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NFX - Q1 2012 Newfield Exploration Earnings Conference Call

EVENT DATE/TIME: APRIL 25, 2012 / 1:30PM GMT

OVERVIEW:

NFX reported 1Q12 revenues of \$678m and net income (excluding FAS 133) of \$122m or \$0.91 per share.



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Brian Lively *Tudor, Pickering, Holt & Co. Securities - Analyst*

Dave Kistler *Simmons & Company International - Analyst*

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PRESENTATION

Operator

Good day, everyone, and welcome to Newfield Exploration's first quarter 2012 conference call. Just a reminder, today's call is being recorded and before we get started one housekeeping matter. Our discussion with you today will contain forward-looking statements such as estimated production and timing, drilling and development plans, expected cost reductions, and planned capital expenditures. Although we believe that the expectations reflected in these statements are reasonable, they are 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 and risks, some of which may be unknown.

Please see Newfield 2011 annual report on form 10-K and subsequent quarterly reports on form 10-Q for a discussion of factors that may cause actual results to vary. Forward-looking statements made during this call speak only as of today's date, and unless legally required, Newfield undertakes no obligation to publicly update or revise any forward-looking statements. In addition, reconciliations of non-GAAP financial measures to GAAP financial measures, together with Newfield's earnings release and any other applicable disclosures are available on the investor relations page of Newfield's website at www.newfield.com.

At this time, for opening remarks and introductions, I would like to turn the call over to the Chairman, President and Chief Executive Officer, Mr. Lee Boothby. Please go ahead, Sir.

Lee Boothby - *Newfield Exploration - Chairman, President, CEO*

Thank you, good morning everyone.

We are off to a good start in 2012 and I look forward to summarizing our first-quarter results for you today. As always, we will take your questions at the end of the call. Before we begin, let me introduce some of the members of the management team with me today. I am joined by Terry Rathert, our Chief Financial Officer; Gary Packer, our Chief Financial Officer; and Steve Campbell, our Vice President of Investor Relations.



Our story today is relatively simple and is focused on three main things in 2012. First, accelerating our transition to an oil company. In early 2009 we started to shift significant resources towards the development of key oil plays. These efforts are paying dividends today and you can see the significant growth in our oil and liquids volumes. Oil and liquids accounted for 47% of our total volumes in the first quarter of 2012, and as we have said before, we have real oil. NGLs only accounted for about 5% of our total production. The 2nd half of this year we expect that more than half of our production will come from our oil and liquids plays.

Second, throughout our Company our people are aligned to deliver superlative execution in 2012. This means the diligent effort to reduce costs and expenses where we can, to drill our highest margin oil and liquids plays, and to ensure that our wells are drilled, completed, and turned to sales timely. And third, we remain focused on the strength of our capital structure. These are challenging times in our Business with natural gas prices at decade lows. Our internal analysis does not show a near-term rebound in natural gas prices and we've insulated our Company well through hedging, a shift of our people and capital profitable oil developments, and the timely sale of non strategic assets in 2011.

I have confidence in both the quality of our assets and the depth of our prospect inventory in our oil and liquids plays. We have a deeper inventory of opportunities, diversified over multiple plays, than we have ever had in our history. This inventory is a competitive advantage today, and it is being managed by the best people in the business. We are committed to the timely assessment of high potential plays in executing in our development areas. These actions will build momentum in oil growth going into 2013.

Since 2008 we have doubled our oil and liquids production and delivered a compound annual growth rate of 20%. We will do it again in 2012, and have the inventory for sustainable future oil growth in hand today.

On today's call I will provide a quick summary of our first-quarter financial and operating results, followed by some brief updates on our active oil and liquids rich developments. Let's start with a look at our financial and operating results from the quarter.

Our net income in the first quarter, excluding FAS 133, was \$122 million or \$0.91 per share. Revenues were \$678 million and our cash flow was \$387 million. Our oil and liquids liftings in the first quarter of 2012 for 5.9 million barrels, or an average of nearly 65,000 barrels of oil per day. This represents a 35% year-over-year increase when compared to the 2011 first-quarter results.

Our natural gas production in the quarter was 41 Bcf, an average of 447 million cubic feet per day. We realized \$3.70 per Mcf on our natural gas sales and \$96.24 per barrel on our oil liftings. In the first quarter, 47% of our total production of 76 Bcf was oil and liquids. Our NGL volumes in the quarter were about 575,000 barrels, or about 5% of our total production.

As I mentioned earlier, we are off to a good start in 2012. Let me offer what I see as our key highlights year-to-date. Our costs and expenses in the first quarter were in line or better than guidance in about every category. We are seeing improved cost structures in our development plays as a result of continued efficiency gains and reduced service costs, primarily in the completions arena. In our assessment areas, costs moderated. The reduced natural gas rig count and increasing capacity in the service sector is having a positive impact on our bottom line, and we are hopeful that these trends will continue during the balance of the year.

Our production was ahead of our first-quarter guidance and reflects the timing and welcome to additions of strong performance across our business units. Recall that in late 2011 we slowed our operational pace and deferred well completions in several business units to ensure that we held the line on our capital budget. Getting these deferred completions online in early 2012, in areas like the Granite Wash and the Bakken for example, provided a boost to our first-quarter production rates. Although not certain this qualifies as a highlight in lieu of today's gas market, our natural gas production, despite the fact that we are not running any gas rigs in our Company today, was higher than guidance.

