our future effective tax rates may also be impacted by additional ceiling test writedowns or other items which generate deferred tax assets, deferred tax asset valuation allowances, and/or reversal of such valuation allowances. The following table summarizes our tax activity that derives our effective tax rate for the first quarter of 2016.

| | Domestic | China | Total |
|---|------------------|----------|----------|
| | (In millions) | | |
| Total income (loss) before income taxes | \$ (570) | \$ (56) | \$ (626) |
| U.S. federal statutory tax rate | 35 % | 35 % | 35 % |
| Tax expense (benefit) at statutory tax rate | (200) | (19) | (219) |
| State and local income taxes, net of tax effect | (5) | — | (5) |

| | | | |
|--|-------|----------|--------|
| Change in valuation allowances | 216 | 18 | 234 |
| Foreign tax on foreign earnings | — | (14) | (14) |
| Other | 2 | — | 2 |
| Total provision (benefit) for income taxes | \$13 | \$ (15) | \$(2) |
| Effective tax rate | (2)% | 27 % | 0.3 % |

See Note 8, "Income Taxes" to our consolidated financial statements earlier in this report for additional disclosures.

Liquidity and Capital Resources

Beginning in the fourth quarter of 2014, crude oil prices declined significantly primarily due to global supply and demand imbalances. Crude oil prices continued to decline in 2015 and remained depressed in the first quarter of 2016. Given the future uncertainty regarding the timing and magnitude of an eventual recovery of crude oil prices, our planned capital spending for 2016 was reduced from 2015 levels to reduce deficit spending and preserve long-term liquidity.

During the first three months of 2016, as a part of our strategy to optimize long-term liquidity, we issued 34.5 million additional shares of common stock through a public equity offering and received net proceeds of approximately \$776 million, a portion of which was used to repay outstanding borrowings under our credit facility and money market lines of credit. The remainder is being used for general corporate purposes, including funding our 2016 capital budget, if necessary. We also use cash flows from operations to fund our capital budget.

Our 2016 capital budget, excluding estimated capitalized interest and direct internal costs of approximately \$100 million, is expected to be approximately \$625 million - \$675 million. Actual capital expenditure levels may vary significantly due to many factors, including drilling results; oil, natural gas and NGL prices; industry conditions; the prices and availability of goods and services; and the extent to which properties are acquired or non-strategic assets are sold. We continue to screen for attractive acquisition opportunities; however, the timing and size of acquisitions are unpredictable. We believe we have the operational flexibility to react quickly with our capital expenditures to changes in circumstances or fluctuations in our cash flows.

We continuously monitor our liquidity needs, coordinate our capital expenditure program with our expected cash flows and projected debt-repayment schedule, and evaluate our available alternative sources of liquidity, including selling non-strategic assets or potentially accessing debt and equity capital markets in light of current and expected economic conditions. We believe that our liquidity position and ability to generate cash flows from our operations will be adequate to fund 2016 operations and continue to meet our other obligations. We may from time to time seek to retire or purchase our outstanding debt through cash purchases and/or exchanges for other debt or equity securities, in open market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

Credit Arrangements and Other Financing Activities. In March 2016, we entered into the fifth amendment to our Credit Agreement. This amendment changed certain definitions related to our financial covenants and decreased our interest rate coverage ratio from 3.0:1.0 to 2.5:1.0. Our borrowing capacity remains at \$1.8 billion and the facility maturity date remains June 2020. We incurred approximately \$3 million of financing costs related to this amendment, which were included in "Interest expense" on our consolidated statement of operations. At March 31, 2016, we had available borrowing capacity (before any amounts drawn) under our money market lines of credit of \$160 million, which was reduced from \$195 million at December 31, 2015 due to the downgrading of our debt rating by rating agencies during the first quarter of 2016.

At March 31, 2016, we had no borrowings outstanding under our money market lines of credit, no borrowings outstanding under our revolving credit facility and no letters of credit outstanding under our credit facility.

