NOBLE ENERGY INC
Form 10-Q
August 03, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2016

OR

o 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: 001-07964

NOBLE ENERGY, INC.	
(Exact name of registrant as specified in its charter)	
Delaware	73-0785597
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification number)
1001 Noble Energy Way	
Houston, Texas	77070
(Address of principal executive offices)	(Zip Code)
(281) 872-3100	
(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 ý No o
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 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes ý No o
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.

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o
		(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 Exchange Act).
Yes o No ý

As of June 30, 2016, there were 429,671,813 shares of the registrant’s common stock,
par value $0.01 per share, outstanding.

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Part I. Financial Information
Item 1. Financial Statements
Noble Energy, Inc.
Consolidated Statements of Operations
(millions, except per share amounts)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues				
Oil, Gas and NGL Sales	$823	$732	$1,528	$1,481
Income from Equity Method Investees	24	6	43	24
Total	847	738	1,571	1,505
Costs and Expenses				
Production Expense	274	218	546	469
Exploration Expense	89	41	252	106
Depreciation, Depletion and Amortization	622	451	1,239	905
General and Administrative	107	104	198	198
Other Operating Expense, Net	17	85	20	121
Total	1,109	899	2,255	1,799
Operating Loss	(262)	(161)	(684)	(294)
Other Expense (Income)				
Loss (Gain) on Commodity Derivative Instruments	151	87	107	(63)
Interest, Net of Amount Capitalized	78	54	157	112
Other Non-Operating Expense (Income), Net	7	(9)	3	(9)
Total	236	132	267	40
Loss Before Income Taxes	(498)	(293)	(951)	(334)
Income Tax Benefit	(183)	(184)	(349)	(203)
Net Loss	$(315)	$(109)	$(602)	$(131)
Loss Per Share, Basic	$(0.73)	$(0.28)	$(1.40)	$(0.35)
Loss Per Share, Diluted	$(0.73)	$(0.28)	$(1.40)	$(0.35)
Weighted Average Number of Shares Outstanding				
Basic	430	387	429	378
Diluted	430	387	429	378

The accompanying notes are an integral part of these financial statements.

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Noble Energy, Inc.
Consolidated Statements of Comprehensive Loss
(millions)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net Loss	$(315)	$(109)	$(602)	$(131)
Other Items of Comprehensive Loss				
Net Change in Mutual Fund Investment	—	—	—	(11)
Less Tax Expense	—	—	—	3
Net Change in Pension and Other	1	24	1	25
Less Tax Benefit	—	(10)	—	(10)
Comprehensive Loss	$(314)	$(95)	$(601)	$(124)

The accompanying notes are an integral part of these financial statements.

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Noble Energy, Inc.
Consolidated Balance Sheets
(millions)
(unaudited)

	June 30, 2016	December 31, 2015
ASSETS		
Current Assets		
Cash and Cash Equivalents	$1,300	$ 1,028
Accounts Receivable, Net	476	450
Commodity Derivative Assets	229	582
Other Current Assets	184	216
Total Current Assets	2,189	2,276
Property, Plant and Equipment		
Oil and Gas Properties (Successful Efforts Method of Accounting)	30,713	31,220
Property, Plant and Equipment, Other	877	858
Total Property, Plant and Equipment, Gross	31,590	32,078
Accumulated Depreciation, Depletion and Amortization	(11,856)	(10,778)
Total Property, Plant and Equipment, Net	19,734	21,300
Other Noncurrent Assets	593	620
Total Assets	$22,516	$ 24,196
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable - Trade	$780	$ 1,128
Other Current Liabilities	595	677
Total Current Liabilities	1,375	1,805
Long-Term Debt	7,868	7,976
Deferred Income Taxes	2,387	2,826
Other Noncurrent Liabilities	1,173	1,219
Total Liabilities	12,803	13,826
Commitments and Contingencies		
Shareholders' Equity		
Preferred Stock - Par Value $1.00 per share; 4 Million Shares Authorized; None Issued	—	—
Common Stock - Par Value $0.01 per share; 1 Billion Shares Authorized; 471 Million and 470 Million Shares Issued, respectively	5	5
Additional Paid in Capital	6,398	6,360
Accumulated Other Comprehensive Loss	(32)	(33)
Treasury Stock, at Cost; 38 Million Shares	(696)	(688)
Retained Earnings	4,038	4,726
Total Shareholders' Equity	9,713	10,370
Total Liabilities and Shareholders' Equity	$22,516	$ 24,196

The accompanying notes are an integral part of these financial statements.

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Noble Energy, Inc.
Consolidated Statements of Cash Flows
(millions)
(unaudited)