You can see in our release last night that we took our guidance expectations for the year slightly higher, simply reflecting the strength of our first-quarter results. We now expect that our full-year production will range from 292 to 302 billion cubic feet equivalent, a range of expectations for capital spending remains unchanged at 1.5 billion to 1.7 billion, and our expenditures in 2012 are front-end loaded. Our growth is coming from the commodity that counts and our oil production in the first quarter was about 400,000 barrels ahead of our guidance, and reflects strong performance from our oil asset.



In Malaysia, we are producing a record 75,000 barrels of oil per day gross. That yields about 30,000 barrels a day net. Our Uinta Basin net production is today at a record 24,000 barrels of oil equivalent per day, and in the Bakken we are seeing improved execution in the field, and our production rate is approximately 8000 barrels of oil equivalent per day net. We've also seen encouraging results from our first two extended lateral wells, or SXLs, in the Eagle Ford Shale play. We have two additional SXL wells underway today, and expect to drill more than one-third of our Eagle Ford wells as SXLs. Consistent with our past practices and disclosure well results, we will not release IP rates from one or two wells in isolation. As we had promised, we will have an update on multiple plays around midyear 2012.

By then we will have results from up to four super extended lateral wells in the Eagle Ford, multiple wells in the Uinta Basin, including our first two pressured horizontal Uteland Butte wells, and our first two horizontal Wasatch wells. We will also have early results from our initial drilling in oil and liquids rich of the Cana Woodford. Our early results in these areas are encouraging and will have a meaningful update for you around midyear.

I'll close today's call with some updates on our key oil developments. Let's start with Malaysia, where we are seeing record gross oil production today of about 75,000 barrels per day. This is an all-time high for us, driven by East Piatu, Puteri, and East Belumut. Our net production today is about 30,000 barrels per day.

Our East Piatu field came online late last year and is today producing about 12,000 barrels of oil per day. Puteri commenced production early in the fourth quarter of 2011, and is today producing about 7000 barrels of oil per day. Our East Belumut and Chermingat complex is today producing more than 40,000 barrels per day gross, also a record level for the field, and reflects recent pipeline optimization work, the ongoing success of the development drilling program, and better-than-expected performance from our existing wells.

We continue to see excellent field performance offshore Malaysia, and our team is finding new and innovative ways to increase our oil and ensure that we have a pipeline of new opportunities for the future. These are very profitable investments with projects generating 30% to more than 100% of rates of internal return. We are the fourth-largest producer in Malaysia today and, having 30,000 barrels of oil per day selling at (inaudible) prices, is a great piece of business for us. The 2nd half of this year we will commence phase two development drilling at East Piatu. By drilling additional field development wells from the platform we will keep production at maximum rates.

We have some exciting international expiration wells planned in the 2nd half of 2012. I look forward to updating you in these results later in the year. Moving on to our domestic oil plays, let's start with the Uinta Basin, our largest investment in 2012. Our oil production in the Uinta is expected to grow more than 20% in 2012. In the Uinta today we are developing multiple oil plays on our more than 230,000 net acres. In addition to the ongoing water flood and infill drilling of the Giant Monument Butte field, we are testing new and exciting vertical and horizontal plays in the Central Basin region. These new plays have tremendous resource potential and success will drive our domestic oil production growth in the future.

We are running four operated rigs in the Central Basin region today, drilling wells in the Uteland Butte, Wasatch, and later this year the lower Black Shale. Our acreage in the Central Basin is characterized by multiple stack pays and is perspective for many oil formations. We are drilling our twelfth Uteland Butte horizontal well today and soon will have the results from our first assessments in the pressured sections of the formation. We've recently drilled two pressured wells, and both are in various stages of completion. We expect initial oil production in the coming weeks.

In the Wasatch formation we have drilled 24 vertical wells, and are currently drilling our first two horizontal wells in the play. In last night's release, we disclosed a record vertical well nearly 2500 barrels of oil equivalent per day, initial gross production rate, and more than 2100 barrels of oil equivalent per day ten-day average. The most recent eight vertical Wasatch wells completed in 2012 have averaged more than 1000 barrels of oil equivalent per day gross.

Our results to date are consistent with our expectations and we are looking forward to the production results from our first two horizontal wells which we expect by midyear. In 2012 we expect to drill about 60 wells in the Central Basin, of which more than one third are planned as horizontal wells. We are focused on driving outsized oil growth in this asset and doubling our basin production by 2015. Our new seven- and ten-year refining agreements for nearly 40,000 barrels of oil per day, give us a certainty that refining capacity will keep pace with our production growth.

In the Bakken play our operations are gaining steam after our brief slowdown in late 2011. This slowdown allowed us to reduce the backlog of uncompleted wells and improve our execution in the field. Since the beginning of the year we have completed eight new wells. The average initial



production rate from these wells was more than 2600 barrels of oil equivalent per day. With the exception of one well, these were all super-extended lateral wells. The one 5,000 foot lateral was actually one of the higher IP rates, at nearly 3000 barrels of oil equivalent per day. We expect that our Bakken production will grow about 35% over our 2011 level.

Our drilling team is transitioning our operations to pad-based drilling in 2012. About two-thirds of our planned wells in the Bakken will be from multi well pads. Our most recent laterals, 11,000 feet in total length with up to 40 frac stages, have been drilled in as few as 24 days. This compares to an average of 35 days in 2011 and more than 40 days in 2010. We've also reduce the number of days between rig release and first production, from 62 days in 2011 to about 40 to 45 days year-to-date.