In April 2015, we completed the redemption of our \$700 million aggregate principal of 6 % Senior Subordinated Notes due 2020. The transaction included a premium payment of approximately \$24 million. We have no scheduled maturities of senior notes until 2022. For a more detailed description of the terms of our credit arrangements and senior notes, please see Note 10, "Debt," to our consolidated financial statements appearing earlier in this report.

As of April 29, 2016, we had no outstanding borrowings and available borrowing capacity of \$1.8 billion under our revolving credit facility, and cash on hand of \$581 million. As of April 29, 2016, we had no outstanding borrowings under our money market lines of credit and available capacity of \$160 million.

Working Capital. Our working capital balance fluctuates primarily as a result of the timing and amount of borrowings or repayments under our credit arrangements, changes in the fair value of our outstanding commodity derivative instruments as well as the timing of receiving reimbursement of amounts paid by us for the benefit of joint venture partners. Without the effects of commodity derivative instruments, we typically have a working capital deficit or a relatively small amount of positive working capital. At March 31, 2016, we had positive working capital of \$563 million compared to negative working capital of \$22 million at December 31, 2015 due to the equity issuance in the first quarter of 2016.

Cash Flows from Operations. Our primary source of capital and liquidity is cash flows from operations, which are primarily affected by the sale of our oil, natural gas and NGLs, as well as commodity prices, net of the effects of derivative contract settlements and changes in working capital.

Our net cash flows from operations were \$72 million for the three months ended March 31, 2016, which decreased compared to net cash flows from operations of \$205 million for the same period in 2015. The primary driver of lower operating cash flows was lower revenues as a result of lower commodity prices.

Cash Flows from Investing Activities. Net cash used in investing activities for the three months ended March 31, 2016 was \$275 million compared to \$486 million for the same period in 2015. Cash used for capital expenditures in 2016 was approximately \$237 million lower due to our planned reductions in capital spending in the current economic environment for our industry as compared to the first three months of 2015.

Cash Flows from Financing Activities. Net cash provided by financing activities for the three months ended March 31, 2016 was \$735 million compared to net cash provided by financing activities of \$1.1 billion for the same period in 2015. During

the three months ended March 31, 2016, we issued 34.5 million additional shares of common stock through a public equity offering and received net proceeds of approximately \$776 million, a portion of which was used to repay all outstanding borrowings under our credit facility and money market lines of credit.

During the three months ended March 31, 2015, we received net proceeds of \$815 million through the issuance of 25.3 million additional shares of common stock through a public equity offering, which were used to repay all borrowings under our credit facility and money market lines of credit. In addition, we received proceeds of \$691 million through the issuance of senior notes.

Capital Expenditures. Our capital investments for the first three months of 2016 decreased 38% compared to the same period of 2015. The table below summarizes our capital investments.

| | Three Months Ended March 31, 2016 2015 (In millions) | |
|--|--|-------|
| Exploration and development (exclusive of leasehold) | \$221 | \$346 |
| Acquisitions | 1 | — |
| Leasing proved and unproved property (leasehold) | 11 | 29 |
| Pipeline spending | — | 2 |
| Total | \$233 | \$377 |