	Six Months Ended June 30,	
	2016	2015
Cash Flows From Operating Activities		
Net Loss	$(602)	$(131)
Adjustments to Reconcile Net Loss to Net Cash Provided by Operating Activities		
Depreciation, Depletion and Amortization	1,239	905
Asset Impairments	—	43
Dry Hole Cost	114	19
Gain on Extinguishment of Debt	(80)	—
Finalization of Purchase Price Allocation for Rosetta Merger	(25)	—
Loss on Asset Due to Terminated Contract	47	—
Deferred Income Tax Benefit	(414)	(312)
(Income) Loss from Equity Method Investees, Net of Dividends	(9)	4
Loss (Gain) on Commodity Derivative Instruments	107	(63)
Net Cash Received in Settlement of Commodity Derivative Instruments	322	397
Loss on Divestitures	23	—
Stock Based Compensation	40	38
Non-cash Pension Termination Expense	—	21
Other Adjustments for Noncash Items Included in Income	59	11
Changes in Operating Assets and Liabilities		
(Increase) Decrease in Accounts Receivable	(6)	304
Decrease in Accounts Payable	(232)	(167)
Decrease in Current Income Taxes Payable	(51)	(63)
Other Current Assets and Liabilities, Net	(51)	(45)
Other Operating Assets and Liabilities, Net	(41)	5
Net Cash Provided by Operating Activities	440	966
Cash Flows From Investing Activities		
Additions to Property, Plant and Equipment	(812)	(1,898)
Additions to Equity Method Investments	(6)	(65)
Proceeds from Divestitures and Other	767	151
Net Cash Used in Investing Activities	(51)	(1,812)
Cash Flows From Financing Activities		
Dividends Paid, Common Stock	(86)	(134)
Proceeds from Issuance of Shares of Common Stock to Public, Net of Offering Costs	—	1,112
Proceeds from Term Loan Facility	1,400	—
Repayment of Senior Notes	(1,383)	—
Repayment of Capital Lease Obligation	(27)	(29)
Other	(21)	(8)
Net Cash (Used in) Provided by Financing Activities	(117)	941
Increase in Cash and Cash Equivalents	272	95
Cash and Cash Equivalents at Beginning of Period	1,028	1,183
Cash and Cash Equivalents at End of Period	$1,300	$1,278

The accompanying notes are an integral part of these financial statements.

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Noble Energy, Inc.
Consolidated Statements of Shareholders' Equity
(millions)
(unaudited)

	Common Stock	Additional Paid in Capital	Accumulated Other Comprehensive Loss	Treasury Stock at Cost	Retained Earnings	Total Shareholders' Equity
December 31, 2015	$ 5	$ 6,360	$ (33)	$ (688)	$ 4,726	$ 10,370
Net Loss	—	—	—	—	(602)	(602)
Stock-based Compensation	—	36	—	—	—	36
Dividends (20 cents per share)	—	—	—	—	(86)	(86)
Other	—	2	1	(8)	—	(5)
June 30, 2016	$ 5	$ 6,398	$ (32)	$ (696)	$ 4,038	$ 9,713
December 31, 2014	$ 4	$ 3,624	$ (90)	$ (671)	$ 7,458	$ 10,325
Net Loss	—	—	—	—	(131)	(131)
Stock-based Compensation	—	38	—	—	—	38
Dividends (36 cents per share)	—	—	—	—	(134)	(134)
Issuance of Shares of Common Stock to Public, Net of Offering Costs	—	1,112	—	—	—	1,112
Other	—	4	7	(12)	—	(1)
June 30, 2015	$ 4	$ 4,778	$ (83)	$ (683)	$ 7,193	$ 11,209

The accompanying notes are an integral part of these financial statements.

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Noble Energy, Inc.
Notes to Consolidated Financial Statements

Note 1. Organization and Nature of Operations
Noble Energy, Inc. (Noble Energy, we or us) is a leading independent energy company engaged in worldwide crude oil and natural gas exploration and production. Our core operating areas are onshore US (DJ Basin, Marcellus Shale, Eagle Ford Shale, and Permian Basin), and offshore in deepwater Gulf of Mexico, Eastern Mediterranean and West Africa.

Note 2. Basis of Presentation
Presentation The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the US (US GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by US GAAP for complete financial statements. The accompanying consolidated financial statements at June 30, 2016 and December 31, 2015 and for the three and six months ended June 30, 2016 and 2015 contain all normally recurring adjustments considered necessary for a fair presentation of our financial position, results of operations, cash flows and shareholders’ equity for such periods. Certain prior-period amounts have been reclassified to conform to the current-period presentation. Operating results for the three and six months ended June 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.
These consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2015.
Consolidation Our consolidated accounts include our accounts and the accounts of our wholly-owned subsidiaries. In addition, we use the equity method of accounting for investments in entities that we do not control, but over which we exert significant influence. All significant intercompany balances and transactions have been eliminated upon consolidation.
Estimates The preparation of consolidated financial statements in conformity with US GAAP requires us to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates. Management evaluates estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic and commodity price environment.
Issuance of Phantom Units On February 1, 2016, we issued cash-settled awards to certain employees under the Noble Energy, Inc. 1992 Stock Option and Restricted Stock Plan in lieu of a portion of restricted stock and stock options. We issued approximately one million awards (so called phantom units, the nomenclature used in accounting literature), a portion of which are subject to the achievement of specific performance goals. These phantom units, once vested, are settled in cash. The phantom units represent a hypothetical interest in the Company. The phantom unit value is the lesser of the fair market value of a share of common stock of the Company as of the vesting date or up to four times the fair market value of a share of common stock of the Company as of the grant date, which was $31.65. The Company recognizes the value of our cash-settled awards utilizing the liability method as defined under Accounting Standards Codification Topic 718, Compensation - Stock Compensation. The fair value of liability awards is remeasured at each reporting date, based on the fair market value of a share of common stock of the Company as of the reporting date, through the settlement date with the change in fair value recognized as compensation expense over that period. As of June 30, 2016, the fair value remeasurement had a de minimis impact on our consolidated statement of operations and balance sheet. See Note 7. Fair Value Measurements and Disclosures.
Recently Issued Accounting Standards In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-02 (ASU 2016-02): Leases. The guidance requires lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by leases with terms of more than 12 months.