We are executing our operations very well today. Our net production from the area is about 8000 barrels of oil equivalent per day today and we expect the rig count in the region will grow the 2nd half of 2012. We have more than 250 identified development drilling locations and the economics of our current operations are supportive of the increased activity levels.

We expect to run two to four operated rigs in the Bakken throughout 2012. In the Cana Woodford we are assessing our more than 125,000 net acres with a five rig operated program, likely increasing to seven rigs later this year. Our very early results have been encouraging and in line with preassessment expectations. We will have results from a handful of new wells by midyear and will provide an update at that time. Our drilling today is focused on the liquids rich and oil prone extension of the Cana and we are expecting strongly competitive returns from our investment.

We have a long and proven history in exploiting the Woodford formation and our aggressive assessment is designed to yield data and expedite our path to ultimate field development. As we stated around year-end, we now view our assets in the Gulf of Mexico as non strategic. A formal process to maximize the value of these assets is underway and we expect to know more around the midyear time horizon. So, our focus in 2012 is crystal clear, invest in oil and grow cash. We are off to a strong start this year and have confidence we can deliver on our key goals and expectations and create value in today's market. I'm certain that we are taking the right steps today.

Our view on natural gas has been spot on for the last several years and our expectation for a near-term price rebound is low. Natural gas prices will likely remain challenged in 2012 and going into 2013. Focusing on oil, driving revenue and cash flow growth, maintaining the strength of our balance sheet are the key ingredients to our strategy today. Our transition to oil is well underway. Second half to 2012 we expect that more than 50% of our production will be from oil and liquid, up from 47% in the first quarter. I look forward to the day when we are not listed as a gas-weighted company in equity research coverage.

We are encouraged with the trends and the service costs we have seen early in 2012. Our 2012 capital budget is front end-loaded due to the carryover of deferred completions in several project areas, large offshore developments that commenced production in late 2011, and initial investments in our Pearl development in China, positive trajectory in service costs, coupled with improved efficiencies in our operations should have positive implications for us in the 2nd half of this year.

That concludes our prepared remarks today and we are happy to entertain your questions. Let me please ask that you limit your time to one question and perhaps a follow-up. It is important to us that we are able to respond to as many questions as possible today. Thanks, operator, we are now ready to take any questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we will go first to Leo Mariani, RBC.



Leo Mariani - RBC Capital Markets - Analyst

Hi, guys. Just a quick question here on your well costs. In your prepared comments there, Lee, you spoke that service costs we're driving well costs down in your key plays. Could you give us an update on where your well costs are and I guess in the Bakken, Eagle Ford, and the various plays joining the Uinta?

Lee Boothby - Newfield Exploration - Chairman, President, CEO

I'm going to let Gary take the details of that question but I would tell you that we are encouraged by some of the early trends that we are seeing on costs across the businesses. I would say encouraged, just given the pressure that we've had as an industry over the last couple of years and the positive trajectory. I would say mostly at this point we've seen a flattening. We have expectations that we will see some relief through the balance of the year, certainly that is going to be a net positive. At this stage we are not baking in material leaf into our forecast, we will take it as it comes. And I think the winds blowing in the right direction and it is time to get better balanced relative to the whole service cost equation in the current commodity price environment. But I will flip it to Gary to let you give you some color on the specific well cost.

Gary Packer - Newfield Exploration - EVP, COO

Leo, specifically you asked about the Bakken. We are seeing somewhere in the range of an 8% to 17% reduction in our completed well cost in the Bakken these days. I would attribute primarily most of that to the fact that we are moving on to Pad drilling as Lee referenced. I think about two-thirds of the drilling are on pads, and that is allowing us to take somewhere between \$400,000 and \$700,000 per location out. Certainly, the execution has improved this year. Trouble time is down to almost nonexistent so far this year so we are really liking where we sit, there. Completion cost, rather flat year-to-date, but really projecting a lot of improvements in that as we look into the end of 2012 and on into 2013.

So, in general, I'd say we are sitting at about 640 acres somewhere around \$6.9 million or so completed on a 1280, 10,000 or 11,000-foot lateral's somewhere around \$11 million or so. Generally speaking across the balance, the Eagle Ford I would say we are sitting pretty much flat right now. Really like the execution in the well results that Lee referenced in the call, but we are not seeing any downward pressure yet on cost. However that is also anticipated. When I look into the Uinta Basin--and those wells in the Eagle Ford are somewhere in the mid \$8 million range for a 7500-foot lateral. As I look into the Uinta Basin, I think we are seeing year-to-date some reductions and are more typical 20-acre GMBU program in Greater Monument Butte. And we are just getting started on the horizontal program so I think it is too early to tell there. We are in a very steep learning curve [Guller] well is down and we're getting all the wells completed as we speak but I think it is really too early right now to project anything on that.

Leo Mariani - RBC Capital Markets - Analyst

Okay, that is great. I guess one additional question for you guys, here. You spoke about your Malaysian oil production running roughly 30,000 barrels a day net, just looking at your first-quarter result, I guess I was eye balling it somewhere closer to 24,000 barrels a day net. Is it up significantly post the quarter because I thought your guidance for the full year had implied a little bit lower levels maybe I'm missing something, here.