Ceiling Test Writedown

At March 31, 2016, the values of our U.S. and China cost center ceilings were calculated based upon SEC pricing of \$46.23 per barrel for oil and \$2.40 per MMBtu for natural gas, adjusted for market differentials. Using these prices, our ceiling for the U.S. did not exceed the net capitalized costs of oil and gas properties, resulting in a non-cash ceiling test writedown of approximately \$461 million (\$461 million after tax due to a full valuation allowance on related deferred tax assets). Our ceiling for China did not exceed the net capitalized costs of oil and gas properties, resulting in a non-cash ceiling test writedown of approximately \$45 million (\$45 million after tax due to a full valuation allowance on related deferred tax assets). Holding all other factors constant, it is likely that we will experience a ceiling test writedown in both the U.S. and China in the second quarter of 2016. It is difficult to predict with reasonable certainty the amount of expected future impairments given the many factors impacting the ceiling test calculation including, but not limited to, future pricing, operating and development costs, upward or downward reserve revisions, reserve adds, and tax attributes. Subject to these numerous factors and inherent limitations, we believe that impairments in the second quarter of 2016 could exceed \$800 million. Once recorded, a ceiling test writedown is not reversible at a later date even if oil and gas prices increase. Further declines in SEC pricing could result in additional ceiling test writedowns in subsequent quarters.

Contractual Obligations

We have various contractual obligations in the normal course of our operations. For further information, please see “Management's Discussion and Analysis of Financial Condition and Results of Operations - Contractual Obligations” in our Annual Report on Form 10-K for the year ended December 31, 2015. There have been no material changes to the disclosure since year-end 2015.

Commitments under Joint Operating Agreements. Most of our properties are operated through joint ventures under joint operating or similar agreements. Typically, the operator under a joint operating agreement enters into contracts,

such as drilling contracts, for the benefit of all joint venture partners. Through the joint operating agreement, the non-operators reimburse, and in some cases advance, the funds necessary to meet the contractual obligations entered into by the operator. These obligations are typically shared on a “working interest” basis. The joint operating agreement provides remedies to the operator if a non-operator does not satisfy its share of the contractual obligations. Occasionally, the operator is permitted by the joint operating agreement to enter into lease obligations and other contractual commitments that are then passed on to the non-operating joint interest owners as lease operating expenses, frequently without any identification as to the long-term nature of any commitments underlying such expenses.

Oil and Gas Derivatives

We use derivative contracts to manage the variability in cash flows caused by commodity price fluctuations associated with our anticipated oil and gas production for the next 24 to 36 months. As of March 31, 2016, we had no outstanding derivative contracts related to our NGL production. We do not use derivative instruments for trading purposes.

For a further discussion of our derivative activities, see "Oil, Natural Gas and NGL Prices" in Item 3 of this report. See the discussion and tables in Note 4, "Derivative Financial Instruments," and Note 5, "Fair Value Measurements," to our consolidated financial statements appearing earlier in this report for additional information regarding the accounting applicable to our oil and gas derivative contracts, a listing of open contracts and the estimated fair market value of those contracts as of March 31, 2016.

Between April 1, 2016 and April 29, 2016, we entered into additional crude oil derivative contracts. A listing of all our crude oil derivative contracts as of April 29, 2016 follows:

| Period and Type of Instrument | Volume in MBbls | NYMEX Contract Price Per Bbl | | | | |
|-----------------------------------|-----------------------|--------------------------------|---|------------------------------------|--|-------|
| | | Swaps (Weighted Average) | Purchased Calls (Weighted Average) | Sold Puts (Weighted Average) | Collars Floors Ceilings (Weighted (Weighted Average) Average) | |
| 2016: | | | | | | |
| Fixed-price swaps | 3,553 | \$41.73 | \$ | —\$ | —\$ | —\$ |
| Fixed-price swaps with sold puts: | 7,057 | | | | | |
| Fixed-price swaps | | 89.98 | — | — | — | — |
| Sold puts | | — | — | 74.42 | — | — |
| Collars with sold puts: | 4,673 | | | | | |
| Collars | | — | — | — | 90.00 | 96.10 |
| Sold puts | | — | — | 75.00 | — | — |
| Swaptions | — | — | — | — | — | — |
| Purchased calls | 8,181 | — | 73.35 | — | — | — |
| 2017: | | | | | | |
| Fixed-price swaps | 6,205 | 45.43 | — | — | — | — |
| Fixed-price swaps with sold puts: | 4,468 | | | | | |
| Fixed-price swaps | | 88.37 | — | — | — | — |
| Sold puts | | — | — | 73.28 | — | — |
| Collars with sold puts: | 2,080 | | | | | |
| Collars | | — | — | — | 90.00 | 95.59 |
| Sold puts | | — | — | 75.00 | — | — |
| Purchased calls | 6,548 | — | 73.81 | — | — | — |

