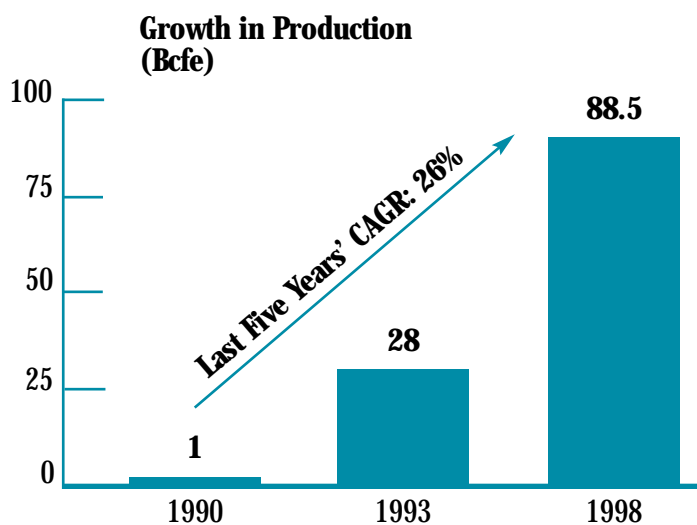
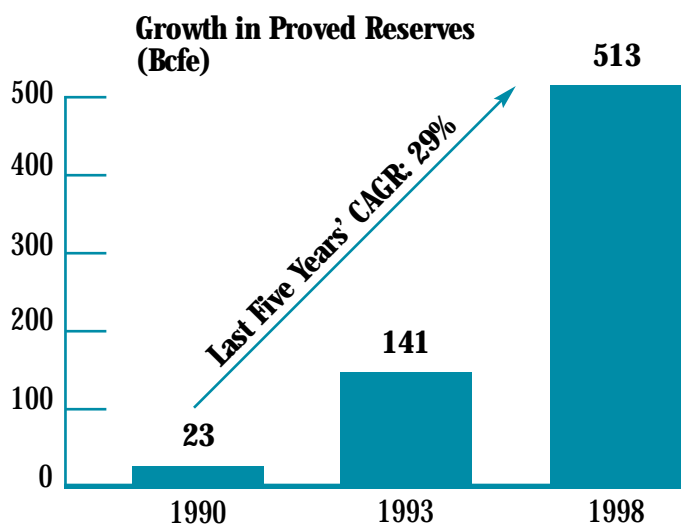
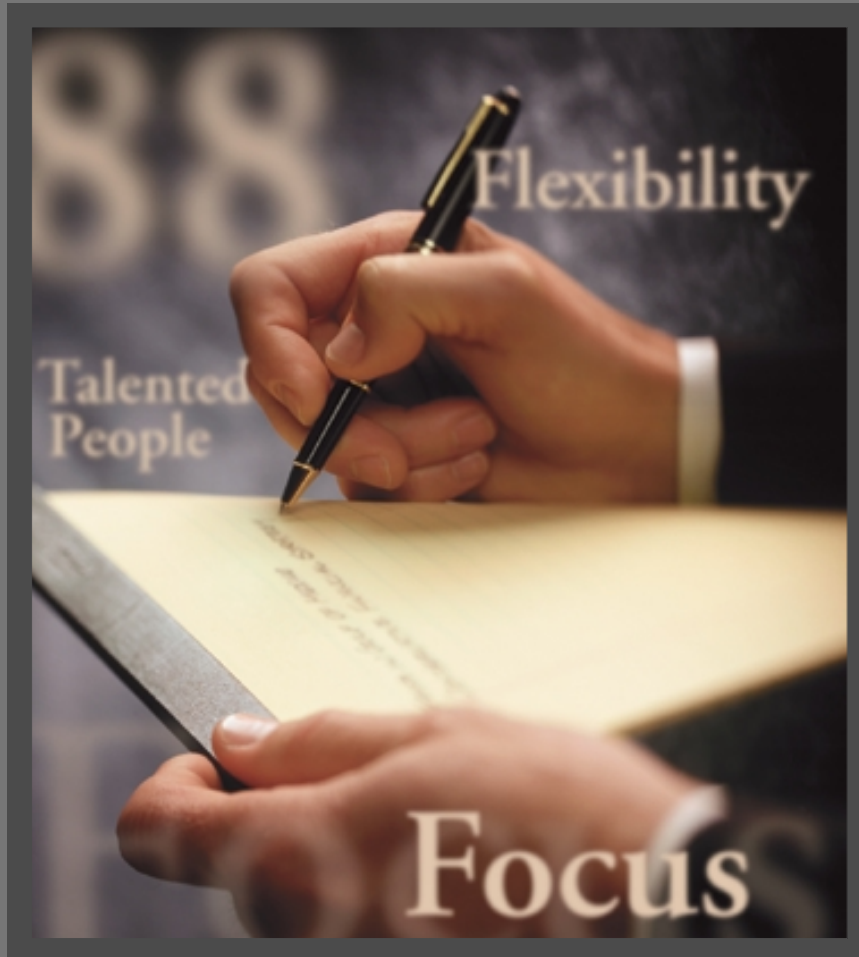