Lee Boothby - Newfield Exploration - Chairman, President, CEO

Well, it is up materially. We had some pipeline optimization work that our team undertook in Malaysia right at the end of the first quarter moving into the second quarter and, frankly, we've had exceptional results from that. That added some six to 7000 barrels a day as gross production off of our East Belumut complex. It did a bit improve our ability to move liquid barrels out of the East Belumut field and get them into storage. So, material cost improvement.



Leo Mariani - *RBC Capital Markets - Analyst*

Because I think you're guidance had implied kind of a lower rate. Do expect that rate to continue for the balance of the year? I thought you talked about doing your best to drill development wells to keep it flattish.

Lee Boothby - *Newfield Exploration - Chairman, President, CEO*

Leo, in the interest of what I indicated in the call. Why don't you follow up with Steve and he can give you color on the details there. But we would like to move onto the next question so we can get some other people in the queue.

Operator

And moving on we do have a question from Brian Lively, Tudor, Pickering, Holt.

Brian Lively - *Tudor, Pickering, Holt & Co. Securities - Analyst*

Good morning. Just looking for some more color on the Wasatch. What is the breakdown of oil versus gas percentage and what were the current--or the cost of the vertical wells?

Lee Boothby - *Newfield Exploration - Chairman, President, CEO*

Gary?

Gary Packer - *Newfield Exploration - EVP, COO*

The well that was specifically referenced in the call, it produced about 2200 barrels of oil a day and about two million cubic feet a day so you can figure out GOR from that. In regard to the well costs, a typical deep Wasatch well runs somewhere in the vicinity of drilling completed about \$3.2 million or so.

Brian Lively - *Tudor, Pickering, Holt & Co. Securities - Analyst*

And the GOR was about the same on the other wells?

Gary Packer - *Newfield Exploration - EVP, COO*

You know, off the top of my head, Brian, I think that is directionally correct. The well cost at \$3.2 million, that is typically without facilities. If you roll the facilities in there, you are typically pushing about \$4 million on these early wells or so.

Brian Lively - *Tudor, Pickering, Holt & Co. Securities - Analyst*

And my follow-up question there is on that 2500-barrel per day well. What is different about that well versus the 900 average for the others. Meaning is it a different style completion, is it different rock, is there something that you can map out and glean from that such that your rates on your future wells would be higher?

Lee Boothby - *Newfield Exploration - Chairman, President, CEO*

Brian, I would say that it is too early. We have 10 days of production on that well and it is probably 12 now. We had a 10 day average that we referenced. Clearly, it is exciting results. Remember, we have seen some pretty good results out there over the course of the last year in the two dozen wells that have been drilled we have a handful of other wells that have been in 1300 to 1400 barrel per day type IPs. The fact that we have 24 wells averaging just under 1000 barrels of oil equivalent a day vertical, says that we are in the early stages of learning. We got our first two horizontal wells down, I'm going to ask that you just stay tuned.

I think it's exciting. We're excited about it and I guarantee our team in Denver is all over it in trying to answer the questions you're talking about. They have done an excellent job executing and we continue to learn from the wells that we have and in all these plays, you know, that part of the recipe is to tweak the completions and optimize. So we are starting to approach that point in the plan and we will see if we can replicate it. I am excited about the 1000-barrel a day average on the two dozen wells we drilled over the past year. That is pretty exciting because, remember, those are all vertical and I'm looking forward to the horizontal results.

Brian Lively - *Tudor, Pickering, Holt & Co. Securities - Analyst*

It's really exciting, thanks for the comments.

Operator

And we will hear next from Dave Kistler, Simmons & Company.

Dave Kistler - *Simmons & Company International - Analyst*

Morning, guys. Real quickly Q1 production will be about 5% above guidance but full-year production increase about 1%. Can you talk through the deviation that is taking place there or any anticipations in the fall offs in production elsewhere versus where your exit rate was at Q1?

Lee Boothby - *Newfield Exploration - Chairman, President, CEO*

Yes, I'll let Gary take that question, Dave.

Gary Packer - *Newfield Exploration - EVP, COO*

Yes, Dave, the beat in the first quarter is primarily attributed to some accelerated completions that we did on the oil side, primarily in the mid continent and then also as we got back in the game in the Bakken play, we have some wells that had been shut in at year-end. We were able to get those wells restored a little quicker than we had anticipated. So, in regard to the disproportionate increase in the first quarter versus full year, it is just that acceleration, moving that volume forward, accounts for part of it. Now, clearly, we are seeing good results across the board both domestically and internationally. Some of the plays, as Lee alluded to already, we are liking the results that we are seeing. And then internationally, while we had anticipated the [split screen] improvements coming out of Malaysia, I think we got it on a little quicker than we had originally planned. We are probably a few thousand barrels a day more than what we had baked into our plans. So I think generally improved performance plus acceleration.

Lee Boothby - *Newfield Exploration - Chairman, President, CEO*

And Dave, remember later in the year we've got some built-in shut down time both in Malaysia and China in our international assets for normal routine maintenance type activities. So, I think that is part of the second half guidance as well that's already baked into the forecast.



Dave Kistler - *Simmons & Company International - Analyst*

Okay, I appreciate that clarification. As a follow-up, in the Maverick Basin, with respect to the double XL well extended lateral's, you referenced them as encouraging. I know you can't give us rates, or you don't want to until you have more wells, but can you put it in the context of how returns from those wells look relative to the rest of your portfolio, or maybe what a threshold is to be determined encouraging.