Accounting for Derivative Activities. As our derivative contracts are not designated for hedge accounting, they are accounted for on a mark-to-market basis. We have in the past experienced, and are likely in the future to experience non-cash volatility in our reported earnings during periods of commodity price volatility. As of March 31, 2016, we had net derivative assets of \$268 million, of which 65%, based on total contracted volumes, was measured based upon a modified Black-Scholes valuation model and, as such, were classified as a Level 3 fair value measurement. The model considers various inputs including the following:

- forward prices for commodities;
- time value;
- volatility factors;
- counterparty credit risk; and

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- current market and contractual prices for the underlying instruments.

As a result, the value of these contracts at their respective settlement dates could be significantly different than their fair value as of March 31, 2016. We use credit default swap values to assess the impact of non-performance risk when evaluating both our liabilities to and receivables from counterparties. See “— Critical Accounting Policies and Estimates — Commodity Derivative Activities” in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2015 and Note 4, “Derivative Financial Instruments,” and Note 5, “Fair Value Measurements,” to our consolidated financial statements appearing earlier in this report for additional discussion of the accounting applicable to our oil and gas derivative contracts.

New Accounting Requirements

See Note 1, “Organization and Summary of Significant Accounting Policies,” to our consolidated financial statements in Item 1 of this report for a discussion of new accounting requirements.

Forward-Looking Information

This report contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (Exchange Act). All statements, other than statements of historical facts included in this report, are forward-looking, including information relating to anticipated future events or results, such as planned capital expenditures, the availability and sources of capital resources to fund capital expenditures, estimates of reserves, projected production, estimates of operating costs, planned exploratory or developed drilling, projected cash flows and liquidity, business strategy and other plans and objectives for future operations. Forward-looking statements are typically identified by use of terms such as “may,” “believe,” “expect,” “anticipate,” “intend,” “estimate,” “project,” “target,” “goal,” “plan,” “should,” “will,” “predict,” “potential,” and “could,” or other expressions that convey the uncertainty of future events or outcomes. Although we believe that the expectations reflected in such forward-looking statements are reasonable, this information is based upon assumptions and anticipated results that are subject to numerous uncertainties and risks. Actual results may vary significantly from those anticipated due to many factors, including but not limited to, the following:

- oil, natural gas and natural gas liquids prices;
- environmental liabilities that are not covered by an effective indemnity or insurance;
- legislation or regulatory initiatives intended to address seismic activity;
- the timing and our success in discovering, producing and estimating reserves;
- sustained decline in commodity prices resulting in writedowns of assets;
- ability to develop existing reserves or acquire new reserves;
- the availability and volatility of the securities, capital or credit markets and the cost of capital;
- maintaining sufficient liquidity to fund our operations and business strategies;
- the accuracy of and fluctuations in our reserves estimates due to sustained low commodity prices, incorrect assumptions and other causes;
- operating hazards inherent in the exploration for and production of oil and natural gas;
- general economic, financial, industry or business trends or conditions;
- the impact of, and changes in, legislation, law and governmental regulations, including those related to hydraulic fracturing, climate change, seismicity and over-the-counter derivatives;
- land, legal, regulatory, and ownership complexities inherent in the U.S. oil and gas industry;
- the impact of regulatory approvals;

the ability and willingness of current or potential lenders, derivative contract counterparties, customers and working interest owners to fulfill their obligations to us or to enter into transactions with us in the future on terms that are acceptable to us;