This ASU also requires disclosures designed to give financial statement users information on the amount, timing, and uncertainty of cash flows arising from leases. The standard will be effective for annual and interim periods beginning after December 15, 2018, with earlier application permitted. We are currently evaluating the provisions of this guidance to determine the effects it will have on our consolidated financial statements and related disclosures. In the normal course of business, we enter into capital and operating lease agreements to support our exploration and development operations and lease assets such as drilling rigs, platforms, storage facilities, field services and well equipment, pipeline capacity, office space and other assets. We believe the adoption and implementation of this ASU will likely have a material impact on our balance sheet resulting from an increase in both assets and liabilities relating to our leasing activities.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09 (ASU 2016-09): Compensation - Stock Compensation, to reduce complexity and enhance several aspects of accounting and disclosure for share-based payment transactions, including the accounting for income taxes, award forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The ASU will be effective for annual and interim periods beginning after December 15, 2016, with earlier application permitted. Certain aspects of this guidance will require retrospective application while other aspects are to be applied prospectively. We are currently evaluating the effect that the guidance will have on our consolidated financial statements and related disclosures.

In June 2016, the FASB issued Accounting Standards Update No. 2016-13 (ASU 2016-13): Financial Instruments - Credit Losses, which replaces the incurred loss impairment methodology in current US GAAP with a methodology that reflects expected credit losses. The update is intended to provide financial statement users with more useful information about expected credit losses. The amended guidance is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. We are currently evaluating the effect, if any, that the guidance will have on our consolidated financial statements and related disclosures.

In July 2015, the FASB issued Accounting Standards Update No. 2015-11 (ASU 2015-11): Simplifying the Measurement of Inventory, effective for annual and interim periods beginning after December 15, 2016. ASU 2015-11 changes the inventory measurement principle for entities using the first-in, first out (FIFO) or average cost methods. For entities utilizing one of these methods, the inventory measurement principle will change from lower of cost or market to the lower of cost and net realizable value. We follow the average cost method and do not believe adoption of ASU 2015-11 will have a material impact on our financial position and results of operations.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 (ASU 2014-09), which creates Topic 606, Revenue from Contracts with Customers. In summary, the core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, ASU 2014-09 requires enhanced financial statement disclosures over revenue recognition as part of the new accounting guidance. The standard will be effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. In March 2016, the FASB released certain implementation guidance through ASU 2016-08 to clarify principal versus agent considerations. We are continuing to evaluate the provisions of ASU 2014-09 and have not yet determined the full impact it may have on our financial position and results of operations. At a minimum, we expect we will be required to change from the entitlements method used for certain domestic natural gas sales to the sales method of accounting. We believe the impact of utilizing the sales method of accounting for our current domestic natural gas sales agreements will be de minimus.

In March 2016, the FASB issued Accounting Standards Update No. 2016-07 (ASU 2016-07): Investments - Equity Method and Joint Ventures, to eliminate retroactive application of equity method accounting when an investment becomes qualified for equity method accounting as a result of an increase in the level of ownership interest or degree of influence. The ASU will be effective for annual and interim periods beginning after December 15, 2016, with earlier application permitted. We do not believe adoption of this guidance will have a material impact on our consolidated financial statements and related disclosures as all current investments are accounted for under the equity method of accounting.

In February 2015, the FASB issued Accounting Standards Update No. 2015-02 (ASU 2015-02): Consolidation - Amendments to the Consolidation Analysis, which changes the guidance as to whether an entity is a variable interest entity (VIE) or a voting interest entity and how related parties are considered in the VIE model. As of March 31, 2016, we have adopted the provisions of ASU 2015-02, which did not impact our consolidated financial statements.

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Noble Energy, Inc.
Notes to Consolidated Financial Statements

Statements of Operations Information Other statements of operations information is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(millions)	2016	2015	2016	2015
Production Expense				
Lease Operating Expense	$119	$129	$281	$286
Production and Ad Valorem Taxes	40	28	43	61
Transportation and Gathering Expense (1)	115	61	222	122
Total	$274	$218	$546	$469
Other Operating (Income) Expense, Net				
Loss on Asset Due to Terminated Contract (2)	$5	$—	$47	$—
Marketing and Processing Expense, Net (3)	15	12	37	22
Loss (Gain) on Divestitures	23	(1)	23	—
Corporate Restructuring Expense	—	18	1	18
Purchase Price Allocation Adjustment (4)	(25)	—	(25)	—
Gain on Extinguishment of Debt (5)	—	—	(80)	—
Asset Impairments	—	15	—	43
Pension Plan Expense	—	21	—	21
Stacked Drilling Rig Expense	3	7	5	7
Other, Net	(4)	13	12	10
Total	$17	$85	$20	$121
Other Non-Operating Expense (Income), Net				
Deferred Compensation Expense (Income) (6)	$5	$(7)	$5	$(5)
Other Expense (Income), Net	2	(2)	(2)	(4)
Total	$7	$(9)	$3	$(9)

(1) Certain of our revenue received from purchasers was historically presented with deductions for transportation, gathering, fractionation or processing costs. Beginning in 2016, we have changed our presentation of revenue to no longer include these expenses as deductions from revenue. These costs are now included within production expense and prior year amounts of $10 million and $19 million for the three and six months ended June 30, 2015 have been reclassified to conform to the current presentation.

(2) Amount relates to the termination of a rig contract offshore Falkland Islands as a result of a supplier's non-performance. See Note 8. Capitalized Exploratory Well Costs and Undeveloped Leasehold and Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Executive Overview - Exploration Program Update.

(3) For the three months and six months ended June 30, 2016, amount includes $7 million and $23 million, respectively, of expense due to unutilized firm transportation and shortfalls in delivering or transporting minimum volumes under certain commitments.

For the three months and six months ended June 30, 2015, amount includes $5 million and $9 million, respectively, of expense due to unutilized firm transportation and shortfalls in delivering or transporting minimum volumes under certain commitments.