Operating Highlights

	Year Ended December 31,		
	1990	1993	1998
Estimated Oil and Gas Reserves			
Net Proved Reserves:			
Oil (MBbls).....	939	6,414	15,171
Natural Gas (MMcf).....	17,428	102,261	422,277
Gas Equivalents (MMcfe).....	23,062	140,745	513,304
Oil and Gas Production			
Oil (MBbls).....	25	901	3,643
Natural Gas (MMcf).....	812	22,540	66,634
Gas Equivalents (MMcfe).....	964	27,946	88,494
Rank, Gulf of Mexico Operators.....	81	26	12
Property Base			
Gulf of Mexico			
Oil and Gas Leases.....	20	63	133
Oil and Gas Platforms.....	2	23	121
Rank, Gulf of Mexico Drilling.....	38	18	8
Acreage Position (acres)			
Developed (net).....	3,907	83,102	246,180
Undeveloped (net).....	36,635	23,925	97,090
3-D Seismic.....	5,000	100,000	11,300,000
Onshore/International			
Acreage Position (acres)			
Developed (net).....	—	—	5,563
Undeveloped (net).....	—	—	158,518
3-D Seismic.....	—	—	350,000





Founding Business Principles

(Excerpted from Original Business Plan)

- ⇒ “A new company composed of management and employees who have worked together and established a superior track record in oil and gas exploration/production”
- ⇒ “Focus on an area of high potential”
- ⇒ “A data intense, team oriented, technically strong exploration effort”
- ⇒ “Operate with the economics, incentives and flexibility of an independent”
- ⇒ “A selective acquisition effort...with definable reserve upsides”
- ⇒ “A good mix of age and technical discipline ... with equity compensation”

10th Anniversary Edition

Dear Fellow Stockholder:

Those of you who follow the stock market know that 1998 was not a good year for the oil and gas exploration and production sector. The median stock price decline for the 47 companies in our universe was 48.5% for the year, with 17 of the 47 declining more than 70%. Newfield's stock price was down 10.5% for the year. Only three E&P companies in this universe had better stock performance during 1998 than Newfield - Vastar, Anadarko and gas-dominant Houston Exploration.

There was plenty of bad news during 1998 to prompt the dismal market performance of the industry. Oil prices were down 33% compared to 1997. Natural gas prices were down 19%. Further, the high drilling rig rates, high oil field service costs and high levels of activity the industry experienced in the first half of 1998 resulted in dramatically higher capital costs - due to reduced efficiency as well as higher rates. Newfield's capital spending performance in 1998 was, like the rest of the industry's, disappointing. Capital expenditures for the year totaled \$311 million, and reserve additions were 167 Bcfe. Approximately \$66 million of the capital was used to develop reserves that were booked in 1997.