Lee Boothby - *Newfield Exploration - Chairman, President, CEO*

I believe that the last call we talked about, Gary had lined up the team there to drill four super extended lateral's. I like your double XL, we'll have to think about that, maybe make a shirt out of it or something [maybe it]. Our objective, plain and simple, was to make those investments competitive within our portfolio. And we had confidence that the 7500-foot lateral based on the technical data that we had acquired on the 5000-foot lateral's in our experience in the Woodford, the Granite Wash, the Williston Basin, drilling these extended lateral's that would position at as such.

To say we are encouraged, I would tell you that the first two results tell us that they can compete in the portfolio. That is positive. So, stay tuned will get some data and we'll give you the well results. I think Gary has two more planned here in the second quarter. So going into mid year we should have results from four of those wells and I think be in a much better position to translate that in terms of [reputability] and portfolio.

Dave Kistler - *Simmons & Company International - Analyst*

Great, thanks guys. Appreciate it.

Operator

And we will hear next from Brian Singer with Goldman Sachs.

Brian Singer - *Goldman Sachs - Analyst*

Thanks, good morning. You've talked to the strong rates from the Wasatch Wells and then see the specifics that you're Cana Woodford wells are coming in line with your expectations. I know it is a bit early in both plays, but can you add any color on the decline rates associated with those wells so far in both areas versus your expectations.

Lee Boothby - *Newfield Exploration - Chairman, President, CEO*

It is too early, Brian, and I don't have decline rates to share with you. As far as getting the data so we've got 30-60-90 day rates on a handful of wells, so the best I can offer at this point is, when we tell you that we are encouraged is, that it is in line that IP rates in early production are in line with our expectations so that is why we say we are encouraged there and we'll give you the up date that we promised sometime around midyear.

Brian Singer - *Goldman Sachs - Analyst*

Thanks, and based on what you've seen so far in the Cana Woodford are you comfortable with your acreage position where it is now or is that a region that you are looking to expand and if so is that -- what -- how likely or possible is that?

Lee Boothby - *Newfield Exploration - Chairman, President, CEO*

Well, 125,000 acres, five rigs running going to seven is quite a bit of activity. So I think that we've got strong position. We like it. We've got a lot of work to do. I think we've said repeatedly over the last three or four months that with our accrued learnings from the last decade and resource plays, that what we are doing in the Cana Woodford is aggressively accelerating the assessment, acquisition of data, and information we need to plan the future development. So, by accelerating the assessment puts us in a position to accelerate the development behind that. Point of fact, we are always in the market to add acreage and positions in at around places where we are active. So, certainly we will continue to have an opportunistic bent in that regard, but 125,000 acres, six months into the play, we've got a lot of work ahead of us and I think I'm pretty comfortable with where we sit right at the moment.

Operator

And moving on, we do have a question from Bob Morris with Citi.

Bob Morris - *Citigroup - Analyst*

Good morning. Lee, last quarter you said that if natural gas prices dropped below \$2 you'd make some dramatic adjustments and probably shut in more gas production. I mean, gas prices are effectively below \$2, what are you thinking of doing in that regard particularly if prices continue to soften here into the summer and fall?

Lee Boothby - *Newfield Exploration - Chairman, President, CEO*

That's a good question, Bob. I don't remember saying it just that pointedly, but I'll take you at your word that is maybe how it sounded on the other end of the line. I will tell you that we were trying to paint a picture that we would remain in tune with what was going on in the market and that we would take some steps as we thought appropriate. And clearly since the last call, part of what we did is materially strengthen our hedge position in '12 and '13 and started building a position in '14 as well. Some of that positioning was to insulate against the further slide in natural gas prices and I think that has been a good move for us. So, I think we are well hedged across that 2012/2013 time horizon.

Relative to investments, we have no dry gas rigs drilling and we plan to drill no dry gas wells in 2012. That is the first time in the last 13 years that I've been with the Company that we haven't had a rig drilling dry gas anywhere in the portfolio and I think that is the right economic decision today. We said we are going to accept decline on our natural gas assets, we are doing that. I think that is a means of taking some pressure out of the markets. When you look at actual cash costs of operating on rig continents operating expenses are somewhere just below \$0.50 or low 40s, \$0.42, \$0.43. So when you start thinking about shutting in gas volumes, we're still a long way from where you are probably have to make those decisions simply based upon our hedge positions and the cash operating cost. So, I would say that nothing is imminent in that regard, but we will keep the options open, just like we did in the last call, that if the market continues to further deteriorate we will reserve the right to take some production out of the market. Remember, it's easy to talk about that and you've got a lot of partners and a lot of wells, and there is only a fraction of the total production that you can think about shutting in at any given region.

I'll let Gary at some additional color.

Terry Rathert - *Newfield Exploration - EVP, CFO*

Bob, I think at the end of the day, as Lee alluded to, it really becomes a question of where the incremental or the marginal costs to operate those wells and what is your view of the future. And if you defer the Mcf or production per day to three, four, five years out and gas prices are still going to be a \$3 or \$4 proposition, then on a net present value basis, as long as the NPV is positive to produce [today] versus the future, that is the other element you have to think about. So, we are not very bullish on natural gas. We monitor all of those elements of that decision and we will make that call when it says it is not the right thing to continue to produce.



Bob Morris - Citigroup - Analyst

Okay, you mentioned [\$0.41 \$0.42] operating costs [Mid Continent], but then you mentioned the marginal cost to operate, what is your highest marginal cost to operate in your gas production?