(4) Amount relates to an adjustment recorded to the purchase price allocation related to the Rosetta Merger. See Note 3. Rosetta Merger.

(5) Amount relates to the tendering of senior notes assumed in the Rosetta Merger. See Note 6. Debt.

(6) Amounts represent decreases (increases) in the fair value of shares of our common stock held in a rabbi trust.

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Balance Sheet Information Other balance sheet information is as follows:

(millions)	June 30, 2016	December 31, 2015
Accounts Receivable, Net		
Commodity Sales	$338	$ 298
Joint Interest Billings	19	20
Proceeds Receivable [1]	40	—
Severance Tax Refund [2]	28	—
Other	75	151
Allowance for Doubtful Accounts	(24)	(19)
Total	$476	$ 450
Other Current Assets		
Inventories, Materials and Supplies	$93	$ 92
Inventories, Crude Oil	25	23
Assets Held for Sale [3]	18	67
Prepaid Expenses and Other Current Assets	48	34
Total	$184	$ 216
Other Noncurrent Assets		
Investments in Unconsolidated Subsidiaries	$467	$ 453
Mutual Fund Investments	79	90
Commodity Derivative Assets	—	10
Other Assets	47	67
Total	$593	$ 620
Other Current Liabilities		
Production and Ad Valorem Taxes	$142	$ 166
Commodity Derivative Liabilities	35	—
Income Taxes Payable	35	86
Asset Retirement Obligations	128	128
Interest Payable	75	83
Current Portion of Capital Lease Obligations	56	53
Other	124	161
Total	$595	$ 677
Other Noncurrent Liabilities		
Deferred Compensation Liabilities	$225	$ 217
Asset Retirement Obligations	855	861
Production and Ad Valorem Taxes	21	68
Commodity Derivative Liabilities	31	—
Other	41	73
Total	$1,173	$ 1,219

(1) Amount relates to proceeds to be received from our farm-out of 35% interest in Block 12 offshore Cyprus. See Note 4. Divestitures.

(2) Amount relates to the accrual of a $28 million onshore US severance tax receivable.

(3) Assets held for sale at June 30, 2016 include certain producing and undeveloped crude oil and natural gas interests in the DJ Basin, while assets held for sale at December 31, 2015 include the Karish and Tanin natural gas discoveries, offshore Israel. See Note 4. Divestitures.

Note 3. Rosetta Merger

On July 20, 2015, Noble Energy completed the merger of Rosetta Resources Inc. (Rosetta) into a subsidiary of Noble Energy (Rosetta Merger). The results of Rosetta's operations since the merger date are included in our consolidated statements of operations. The merger was effected through the issuance of approximately 41 million shares of Noble Energy common stock in exchange for all outstanding shares of Rosetta common stock using a ratio of 0.542 of a share of Noble Energy common stock for each share of Rosetta common stock and the assumption of Rosetta's liabilities, including approximately $2 billion fair value of outstanding debt. The merger added two new onshore US shale positions to our portfolio including approximately 50,000 net acres in the Eagle Ford Shale and 54,000 net acres in the Permian Basin (45,000 acres in the Delaware Basin and 9,000 acres in the Midland Basin). In connection with the Rosetta Merger, we incurred merger-related costs in 2015 of approximately $81 million, including (i) $66 million of severance, consulting, investment, advisory, legal and other merger-related fees, and (ii) $15 million of noncash share-based compensation expense, all of which were expensed and were included in Other Operating (Income) Expense, Net.

Allocation of Purchase Price The merger has been accounted for as a business combination, using the acquisition method. The following table represents the final allocation of the total purchase price of Rosetta to the assets acquired and the liabilities assumed based on the fair value at the merger date, with any excess of the purchase price over the estimated fair value of the identifiable net assets acquired recorded as goodwill.

The following table sets forth our final purchase price allocation:

	(in millions, except stock price)
Shares of Noble Energy common stock issued to Rosetta shareholders	41
Noble Energy common stock price on July 20, 2015	$ 36.97
Fair value of common stock issued	$ 1,518
Plus: Fair value of Rosetta's restricted stock awards and performance awards assumed	10
Plus: Rosetta stock options assumed	1
Total purchase price	1,529
Plus: Liabilities assumed by Noble Energy	
Accounts Payable	100
Current Liabilities	37
Long-Term Debt	1,992
Other Long Term Liabilities	23
Asset Retirement Obligation	27
Total purchase price plus liabilities assumed	$ 3,708
Fair Value of Rosetta Assets	
Cash and Equivalents	$ 61
Other Current Assets	76
Derivative Instruments	209
Oil and Gas Properties	
Proved Reserves	1,613
Undeveloped Leaseholds	1,355
Gathering & Processing Assets	207
Asset Retirement Obligation	27
Other Property Plant and Equipment	5
Long Term Deferred Tax Asset	17
Goodwill [1]	138
Total Asset Value	$ 3,708

(1) As of December 31, 2015, our preliminary purchase price allocation reflected goodwill of $163 million based on the fair value of assets acquired and liabilities assumed at the Rosetta Merger date. In conducting our goodwill impairment test as of December 31, 2015, we determined that our goodwill balance was no longer recoverable and fully impaired it, resulting in a goodwill impairment charge in fourth quarter 2015. In second quarter 2016, we finalized the purchase price allocation and recorded a $25 million gain to Other Operating Expense, Net driven by adjustments made based on the filing of the final Rosetta federal income tax return for the period ending on the Rosetta Merger date.