- the prices and quantities of commodities reflected in our commodity derivative arrangements as compared to the actual prices or quantities of commodities we produce or use;
- the volatility, instrument terms and liquidity in the commodity futures and commodity and financial derivatives markets;
- drilling risks and results;
- the prices and availability of goods and services;
- the cost and availability of drilling rigs and other support services;
- global events that may impact our domestic and international operating contracts, markets and prices;
- our ability to monetize non-strategic assets, repay or refinance our existing indebtedness and the impact of changes in our investment ratings;
- labor conditions;
- weather conditions;
- competitive conditions;
- terrorism or civil or political unrest in a region or country;
- electronic, cyber or physical security breaches;
- changes in tax rates;
- inflation rates;
- the effect of worldwide energy conservation measures;
- the price and availability of, and demand for, competing energy sources;
- the availability (or lack thereof) of acquisition, disposition or combination opportunities; and

the other factors affecting our business described under the caption “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates” included in our 2015 Annual Report on Form 10-K.

Should one or more of the risks described above occur, or should underlying assumptions prove incorrect, our actual results and plans could differ materially from those expressed in any forward-looking statements.

All forward-looking statements in this report, as well as all other written and oral forward-looking statements attributable to us or persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements contained in this section and elsewhere in this report. These factors are not necessarily all of the important factors that could affect us. Use caution and common sense when considering these forward-looking statements. Unless securities laws require us to do so, we do not undertake any obligation to publicly correct or update any forward-looking statements whether as a result of changes in internal estimates or expectations, new information, subsequent events or circumstances or otherwise.

Commonly Used Oil and Gas Terms

Below are explanations of some commonly used terms in the oil and gas business and in this report.

Barrel or Bbl. One stock tank barrel or 42 U.S. gallons of liquid volume.

Basis risk. The risk associated with the sales point price for oil or gas production varying from the reference (or settlement) price for a particular derivative transaction.

Bcf. Billion cubic feet.

BOE. One barrel of oil equivalent determined using the ratio of six Mcf of natural gas to one barrel of crude oil or condensate, or 42 gallons for NGLs.

Btu. British thermal unit, which is the heat required to raise the temperature of a one-pound mass of water from 58.5 to 59.5 degrees Fahrenheit.

Development well. A well drilled within the proved area of an oil or gas reservoir to the depth of a stratigraphic horizon known to be productive.

Exploration well. A well drilled to find a new field or new reservoir. Generally, an exploratory well is any well that is not a development well, an extension well, a service well or a stratigraphic test well.

Field. An area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structural feature or stratigraphic condition.

Liquids. Crude oil and NGLs.

Liquids-rich. Formations that contain crude oil or NGLs instead of, or as well as, natural gas.

MBbls. One thousand barrels of crude oil or other liquid hydrocarbons.

MBOE. One thousand barrels of oil equivalent.

Mcf. One thousand cubic feet of natural gas.

MMBOE. One million barrels of oil equivalent.

MMBtu. One million Btus.

MMMBtu. One billion Btus.

NGL. Natural gas liquid. Hydrocarbons which can be extracted from wet natural gas and become liquid under various combinations of increasing pressure and lower temperature. NGLs consist primarily of ethane, propane, butane and natural gasolines.

NYMEX. The New York Mercantile Exchange.

Proved reserves. Those quantities of oil and natural gas, which by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible – from a given date forward, from known reservoirs and under existing economic conditions, operating methods and government regulations — prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.

SCOOP. South-Central Oklahoma Oil Province. A field in the Anadarko Basin of Oklahoma in which we operate.

SEC pricing. The unweighted average first-day-of-the-month commodity price for crude oil (WTI) or natural gas (NYMEX) for the prior 12 months. The SEC provides a complete definition of the pricing methodology in their guidance “Modernization of Oil and Gas Reporting.”

STACK. Sooner Trend Anadarko Canadian Kingfisher. A play in the Anadarko Basin of Oklahoma in which we operate.