Lee Boothby - Newfield Exploration - Chairman, President, CEO

Well, remember, we sold \$300 million plus of conventional gas assets up along the Gulf Coast last year so we've reduced our natural gas portfolio with those non strategic asset sales. We've not drilled any gas wells in the Rockies so that production has been on decline since late 2008. The bulk of our natural gas production is actually coming out of the mid continent. That is why we use that as a reference point. But I'll let Gary give you any other color. You have anything as you want to add?

Gary Packer - Newfield Exploration - EVP, COO

No, I think you pretty much captured it there, Lee. It's all coming out of the Mid Con and it's in a \$0.40 / \$0.50 range.

Lee Boothby - Newfield Exploration - Chairman, President, CEO

When you think Newfield natural gas, Mid Con dominates. The rest of it is rounded off.

Gary Packer - Newfield Exploration - EVP, COO

Most of the other --a lot of the other productions for example in the Rockies all associated natural gas.

Bob Morris - Citigroup - Analyst

Thank you. Good job on the hedges.

Operator

And we will move next to Richard Tullis with Capital One Southcoast.

Richard Tullis - Capital One Southcoast, Inc. - Analyst

Thank you, good morning. Lee, taking a look at the Alberta Bakken, are you seeing anything there that might change your thinking to maybe get a little active or sometime this year? Or are you still kind of taking that wait-and-see approach?

Lee Boothby - Newfield Exploration - Chairman, President, CEO

Well, it is more than a wait-and-see. Part of our shift of resources last year is in focusing manpower and level loading with -- we've got the Southern Alberta Basin being managed by our expiration new ventures team here in Houston. We've acquired a lot of data out there last year so we continue to evaluate the data; core data, production data, log data etc, that we've acquired in the region and we continue to monitor the activity of others in the region. We've got a luxury, if you will, that most of our acreage there was put together in a deal with the Blackfeet nation and provided for a five year exploratory phase. We've got probably 3.5 years or so remaining on that expiration phase. We have time relative to monitoring the situation. Clearly what the basin needs, whether it is a Newfield name on top of the well head or one of our friends in the industry, is an obviously



economically viable horizontal success. Something that we could look at and deem worthy of drilling some additional wells and you could have some hope of repeatability in the Basin.

The basin does have oil in multiple horizons. The industry continues to test different horizons on both sides of the border and we remain where we have been, cautiously optimistic relative to the play. We don't have any drilling program planned in 2012 because frankly we don't need to drill in any wells there in 2012. We have about 85% of our drilling commitments with the Blackfeet satisfied. So we drill another couple of wells and we will have taken care of that commitment.

Richard Tullis - *Capital One Southcoast, Inc. - Analyst*

Okay, thank you, and just finally from me, in the Gulf of Mexico, how is the Pyrenees project performing?

Lee Boothby - *Newfield Exploration - Chairman, President, CEO*

I'll let Gary answer that question.

Gary Packer - *Newfield Exploration - EVP, COO*

Yes, Pyrenees is on production about 35 million a day or so overall production. I would say that in any of these new types of reservoirs, where you've got these things defined seismically, I'd say we are seeing a little bit more pressure loss than we had originally anticipated in the reservoir, but it's all associated with the dynamics of the reservoir and as far as the EUR that we see for the well, that is unchanged. So I would say within range, may be producing a little light to the original plan.

Richard Tullis - *Capital One Southcoast, Inc. - Analyst*

Okay. Thanks very much, appreciate it.

Lee Boothby - *Newfield Exploration - Chairman, President, CEO*

Thanks, Bob. Richard, I'm sorry.

Operator

And we will go next to Joe Allman with JPMorgan.

Joe Allman - *JPMorgan Chase & Co. - Analyst*

Yes, thank you. Good morning, everybody. Lee, in terms of the Oily Woodford, so you are drilling no Oily Woodford wells at this point. Is that because those wells just don't compete from a rate of return perspective or is it because that play doesn't have the scale of some of the other plays where you are drilling or is it also because you've HPP that and you've no need to drill that right now?

Lee Boothby - *Newfield Exploration - Chairman, President, CEO*

In the popular vernacular today how about if I choose some of all of the above. It is in all of the above solution. We are HPP, first and foremost so we've got pressing evaluation needs in the Cana so we don't have any need to drill wells there. And I think that is probably the dominant answer,

but clearly one of the issues that we've had relative to position the Arkoma or what you're referencing, is scale. In 20,000 or 25,000-acre position we have 125,000-acre position in the Cana Woodford so much larger in the terms of the scale and scope of the play. So, it is a little bit of all the above in terms of your comments.

Joe Allman - *JPMorgan Chase & Co. - Analyst*

Okay, that is helpful, thanks. And then second question, so, with the potential for meaningful results out of the Wasatch and the Uteland Butte and your traditional drilling in the Uinta Basin, can you comment on any possibility of increasing your off take there versus what you already announced. I know that the capacity to grow is great from here, but any moves afoot to increase it even further?

Lee Boothby - *Newfield Exploration - Chairman, President, CEO*

I wouldn't say that the moves afoot. I think doubling our production out of the basin in a three-year time frame is a pretty significant achievement. And that's the path that we are on. So, the 40,000 barrels that we secured December and January of this year we think meet our needs inside of the five-year time horizon. So, we are not beating the bushes out there looking to dramatically expand that. I understand there are ongoing discussions, other operators in the basin and refiners thinking here to talk about additional expansions, but we think that is a plus for the basin, certainly support it, but we are not going to drive those outcomes.