The fair value measurements of derivative instruments assumed were determined based on published forward commodity price curves as of the date of the merger and represent Level 2 inputs. Derivative instruments in an asset position include a measure of counterparty nonperformance risk, and the fair values of commodity derivative instruments in a liability position include a measure of our own nonperformance risk, each based on the current published credit default swap rates. The fair value measurements of long-term debt were estimated based on published market prices and represent Level 1 inputs.

The fair value measurements of crude oil and natural gas properties and asset retirement obligations are based on inputs that are not observable in the market and therefore represent Level 3 inputs. The fair values of crude oil and natural gas properties and asset retirement obligations were measured using valuation techniques that convert future cash flows to a single discounted amount. Significant inputs to the valuation of crude oil and natural gas properties included estimates of: (i) recoverable reserves; (ii) production rates; (iii) future operating and development costs; (iv) future commodity prices; and (v) a market-based weighted average cost of capital. These inputs required significant judgments and estimates by management at the time of the valuation and were the most sensitive and subject to change.

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Notes to Consolidated Financial Statements

The results of operations attributable to Rosetta are included in our consolidated statements of operations beginning on July 21, 2015. Revenues of $127 million and $214 million and pre-tax net income of $17 million and pre-tax net loss of $14 million were generated from Rosetta assets during the three and six months ended June 30, 2016, respectively.

Proforma Financial Information The following pro forma condensed combined financial information was derived from the historical financial statements of Noble Energy and Rosetta and gives effect to the merger as if it had occurred on January 1, 2015. The below information reflects pro forma adjustments based on available information and certain assumptions that we believe are reasonable, including (i) adjustments to conform Rosetta's historical policy of accounting for its crude oil and natural gas properties from the full cost method to the successful efforts method of accounting, (ii) depletion of Rosetta's fair-valued proved crude oil and natural gas properties, and (iii) the estimated tax impacts of the pro forma adjustments. The pro forma results of operations do not include any cost savings or other synergies that may result from the Rosetta Merger or any estimated costs that have been or will be incurred by us to integrate the Rosetta assets. The pro forma condensed combined financial information has been included for comparative purposes and is not necessarily indicative of the results that might have actually occurred had the Rosetta Merger taken place on January 1, 2015; furthermore, the financial information is not intended to be a projection of future results.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions, except per share amounts)	2016 [(1)]	2015	2016 [(1)]	2015
Revenues	$847	$881	$1,571	$1,773
Net Loss	$(315)	$(125)	$(602)	$(145)
Loss per share				
Basic	$(0.73)	$(0.29)	$(1.40)	$(0.35)
Diluted	$(0.73)	$(0.29)	$(1.40)	$(0.35)

(1) No pro forma adjustments were made for the period as the acquisition is included in the Company's historical results.

Note 4. Divestitures

Onshore US Properties

During the first six months of 2016, we entered into certain onshore transactions for which we:

- closed the divestiture of our Bowdoin property in northern Montana generating proceeds of $43 million and recognized a $23 million loss on sale of assets;
- sold other certain onshore US crude oil and natural gas properties, generating net proceeds of $20 million. Proceeds were primarily applied to the DJ Basin depletable field, with no recognition of gain or loss;
- entered into a purchase and sale agreement for the divestiture of certain producing and undeveloped crude oil and natural gas interests covering approximately 33,100 producing and undeveloped net acres in the DJ Basin for $505 million, subject to customary closing adjustments. We received proceeds of $486 million and expect to receive the remaining consideration, subject to post-close adjustments, around year-end 2016. Proceeds were primarily applied to the DJ Basin depletable field, with no recognition of gain or loss; and
- executed an acreage exchange agreement to receive approximately 11,700 net acres within our Wells Ranch development area in exchange for approximately 13,500 net acres primarily from our Bronco area, located southwest of Wells Ranch. No gain or loss was recognized for the transaction.

During the first six months of 2015, we sold certain onshore US crude oil and natural gas properties, generating net proceeds of $151 million. Proceeds were primarily applied to the DJ Basin depletable field, with no recognition of gain or loss, other than a de minimus gain in second quarter 2015.

Cyprus Project (Offshore Cyprus) During fourth quarter 2015, we entered into a farm-out agreement with a partner for a 35% interest in Block 12, which includes the Aphrodite natural gas discovery, for $171 million. In first quarter 2016, we received proceeds of $131 million related to the farm-out agreement and expect to receive the remaining consideration of $40 million, subject to post-close adjustments, in 2017. The proceeds were applied to the Cyprus project asset with no gain or loss recognized.

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Offshore Israel Assets In November 2015, we executed an agreement to divest our 47% interest in the Alon A and Alon C offshore Israel licenses, which include the Karish and Tanin fields, for a total transaction value of $73 million. These assets were held for sale as of December 31, 2015, and the transaction closed in January 2016.

Subsequent Event On July 4, 2016, we signed a definitive agreement to divest a 3% working interest in the Tamar field, offshore Israel, for $369 million, subject to customary closing adjustments. Under the terms of the agreement, the purchaser has the option to elect, before closing, to purchase an additional 1% working interest at the same valuation. The divestiture is expected to close in the third quarter of 2016, with an effective date of January 1, 2016.

Note 5. Derivative Instruments and Hedging Activities

Objective and Strategies for Using Derivative Instruments We are exposed to fluctuations in crude oil, natural gas and natural gas liquids pricing. In order to mitigate the effect of commodity price volatility and enhance the predictability of cash flows relating to the marketing of our global crude oil and domestic natural gas, we enter into crude oil and natural gas price hedging arrangements.