Working interest. The operating interest that gives the owner the right to drill, produce and conduct operating activities on the property and a share of production, and requires the owner to pay a share of the costs of drilling and production operations.

WTI. West Texas Intermediate, a grade of crude oil commonly used as a benchmark in oil pricing.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk from changes in oil, natural gas and NGL prices, interest rates and foreign currency exchange rates as discussed below.

Oil, Natural Gas and NGL Prices

Our decision on the quantity and price at which we choose to enter into derivative contracts is based in part on our view of current and future market conditions. While the use of derivative contracts can limit or reduce the downside risk of adverse price movements, their use also may limit future benefits from favorable price movements. In addition, the use of derivative contracts may involve basis risk. All of our derivative transactions have been carried out in the over-the-counter market. The use of derivative contracts also 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. At March 31, 2016, 10 of our 15 counterparties accounted for approximately 85% of our contracted volumes with the largest counterparty accounting for approximately 12%.

As of March 31, 2016, of our remaining expected 2016 crude oil production, 12,650 MBbls were protected against price volatility through the use of collars and swaps, over 90% of which have associated sold puts. The sold puts limit our downward price protection below the weighted average of our sold puts of \$74.65 per barrel. If the market price remains below \$74.65 per barrel, we receive the market price for our associated production plus the difference between our sold puts and the associated floors or fixed-price swaps, which averages \$15.34 per barrel. For 8,181 MBbls of our 2016 volumes, we have locked in an average minimum premium of \$13.99 over the market price through the use of purchased calls. The weighted average strike price of the purchased calls approximates the weighted average strike price of the sold puts, thereby effectively locking in the value. As of March 31, 2016, of our expected 2017 crude oil production, 10,928 MBbls were protected against price volatility through the use of collars and swaps, nearly 60% of which have associated sold puts. The sold puts limit our downward price protection below the weighted average price of our sold puts of \$73.83 per barrel. If the market price remains below \$73.83 per barrel, we receive the market price for our associated production plus the difference between our sold puts and the associated floors or fixed-price swaps, which averages \$15.06 per barrel. For 6,548 MBbls of our 2017 volumes, we have locked in an average minimum premium of \$13.54 over the market price through the use of purchased calls. For a further discussion of our derivative activities, see the discussion and tables in Note 4, "Derivative Financial Instruments," to our consolidated financial statements appearing earlier in this report. For further discussion of the types of derivative positions, refer to Note 4, "Derivative Financial Instruments" within Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2015.

Interest Rates

We consider our interest rate exposure to be minimal because 100% of our obligations were at fixed rates as of March 31, 2016. A 10% increase in LIBOR would not impact our interest costs on debt outstanding as of March 31, 2016, but would decrease the fair value of our outstanding debt, as well as increase interest costs associated with future debt issuances or borrowings under our revolving credit facility and money market lines of credit.

Foreign Currency Exchange Rates

The functional currency for our China operations is the U.S. dollar. To the extent that business transactions in a foreign country are not denominated in the U.S. dollar, we are exposed to foreign currency exchange risk. We consider our current risk exposure to exchange rate movements, based on net cash flows, to be immaterial. We did not have any open derivative contracts related to foreign currencies at March 31, 2016.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934). Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and to ensure that the information required to be disclosed by us in reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow

timely decisions regarding required disclosure. Based upon our evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2016.

Changes in Internal Control over Financial Reporting

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer, of our internal control over financial reporting to determine whether any changes occurred during the first quarter of 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based upon our evaluation, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

Item 1. Legal Proceedings

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.

In addition, from time to time we receive notices of violation from governmental and regulatory authorities in areas in which we operate related to alleged violations of environmental statutes or rules and regulations promulgated thereunder. We cannot predict with certainty whether these notices of violation will result in fines or penalties, or if such fines or penalties are imposed, that they would individually or in the aggregate exceed \$100,000. If any fines or penalties are in fact imposed that are greater than \$100,000, or we expect to be greater than \$100,000, then we will disclose such fact in our subsequent filings.