This powerful combination of lower prices and higher costs led to Newfield's income from operations being down from \$41 million in 1997 to \$10.4 million in 1998. The lower prices existing at year end 1998 also led to a \$68 million "ceiling test" writedown at year end 1998. Under full cost accounting requirements, we must, at the end of each quarter, recalculate the net present value of our reserves, using the point-in-time prices existing at the end of the quarter, even if higher longer term prices might be available in financial markets. If the ceiling test calculation results in a lower value than the book value of oil and gas properties, a writedown must be taken. This was the case for Newfield at the end of the fourth quarter of 1998.

After the writedown, Newfield reported a net loss of \$57.7 million, or \$1.55 per share (all per share amounts are on a diluted basis), versus net income of \$1.07 per share in 1997. Operating cash flow before working capital changes was also down in 1998, from \$162 million, or \$4.26 per share, to \$142 million, or \$3.60 per share.

All of the bad news notwithstanding, there was plenty of good news for Newfield in 1998.

First, our net production was up 20%, rising from 74 Bcfe (billion cubic feet of natural gas equivalent) in 1997 to 88.5 Bcfe in 1998. This continued our string of uninterrupted production growth since, as a brand new company, we first began production in 1990.

Secondly, Newfield's reserve base increased by 18% in 1998 to 513 Bcfe at year end, up from 435 Bcfe at year end 1997. This reserve growth was the result of adding 167 Bcfe of new reserves during the year, which is 188% of our 1998 production. That increase in reserves will lead to increased production in 1999.



Thirdly, we conducted a successful hedging program adding \$0.10 per Mcfe to our average price realizations - or about \$9.1 million of revenue.

Fourthly, we added 26 new leases in the Gulf of Mexico and continued to be a major operator there. Our current daily operated production in the Gulf is about 590 million cubic feet of gas equivalent (MMcfe) per day, which would rank us among the top ten operators. Our statistics indicate we were the 8th most active driller in the Gulf during 1998.

Finally, our onshore Gulf Coast effort began to bear fruit as we placed our Broussard discovery in Lafayette Parish, Louisiana, on production. At full rate, this property will yield approximately 35 MMcfe per day of operated production, of which 12 MMcfe per day is net to Newfield. In addition, we initiated an exploration program in South Texas and are, as of this date, drilling our first test there.

Report to Stockholders

On the financial front, we exited 1998 with a strong balance sheet and superior credit statistics. In the very volatile market existing in September 1998 Newfield placed four million shares of equity resulting in net proceeds of \$83 million. To our knowledge, no other independent E&P company raised public equity in the last half of 1998.

There is even some good news related to our 1998 capital spending performance. Rig rates are now about 25-30% of what they were a year ago, other oil field service costs are lower and every indication is that our cost to find and develop will markedly improve in 1999.

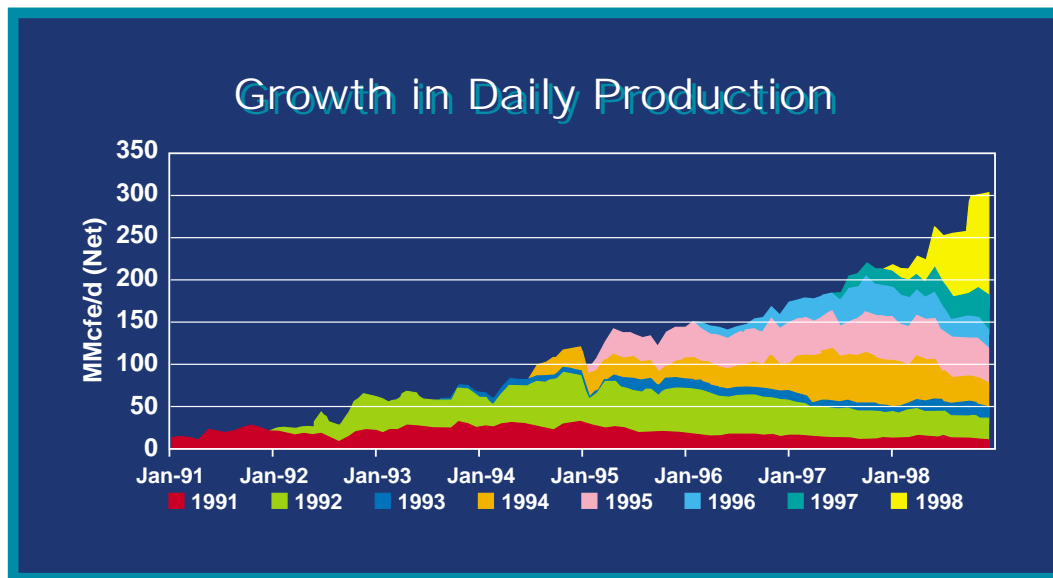
Despite the current doldrums in our business, we are optimistic about 1999. Some reasons:

- The financial stress, reduced budgets and consolidation now occurring among E&P companies should increase available opportunities.

We believe Newfield's strong balance sheet and access to capital, its extensive data base and operating presence in the Gulf of Mexico, and its high cash flow per unit of production make it well situated to take advantage of opportunities during 1999. We are excited about the possibilities!

As you will note from the cover of this report, we are celebrating the tenth anniversary of Newfield's founding. We have devoted a large part of this report to looking back at where we have come from and speculating about where we might go. I hope you don't find it too indulgent.

The accompanying chart illustrates the nature of building and growing Newfield. Each color represents production from leases which first began production in the noted year. While each year's group of new producing leases may show some early growth as development takes place, inevitably natural decline sets in. Newfield's production growth comes from the constant addition of new producing leases. We must continuously generate new opportunities which will result in the discovery or acquisition of new production and we must keep going back to our existing leases seeking to forestall natural decline.



- We see another year of 20% production growth. Our 1999 production target from existing properties is 106 Bcfe.
- Only 17% of our 1999 production is expected to be in the form of oil. The remainder is natural gas.
- Despite the current modest natural gas prices, many analysts foresee a stronger second half for natural gas pricing. So do we.
- Favorable hedges are in place which will mitigate gas price risk in the first half of 1999.
- We expect to reduce both operating costs and capital costs on a unit basis.

The chart also shows that some years are better than others in terms of new production. Nonetheless, we have shown consistent overall growth. Newfield is adapted to the "treadmill" nature of the Gulf of Mexico. We fully expect to continue our pattern of year on year growth.

We are very proud of what we have accomplished in these ten short years. Take a look at pages 13-14. These are the people that have made it happen. Allow us to share our pride with you!

Sincerely,

Joe B. Foster

February 26, 1999

10th Anniversary



1988/89

Newfield was founded in 1988 by Joe B. Foster. The Company was capitalized with \$9 million by an investment group led by Charles Duncan, the University of Texas endowment funds and the founding employees (including those shown above).

1990

In May 1990, Newfield completed its first property acquisition with the purchase of Eugene Island 172. Upon being designated as operator, Newfield initiated an active workover program. By December 1990, daily production had increased from 0.2 MMcf to over 20 MMcf. Eugene Island 172 continues to produce at a rate of approximately 4 MMcf per day.

A second private placement in April 1990 added \$37 million to Newfield's capital. New stockholders in this private placement included Yale University, Duke University, Dartmouth College and Warburg, Pincus Investors, L.P., which became Newfield's largest stockholder.



1991

Shown above is a picture of Newfield employees at work at the opportunity generation process. Multi-disciplinary teams use workstations to analyze 3-D seismic on fields like Ship Shoal 157, the Company's first operated exploratory discovery. A six well drilling program was initiated in late 1990 and production reached peak rates of 4,500 barrels of oil equivalent per day. Ship Shoal 157 is still producing today with cumulative gross production of 7.5 MMBOE.