While these instruments mitigate the cash flow risk of future decreases in commodity prices, they may also curtail benefits from future increases in commodity prices. See Note 7. Fair Value Measurements and Disclosures for a discussion of methods and assumptions used to estimate the fair values of our derivative instruments.

Unsettled Commodity Derivative Instruments As of June 30, 2016, the following crude oil derivative contracts were outstanding:

				Swaps	Collars		
Settlement Period	Type of Contract	Index	Bbls Per Day	Weighted Average Fixed Price	Weighted Average Short Put Price	Weighted Average Floor Price	Weighted Average Ceiling Price
2016	Call Option (1)	NYMEX WTI	5,000	$ —	$ —	$ —	$ 54.16
2016	Swaps	NYMEX WTI	16,000	67.69	—	—	—
2016	Swaps (2)	(3)	6,000	90.28	—	—	—
2016	Two-Way Collars	NYMEX WTI	10,000	—	—	40.50	53.42
2016	Three-Way Collars	NYMEX WTI	8,000	—	54.50	65.63	79.03
2016	Swaps	Dated Brent	9,000	97.96	—	—	—
2016	Three-Way Collars	Dated Brent	8,000	—	72.50	86.25	101.79
1H17 (4)	Swaps	NYMEX WTI	6,000	55.08	—	—	—
1H17 (4)	Two-Way Collars	NYMEX WTI	2,000	—	—	40.00	50.44
1H17 (4)	Swaps	Dated Brent	3,000	62.80	—	—	—
2H17 (4)	Call Option (1)	NYMEX WTI	3,000	—	—	—	60.12
2H17 (4)	Swaptions (5)	Dated Brent	3,000	—	—	—	62.80
2H17 (4)	Swaptions (5)	NYMEX WTI	3,000	—	—	—	50.05
2017	Two-Way Collars	NYMEX WTI	7,000	—	—	40.00	53.29
2017	Call Option (1)	NYMEX WTI	3,000	—	—	—	57.00
2017	Swaptions (5)	NYMEX WTI	4,000	—	—	—	47.34
2017	Three-Way Collars	NYMEX WTI	15,000	—	36.33	46.33	60.68
2017	Three-Way Collars	Dated Brent	2,000	—	35.00	46.00	66.33
2018	Three-Way Collars	Dated Brent	3,000	—	40.00	50.00	70.41

(1) We have entered into crude oil derivative enhanced swaps with strike prices that are above the market value as of trade commencement. To effect the enhanced swap structure, we sold call options to the applicable counterparty to receive the above market terms.

(2) Includes derivative instruments assumed by our subsidiary, NBL Texas, LLC, in connection with the Rosetta Merger.

(3) The indices for these derivative instruments are NYMEX WTI and Argus LLS.

(4) We have entered into crude oil swap contracts for portions of 2016 and 2017 resulting in the difference in hedge volumes for the full year.

(5) We have entered into certain derivative contracts (swaptions), which give counterparties the option to extend with similar terms for an additional 6-month or 12-month period.

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As of June 30, 2016, the following natural gas derivative contracts were outstanding:

Settlement Period	Type of Contract	Index	MMBtu Per Day	Swaps: Weighted Average Fixed Price	Collars: Weighted Average Short Put Price	Weighted Average Floor Price	Weighted Average Ceiling Price
2016	Swaps	NYMEX HH	70,000	3.24	—	—	—
2016	Two-Way Collars	NYMEX HH	30,000	—	—	3.00	3.50
2016	Three-Way Collars	NYMEX HH	90,000	—	2.83	3.42	3.90
2016	Swaps (1)	(2)	30,000	4.04	—	—	—
2016	Two-Way Collars (1)	(2)	30,000	—	—	3.50	5.60
1H17	Swaps	NYMEX HH	30,000	2.92	—	—	—
2H17	Swaptions (3)	NYMEX HH	30,000	—	—	—	2.92
2017	Swaptions (3)	NYMEX HH	60,000	—	—	—	3.14
2017	Three-Way Collars	NYMEX HH	100,000	—	2.50	2.87	3.48
2017	Two-Way Collars	NYMEX HH	20,000	—	—	2.75	3.02
2018	Three-Way Collars	NYMEX HH	70,000	—	2.50	2.80	3.76

(1) Includes derivative instruments assumed by our subsidiary, NBL Texas, LLC, in connection with the Rosetta Merger.
(2) The index for these derivative instruments is Houston Ship Channel.
(3) We have entered into certain natural gas derivative contracts (swaptions), which give counterparties the option to extend with similar terms for an additional 6-month or 12-month period.

Fair Value Amounts and Loss (Gain) on Commodity Derivative Instruments The fair values of commodity derivative instruments in our consolidated balance sheets were as follows:

	Fair Value of Derivative Instruments							
	Asset Derivative Instruments				Liability Derivative Instruments			
	June 30, 2016		December 31, 2015		June 30, 2016		December 31, 2015	
(millions)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Commodity Derivative Instruments	Current Assets	$ 229	Current Assets	$ 582	Current Liabilities	$ 35	Current Liabilities	$ —
	Noncurrent Assets	—	Noncurrent Assets	10	Noncurrent Liabilities	31	Noncurrent Liabilities	—
Total		$ 229		$ 592		$ 66		$ —

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The effect of commodity derivative instruments on our consolidated statements of operations was as follows:

(millions)	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Cash Received in Settlement of Commodity Derivative Instruments				
Crude Oil	$(120)	$(157)	$(276)	$(342)
Natural Gas	(24)	(30)	(46)	(55)
Total Cash Received in Settlement of Commodity Derivative Instruments	(144)	(187)	(322)	(397)
Non-cash Portion of Loss on Commodity Derivative Instruments				
Crude Oil	233	242	360	297
Natural Gas	62	32	69	37
Total Non-cash Portion of Loss on Commodity Derivative Instruments	295	274	429	334
Loss (Gain) on Commodity Derivative Instruments				
Crude Oil	113	85	84	(45)
Natural Gas	38	2	23	(18)
Total Loss (Gain) on Commodity Derivative Instruments	$151	$87	$107	$(63)

Note 6. Debt

Debt consists of the following:

(millions, except percentages)	June 30, 2016 Debt	June 30, 2016 Interest Rate	December 31, 2015 Debt	December 31, 2015 Interest Rate
Revolving Credit Facility, due August 27, 2020	$—	— %	$—	— %
Capital Lease and Other Obligations	377	— %	403	— %
Term Loan Facility, due January 6, 2019	1,400	1.71 %	—	— %
8.25% Senior Notes, due March 1, 2019	1,000	8.25 %	1,000	8.25 %
5.625% Senior Notes, due May 1, 2021	379	5.625%	693	5.625%
4.15% Senior Notes, due December 15, 2021	1,000	4.15 %	1,000	4.15 %
5.875% Senior Notes, due June 1, 2022	18	5.875%	597	5.875%
7.25% Senior Notes, due October 15, 2023	100	7.25 %	100	7.25 %
5.875% Senior Notes, due June 1, 2024	8	5.875%	499	5.875%
3.90% Senior Notes, due November 15, 2024	650	3.90 %	650	3.90 %
8.00% Senior Notes, due April 1, 2027	250	8.00 %	250	8.00 %
6.00% Senior Notes, due March 1, 2041	850	6.00 %	850	6.00 %
5.25% Senior Notes, due November 15, 2043	1,000	5.25 %	1,000	5.25 %
5.05% Senior Notes, due November 15, 2044	850	5.05 %	850	5.05 %
7.25% Senior Debentures, due August 1, 2097	84	7.25 %	84	7.25 %
Total	7,966		7,976	
Unamortized Discount	(23)		(24)	
Unamortized Premium	18		113	
Unamortized Debt Issuance Costs	(37)		(36)	
Total Debt, Net of Unamortized Discount, Premium and Debt Issuance Costs	7,924		8,029	
Less Amounts Due Within One Year				
Capital Lease Obligations	(56)		(53)	
Long-Term Debt Due After One Year	$7,868		$7,976	

Revolving Credit Facility Our Credit Agreement, as amended, provides for a $4.0 billion unsecured revolving credit facility (Revolving Credit Facility), which is available for general corporate purposes. The Revolving Credit Facility (i) provides for facility fee rates that range from 10 basis points to 25 basis points per year depending upon our credit rating, (ii) provides for interest rates that are based upon the Eurodollar rate plus a margin that ranges from 90 basis points to 150 basis points depending upon our credit rating, and (iii) includes a sub-limit for letters of credit up to an aggregate amount of $500 million ($450 million of this capacity is committed as of June 30, 2016).

Term Loan Agreement and Completed Tender Offers On January 6, 2016, we entered into a term loan agreement (Term Loan Facility) with Citibank, N.A., as administrative agent, Mizuho Bank, Ltd., as syndication agent, and certain other financial institutions party thereto, which provides for a three-year term loan facility for a principal amount of $1.4 billion. Provisions of the Term Loan Facility are consistent with those in the Revolving Credit Facility. Borrowings under the Term Loan Facility may be prepaid prior to maturity without premium. The Term Loan Facility will accrue interest, at our option, at either (a) a base rate equal to the highest of (i) the rate announced by Citibank, N.A., as its prime rate, (ii) the Federal Funds Rate plus 0.5%, and (iii) a London interbank offered rate plus 1.0%, plus a margin that ranges from 10 basis points to 75 basis points depending upon our credit rating, or (b) a London interbank offered rate, plus a margin that ranges from 100 basis points to 175 basis points depending upon our credit rating. The interest rate for our Term Loan Facility is 1.71% as of June 30, 2016.

In connection with the Term Loan Facility, we launched cash tender offers for the 5.875% Senior Notes due June 1, 2024, 5.875% Senior Notes due June 1, 2022 and 5.625% Senior Notes due May 1, 2021, all of which were assumed in the Rosetta Merger. The borrowings under the Term Loan Facility were used solely to fund the tender offers. Approximately $1.38 billion of notes were validly tendered and accepted by us, with a corresponding amount borrowed under the new Term Loan Facility. As a result, we recognized a gain of $80 million which is reflected in other operating (income) expense, net in our consolidated statements of operations.

See Note 7. Fair Value Measurements and Disclosures for a discussion of methods and assumptions used to estimate the fair values of debt.

Note 7. Fair Value Measurements and Disclosures

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Certain assets and liabilities are measured at fair value on a recurring basis in our consolidated balance sheets. The following methods and assumptions were used to estimate the fair values:

Cash, Cash Equivalents, Accounts Receivable and Accounts Payable   The carrying amounts approximate fair value due to the short-term nature or maturity of the instruments.

Mutual Fund Investments   Our mutual fund investments consist of various publicly-traded mutual funds that include investments ranging from equities to money market instruments. The fair values are based on quoted market prices for identical assets.