Item 1A. Risk Factors

There have been no material changes with respect to the risk factors previously reported in our Annual Report on Form 10-K for the year ended December 31, 2015.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table sets forth certain information with respect to repurchases of our common stock during the three months ended March 31, 2016.

| Period | Total Number of Shares Purchased ⁽¹⁾ | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased under the Plans or Programs |
|--------------------------------------|---|------------------------------|--|--|
| January 1 — January 31, 2016 | 4,771 | \$ 30.05 | — | — |
| February 1 — February 29, 2016 | 66,207 | 28.14 | — | — |
| | 2,070 | 27.67 | — | — |

March 1 —
March 31,
2016

| | | | | |
|-------|--------|----------|---|---|
| Total | 73,048 | \$ 28.25 | — | — |
|-------|--------|----------|---|---|

All of the shares repurchased were surrendered by employees to pay tax withholding upon the vesting of restricted (1) stock awards and restricted stock units. These repurchases were not part of a publicly announced program to repurchase shares of our common stock.

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Item 6. Exhibits

| Exhibit Number | Description |
|----------------|---|
| 3.1 | Fourth Amended and Restated Certificate of Incorporation of Newfield Exploration Company dated July 22, 2015 (incorporated by reference to Exhibit 3.1 to Newfield's Current Report on Form 8-K filed with the SEC on July 27, 2015 (File No. 1-12534)) |
| 3.2 | Amended and Restated Bylaws of Newfield (incorporated by reference to Exhibit 3.2 to Newfield's Current Report on Form 8-K filed with the SEC on July 25, 2013 (File No. 1-12534)) |
| †*10.1 | Form of 2016 Restricted Stock Unit Award Agreement under the 2011 Omnibus Stock Plan |
| †*10.2 | Form of 2016 Executive Officer TSR Restricted Stock Unit Award Agreement under the 2011 Omnibus Stock Plan |
| †*10.3 | Form of 2016 Cash-Settled Restricted Stock Unit Award Agreement under the 2011 Omnibus Stock Plan |
| †*10.4 | Newfield Exploration Company Amended and Restated 2011 Annual Incentive Compensation Plan |
| *10.5 | Fifth Amendment to Credit Agreement, dated as of March 18, 2016, by and among Newfield and JPMorgan Chase Bank, N.A., as Administrative Agent for the Lenders, Wells Fargo Bank, National Association, as Syndication Agent for the Lenders and the Lenders party thereto |
| †10.6 | Amended and Restated Change of Control Severance Agreement, by and between the Company and Lawrence S. Massaro, effective as of February 10, 2016 (incorporated by reference to Exhibit 10.1 to Newfield's Current Report on Form 8-K filed with the SEC on February 12, 2016 (File No. 1-12534)) |
| *31.1 | Certification of Chief Executive Officer of Newfield Exploration Company pursuant to 15 U.S.C. Section 7241, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| *31.2 | Certification of Chief Financial Officer of Newfield Exploration Company pursuant to 15 U.S.C. Section 7241, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| *32.1 | Certification of Chief Executive Officer of Newfield Exploration Company pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| *32.2 | Certification of Chief Financial Officer of Newfield Exploration Company pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| *101.INS | XBRL Instance Document |
| *101.SCH | XBRL Schema Document |
| *101.CAL | XBRL Calculation Linkbase Document |
| *101.LAB | XBRL Label Linkbase Document |
| *101.PRE | XBRL Presentation Linkbase Document |

*101.DEF XBRL Definition Linkbase Document

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*Filed or furnished herewith.

†Identifies management contracts and compensatory plans or arrangements.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NEWFIELD EXPLORATION COMPANY

Date: May 3, 2016 By: /s/ LAWRENCE S. MASSARO

Lawrence S. Massaro
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

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