1992

The purchase of proved reserves with drilling upside is an important part of Newfield's business strategy. The acquisition of Eugene Island 181/182 (shown above) resulted in a successful seven well drilling program. Following the second phase of development, Eugene Island 181/182 was producing at a daily rate of over 65 MMcf. Drilling activities are planned in this field during 1999.



1993

In November of 1993, Newfield completed its initial public offering of common stock and began trading on the New York Stock Exchange under the symbol "NEX."

Major Milestones

1994

In late 1993, Newfield Exploration Company acquired the Eugene Island 251/262 Field having identified drilling opportunities using 3-D seismic analysis. Newfield drilled five successful wells and installed a new platform and pipeline. Eugene Island 251/262 remains one of Newfield's most significant fields today, producing 50 MMcfe per day and the Company has additional drilling ideas in the area. Shown below is the Eugene Island 262 "B" platform.

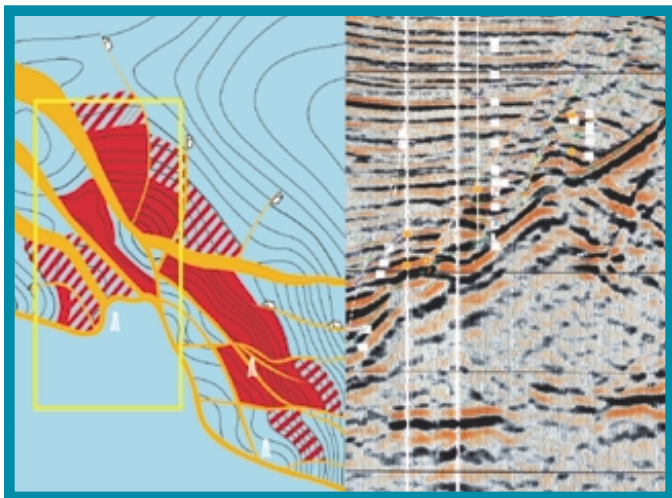


1996

A key component of Newfield's strategy is a balanced approach in its capital program. In 1996, Newfield began drilling activities at newly purchased West Delta 152 and Ewing Bank 947 (shown above) to test proven undeveloped, probable and exploratory objectives. The drilling programs were successful and added significant new reserves. Production in these fields increased to over 100 MMcfe per day. The fields currently produce 45 MMcfe per day.

1997

A major event of 1997 included the acquisition of interests in the Western Gulf of Mexico for \$43 million. A key prospect was East Cameron 286, on which Newfield had identified drilling prospects. A successful exploratory well and four delineation wells were drilled beginning in late 1997 at a new platform location. Production began from these wells in the fourth quarter of 1998 at daily rates in excess of 45 MMcfe.



1995

In late 1994, Newfield acquired a farm-in position in the South Timbalier 148 Field and began a drilling program based upon 3-D seismic. During 1995, four successful exploratory wells and two development wells were drilled. Subsequently, three platforms were installed and daily production peaked at 100 MMcfe. Shown above are a field map and seismic line from the South Timbalier 148 Field.



1998

A core principle of Newfield's strategy is focus. In late 1995, Newfield initiated idea generation efforts along the Louisiana Gulf Coast as a natural extension of its Gulf of Mexico focus area. In early 1998, Newfield drilled a significant discovery in the Broussard area near Lafayette. The Garber #1 discovery is producing 18 MMcfe per day. A successful follow-up well, the Knight #1, will be brought on line in 1999 at a similar rate. Shown above is a drilling rig on location in the Broussard area.