Commodity Derivative Instruments   Our commodity derivative instruments may include variable to fixed price commodity swaps, two-way collars, three-way collars, swaptions and enhanced swaps. We estimate the fair values of these instruments using published forward commodity price curves as of the date of the estimate. The discount rate used in the discounted cash flow projections is based on published LIBOR rates, Eurodollar futures rates and interest swap rates. The fair values of commodity derivative instruments in an asset position include a measure of counterparty nonperformance risk, and the fair values of commodity derivative instruments in a liability position include a measure of our own nonperformance risk, each based on the current published credit default swap rates. In addition, for collars, we estimate the option values of the put options sold and the contract floors and ceilings using an option pricing model which takes into account market volatility, market prices and contract terms. See Note 5. Derivative Instruments and Hedging Activities.

Deferred Compensation Liability   The value is dependent upon the fair values of mutual fund investments and shares of our common stock held in a rabbi trust. See Mutual Fund Investments above.

Phantom Units The fair value of phantom unit awards is measured based on the fair market value of our common stock on the date of grant. We recognize the value of these awards utilizing the liability method whereby these liability awards are remeasured at each reporting date, based on the fair market value of a share of common stock of the Company as of the reporting date, through the settlement date with the change in fair value recognized as compensation expense over that period. See Note 2. Basis of Presentation.

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Measurement information for assets and liabilities that are measured at fair value on a recurring basis was as follows:

	Fair Value Measurements Using Quoted Prices in Active Markets (Level 1) (1)	Significant Other Observable Inputs (Level 2) (2)	Significant Unobservable Inputs (Level 3) (3)	Adjustment (4)	Fair Value Measurement
(millions)					
June 30, 2016					
Financial Assets					
Mutual Fund Investments	$ 79	$ —	$ —	$ —	$ 79
Commodity Derivative Instruments	—	237	—	(8)	229
Financial Liabilities					
Commodity Derivative Instruments	—	(74)	—	8	(66)
Portion of Deferred Compensation Liability Measured at Fair Value	(102)	—	—	—	(102)
Portion of Stock Based Compensation Liability Measured at Fair Value	(4)	—	—	—	(4)
December 31, 2015					
Financial Assets					
Mutual Fund Investments	$ 90	$ —	$ —	$ —	$ 90
Commodity Derivative Instruments	—	600	—	(8)	592
Financial Liabilities					
Commodity Derivative Instruments	—	(8)	—	8	—
Portion of Deferred Compensation Liability Measured at Fair Value	(98)	—	—	—	(98)

(1) Level 1 measurements are fair value measurements which use quoted market prices (unadjusted) in active markets for identical assets or liabilities. We use Level 1 inputs when available as Level 1 inputs generally provide the most reliable evidence of fair value.

(2) Level 2 measurements are fair value measurements which use inputs, other than quoted prices included within Level 1, which are observable for the asset or liability, either directly or indirectly.

(3) Level 3 measurements are fair value measurements which use unobservable inputs.

(4) Amount represents the impact of netting provisions within our master agreements that allow us to net cash settle asset and liability positions with the same counterparty.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis in our consolidated balance sheets. The following methods and assumptions were used to estimate the fair values:

Asset Impairments Information about impaired assets is as follows:

	Fair Value Measurements Using Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Book Value (1)	Total Pre-tax (Non-cash) Impairment Loss

	(Level 1)				
(millions)					
Three Months Ended June 30, 2016					
Impaired Oil and Gas Properties	$ —	$ —	$ —	$ —	—
Three Months Ended June 30, 2015					
Impaired Oil and Gas Properties	—	—	—	15	15
Six Months Ended June 30, 2016					
Impaired Oil and Gas Properties	$ —	$ —	$ —	$ —	—
Six Months Ended June 30, 2015					
Impaired Oil and Gas Properties	—	—	—	43	43

(1) Amount represents net book value at the date of assessment.

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The fair value of impaired crude oil and natural gas properties was determined as of the date of the assessment using a discounted cash flow model based on management's expectations of future production prior to abandonment date, commodity prices based on NYMEX WTI, NYMEX Henry Hub, and Brent futures price curves as of the date of the estimate, estimated operating and abandonment costs, and a risk-adjusted discount rate. Impairments for the first six months of 2015 were due primarily to increases in asset carrying values associated with increases in estimated abandonment costs.

Additional Fair Value Disclosures

Debt The fair value of fixed-rate, public debt is estimated based on the published market prices for the same or similar issues. As such, we consider the fair value of our public, fixed-rate debt to be a Level 1 measurement on the fair value hierarchy.

Our Term Loan Facility is variable-rate, non-public debt. The fair value is estimated based on significant other observable inputs. As such, we consider the fair value of our Term Loan Facility to be a Level 2 measurement on the fair value hierarchy. See Note 6. Debt.

Fair value information regarding our debt is as follows:

(millions)	June 30, 2016 Carrying Amount	June 30, 2016 Fair Value	December 31, 2015 Carrying Amount	December 31, 2015 Fair Value
Long-Term Debt, Net [1]	$7,547	$7,936	$7,626	$7,105

[1] Net of unamortized discount, premium and debt issuance costs and excludes capital lease and other obligations.

Note 8. Capitalized Exploratory Well Costs and Undeveloped Leasehold

Capitalized Exploratory Well Costs We capitalize exploratory well costs until a determination is made that the well has found proved reserves or is deemed noncommercial. On a quarterly basis, we review the status of suspended exploratory well costs and assess the development of these projects. If a well is deemed to be noncommercial, the well costs are charged to exploration expense as dry hole cost.

Changes in capitalized exploratory well costs are as follows and exclude amounts that were capitalized and subsequently expensed in the same period:

(millions)	Six Months Ended June 30, 2016
Capitalized Exploratory Well Costs, Beginning of Period	$ 1,353
Additions to Capitalized Exploratory Well Costs Pending Determination of Proved Reserves	68
Divestitures	