In the near term, until the incremental capacity starts coming online, initially second quarter midyear '13, there is a practical limitation in terms of upside volumes. I suspect that when we get up around 30,000 barrels a day out of the Uinta that we will start loading the existing capacity and we will have to, at that point, wait for those additional tranches to come on line in '13 and '14. Remember that our target is to be in the 40,000 barrels to 50,000 barrels a day window in 2015. And so that is the path that we are on at this point.

Joe Allman - *JPMorgan Chase & Co. - Analyst*

Alright, very helpful. Thank you.

Lee Boothby - *Newfield Exploration - Chairman, President, CEO*

Thank you.

Operator

And moving on, we have a question from Dan McSpirit with BMO Capital.

Dan McSpirit - *BMO Capital Markets - Analyst*

Gentlemen, good morning. On Malaysia, you spoke to or you spoke generally about the pipeline of opportunities. Can you relate greater texture on those opportunities and what that might mean for production growth in the periods ahead?

Lee Boothby - *Newfield Exploration - Chairman, President, CEO*

Well, I will tell you what, Gary just got back from a trip over there. I'll let Gary take that question and give you some color on what he's got going on in that arena.



Gary Packer - *Newfield Exploration - EVP, COO*

Dan, I would say that in the near term, most of the production growth that we're going to see are going to be in staged development programs of the projects that we've already got in place. Where we are concluding a third phase drilling program at of PM323 and we anticipate a fourth phase there as well. As Lee also alluded to, we look for a second phase of 329 and I expect we will see a third phase of drilling up there. We are going to be -- we will be drilling a total of three exploratory wells this year. I think the results of those will be critical in placing a path forward for us as far as what we've got left.

One unnamed project that we will be drilling on a more recent deal we put together from an exploratory standpoint and then we will the following up on our discoveries at SK-3 10 and I'm optimistic we will get our Deepwater follow-up to our discovery that we made in [Palo's] throughout this year. We are seeing, and are optimistic about additional opportunities, both in peninsular relations Sarawak with we think align very well with the stuff that we've already got in hand, and it would be all incremental to the projects that we see that we are not free to talk about any of those at this point.

Dan McSpirit - *BMO Capital Markets - Analyst*

Thank you and as a follow-up, can you speak to the lower Black Shale that you are targeting. Expectations may be timing on results out of the Uinta Basin.

Gary Packer - *Newfield Exploration - EVP, COO*

So as for speaking to the Lower Black Shale, I guess I'll start by saying it is black. [laughter] It is an organic rich shale, obviously, you've probably heard something about it from the other operators in the basin talking about it. Probably, to give you just a little bit of a wrinkle, and patting our Rockies team on the back, quietly over the last several months they have perforated the black shale in a handful of the vertical wells. We run production logs, so at this point we know it is a organically rich shale sandwiched amongst all the other horizons that we are chasing in the Uinta basin. It has all the right characteristics. We've perforated it and, as I mentioned in a handful of vertical wells and, we can report that it contributes meaningful volumes to the total flow from vertical wells. But clearly you wouldn't drill the play and then plan to develop it vertically.

So the key test there is can we take the vertical results that we've seen from the production logs and some of the deep wells in the central basin and translate that to horizontal success economically. With success there, obviously, it would expand the -- further expand the resource potential and further expand our inventory of oil opportunities. So we are very intrigued by the lower black shale. It is the next one of several horizons on the list. We didn't include the black shale in our July 2011 resource release, the 700 million barrels potential that we talked about in Green River, Uteland Butte, and Wasatch, so would be entirely incremental to anything we've put out this point. The first well is likely to be spud probably late second quarter early third quarter. So, the results there would be later in the year; third, fourth quarter time frame. We won't have any result there by mid year.

Dan McSpirit - *BMO Capital Markets - Analyst*

Thank you.

Lee Boothby - *Newfield Exploration - Chairman, President, CEO*

Sure.

Operator

And we will hear next from David Tameron with Wells Fargo.



David Tameron - Wells Fargo Securities, LLC - Analyst

Hi, good morning. Can you speak to -- you sold part of your Bakken but not all the Bakken. Can you talk about the thought process there as far as why not either keep it all or keep none of it? Can you talk about what the thought process was?

Gary Packer - Newfield Exploration - EVP, COO

Yes, Dave, this is Gary. As we accumulated the acreage position out there, as you are probably well aware, we have a very strong core position on the [Nessan] on then immediately south and southwest of the Nessan in our [Watford] in our -- aquarium areas as well as Westberg. As we look into catwalk, we had a pretty significant amount of requirements this year as far as HPP activity and at the time that we ended up disposing of that asset, when we look at our portfolio in the Bakken, we felt that we could generate more meaningful returns by drilling in the other areas. So, rather than deploy incremental capital, we continue to manage the balance sheet and we elected to go ahead and monetize that, removing some of the HPP obligations that we had for 2012 and redeploy the capital and accelerating the results that we had in the rest of the Bakken where Lee already talked to the fact that we are seeing real good results from those investments. So, it wasn't condemning on the acreage position we sold we just like the other stuff that we had better.

David Tameron - Wells Fargo Securities, LLC - Analyst

Okay, that is helpful. And then as a follow-up to that, whoever wants to take this but can you talk just in general where do you see your portfolio today? I assume you have some of the magical stealth place everybody has but are you guys -- how you feel about the portfolio and obviously you can direct double-digit growth in liquid side which you talked about, but can you give us your current thoughts on acquisition market or what you're feeling and what you're thinking?