1989 – 1993

- ⇒ Company formed in December 1988 with \$9 million of capital
- ⇒ Completed \$57 million of private equity placements
- ⇒ Added 196 Bcfe of new proved reserves, 63 leases and 23 platforms
- ⇒ Technical staff and seismic database expanded
- ⇒ Achieved critical mass in Gulf of Mexico
 - 26th largest operator of production
 - 18th most active driller
- ⇒ Initial public offering in November 1993 at \$8.75 per common share

Yesterday

1989 – 1993

Newfield was founded by Joe Foster and 24 former employees of Tenneco Oil's Gulf of Mexico divisions in late 1988, following the sale of Tenneco Oil by its parent. Foster had been Chairman of Tenneco Oil, a leading Gulf of Mexico operator.

The concept was to use the kind of technology that had made Tenneco Oil successful - namely, major company technology with a high geophysical content - and to combine that with an independent's mindset and cost structure.

Newfield began with \$9 million of equity capital, \$3 million of which came from employees, \$3 million from a group of investors headed by Charles Duncan and \$3 million from the University of Texas endowment funds. In addition, it had a \$3 million line of credit from the endowment funds. It owned no oil and gas leases, had no maps and conducted no operations.

It did have a group of talented people who had experience working in the Gulf of Mexico. It was an unusual situation to be able to start a new company with a group of people who had a common culture and vocabulary, a similar way of working and one another calibrated.

It was also unusual for a start-up oil and gas company to have twenty technical and management employees and \$2.5 million of annual overhead, with no assets and no revenue. On Day One, Newfield committed to purchase over \$2 million of geophysical data and a \$180,000 geophysical work station. As between first year overhead and data and equipment, half of Newfield's initial capital went into technology.

By March of 1989, Newfield had drawn enough maps and generated enough prospects to make five winning bids in a Federal Offshore Lease Sale. Its first well was drilled in August 1989, and it was a dry hole.

This was followed by two additional dry holes, and another well on which the drilling rig capsized and the hole was abandoned before reaching its objective. Fortunately, the rig capsized took place on a turnkey well and Newfield had no liability.

From the time Newfield secured its initial equity in early 1989, Joe Foster and David Trice, then the Chief Financial Officer, had been searching for additional equity capital. By April of 1990, Warburg, Pincus & Co., a large venture capital investor, and the Yale, Duke and

Dartmouth endowments agreed to join the initial investors in Newfield in purchasing \$37 million of new equity. By the time that financing was closed, Newfield had \$100,000 left of its original capital.

It was in May 1990, that Newfield logged its first discovery. That same week, it closed on its first producing property acquisition, at Eugene Island 172. By the end of 1990, Newfield had made four discoveries and one acquisition and had the resources to relocate its technical employees from Lafayette, Louisiana to Houston, where much more of the Gulf of Mexico "deal flow" takes place. It was a significant improvement to get everyone "under one roof."

In 1990, revenues reached \$2.4 million and net income was \$0.8

million. It was a great relief to be paying for overhead out of revenues instead of stockholders' capital. In 1991, revenues exceeded \$10 million, driven by the acquisition and subsequent drilling at West Cameron 109.

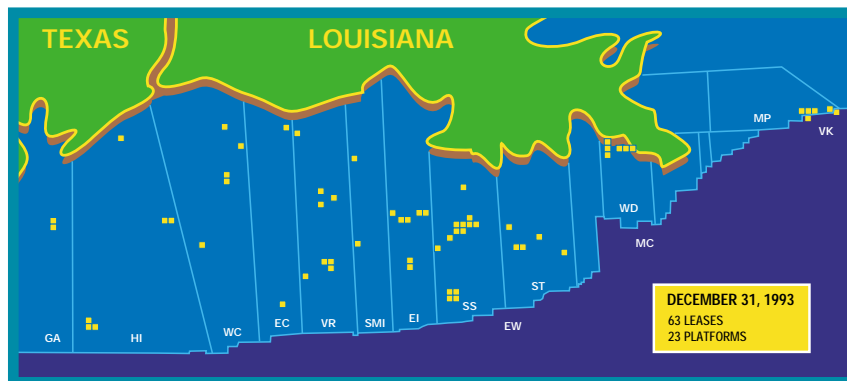
In 1992, despite drilling a string of nine consecutive dry holes, Newfield's insistence on balancing exploration with a good

mix of producing property acquisitions and its emphasis on keeping its cost structure among the lowest in the business resulted in \$41 million of revenue and a continuation of its pattern of growth.