Lee Boothby - Newfield Exploration - Chairman, President, CEO

Okay, well, let me start with the last one. We are focused on delivering results from our existing portfolio in 2012. So, the acquisition market, while intriguing and of interest, I think patience is a virtue. And patience probably means that it is mostly going to be a place that we are going to be interested in outside of the 2012 time horizon. We've got plenty to do on our plate today and plenty of depth in our inventory. I think that in my opinion the last few months the most under appreciated aspect of Newfield has been the depth of our oil development inventory.

We have thousands of oil development locations. That's a luxury in today's world. So we are going to attack that portfolio. We are going to continue to drive the 20% growth that we have delivered every year since 2008 and time will take care of itself. The product we are focused on growing is cash. I think as we grow cash, move past the 50% mark on total liquid and get recognition as an oil company, we get stronger day by day week by week month by month, I think we will be in position to think more constructively about the M&A world post 2012.

With regard to stealth opportunities, we talked about black shale, that is in our inventory. We've got other opportunities in our inventory we haven't talked about. We are not out chasing big news stealth plays at this point because we've done a lot of work there. We've added over 200,000 acres in 2011 in oil plays and again, I like our position at this point. We know what we need to do. We are going to drive results. We're going to execute and climb the hill. And we are going to enjoy the success that our teams delivering today. We are really proud of what they have done, repositioning talent around the organization, absorbing the project setbacks that we had in 2011, executing strong in 2012. There is a bright future ahead and we are going to go ahead and capture it.

David Tameron - Wells Fargo Securities, LLC - Analyst

Okay, thanks. I appreciate it.



Lee Boothby - *Newfield Exploration - Chairman, President, CEO*

Operator are there any additional questions?

Operator

Yes, at this time we do have an additional question. This question will come from Kathryn O'Connor with Deutsche Bank.

Kathryn O'Connor - *Deutsche Bank - Analyst*

Just following up on what you were saying in focusing on delivering in 2012 and putting off some acquisitions. Can you talk about how your asset sales target including Gulf of Mexico plays into that and any desire to become investment grade is part of that strategy?

Lee Boothby - *Newfield Exploration - Chairman, President, CEO*

I'll let Terry answer the question on investment grade and where all of that takes it. We mentioned on the Gulf of Mexico that our objective is to maximize value. We've said that we are plenty happy to hang onto the production and produce it out that is the right answer, but I would tell you it is an attractive piece of business. It's got strong production from the producing asset side and it is a really strong exploratory portfolio. So, the process is underway there. We will have to see how it plays out. But clearly, for Newfield, we deemed the Deepwater Gulf of Mexico non strategic in the near term. Terry?

Terry Rathert - *Newfield Exploration - EVP, CFO*

That is a pretty good summary, Lee. Yes, we will just have to see how the Gulf of Mexico plays out in time. And we have, our investment grade is S&P, have recently visited with all the rating agencies have dated them on our 2012 plan, reaffirmed that we delivered on our 2009, '10, and '11 operating results as we had communicated them prior to each of those operating years. In 2011, if you include the asset sales that closed in the first quarter that really initiated in 2011, we sold \$700 million worth of what we believe are non strategic assets that didn't have a place in our future and driving growth. And we will continue to review the portfolio for things that still fall in that category. Clearly, with natural gas prices where they are today, gas assets that may not have any drilling activity on them today won't bring a lot of, or may not be very attractive for somebody in the market, and we probably won't be pursuing sales of natural gas assets and most of our oil assets are core, or are in the process of becoming foundational assets as we go through the assessment [involvement] activity. So we will continue to focus on improving the balance sheet, non strategic asset sales are part of that equation and we will see how the Gulf of Mexico plays out as Lee alluded to.

Kathryn O'Connor - *Deutsche Bank - Analyst*

I guess as a follow-up to that, when you spoke with the rating agencies, did they give you any sort of guidelines as to -- you've obviously just recently called your 2014 notes, did they give you any guidelines in terms of doing things, like calling those notes or any additional notes in order -- sort of maybe a pass to what you would take to become investment grade in their eyes for the two rating agencies don't have you at the investment grade level at this point?

Gary Packer - *Newfield Exploration - EVP, COO*

I think clearly one of the elements is just scale and rating agencies-- I would summarize it I think have begun to move away from some of the pure metrics based criteria and looking at level of debt relative to prove developed reserves versus total [PRU] reserves as a result in a change of the SEC guidelines several years ago it's become more important. Clearly it's a matter of -- each of them have their individual criteria, but at the end there are other factors that come into play. And one of those is the way you run the business and the consistency in delivering results. And we have continued to deliver. They have provided no road map to investment grade nor have they told us the road map goes the opposite direction. So,

we know what is required and generally, which is continue strengthening the balance sheet and reduce debt on a dollar of developed barrel going forward, strengthening cash flows, and that is the road map to investment grade.

Operator

And that is all the time we have for questions today. I would now like to turn the call back over to you, Mr. Boothby, for any additional or closing remarks.

Lee Boothby - Newfield Exploration - Chairman, President, CEO

We will be brief. Thank you for your interest in Newfield. Thank you for your time today and we look forward to updating you in a couple months on our progress at the end of the second quarter. Have a good day. Thank you.

Operator

And again that does conclude today's call. We do thank you for your participation.

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