The stock market appeal of E&P stocks improved in 1993 and Newfield began considering a public offering. This was the "exit strategy" its early private investors had in mind, and it would permit Newfield to deliver on one of the "carrots" it offered its early employees - profits from stock options and early stock purchases.

On November 12, 1993, following a 10 day road show for potential investors that someone characterized as "a whole lot more 'road' than 'show,'" Newfield began trading at a price of \$8.75 per share (stock split adjusted). Twenty percent of the Company had been sold to the "public." The patience and foresight of the early investors and employees was rewarded with market liquidity. Newfield's goal had been to become a public company within five years. It made it in four years, 10 months! There were congratulations, celebrations and feelings of success.

Joe Foster, citing Newfield's early struggles and failures, reminded the employees of the maxim "Failure is never fatal and success is never final." "We have learned the first part of that," he said, "We must not forget the second part."





1994 – 1998

- ⇒ Solid, steady growth in reserves and production
- ⇒ Significantly expanded Gulf Coast asset base
- ⇒ Initiated expansion into selected international areas
- ⇒ 2-for-1 common stock split
- ⇒ Received MMS National SAFE Award
- ⇒ Strong balance sheet and access to capital
- ⇒ Foundation of qualified people with latest technology in place for continued growth

Today

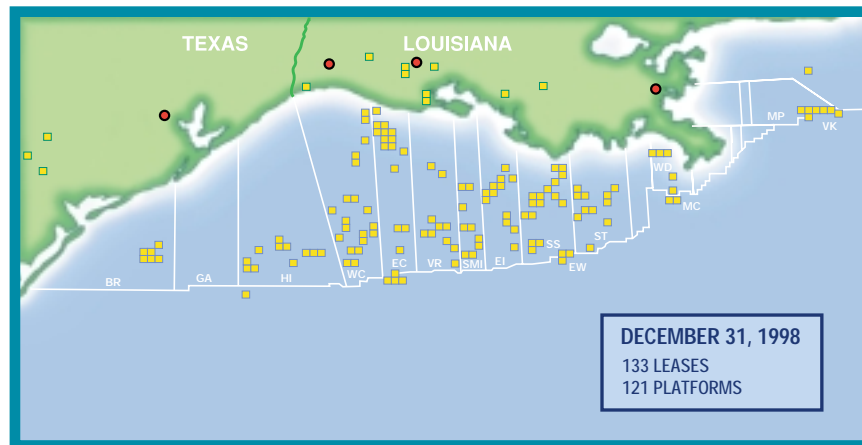
1994 – 1998

Newfield Exploration Company entered 1994 with a solid foundation and a short, but clear, record of building reserves and adding value. An important achievement along the way was reaching so-called “critical mass.” The test in upcoming years would be to see if that foundation could continue to support the Company’s rapid growth.

“Up and to the right” is a phrase Newfield likes to use to describe the Company’s growth chart. In 1994, that growth curve flattened slightly as the Company became accustomed to life as a public company. In 1995, however, almost every measurement was on the way “up” as Newfield posted gains in reserves (up 27%) and production (up 41%) during the year. Despite the significant growth, Newfield stayed true to its pledge of keeping costs low. A 1995 report ranking cost efficiencies of 25 publicly traded oil and gas companies placed Newfield first in 10 of 12 categories. The year was important for reasons beyond its continued success. Late in 1995, Newfield began to explore beyond its primary focus in the Gulf of Mexico and onto dry land. Newfield obtained leases, shot 3-D seismic surveys and began drilling. Today, Newfield’s onshore activity is an increasingly important contributor to the Company’s oil and gas reserves. Some 10% of the addition in reserves in 1998 came from onshore wells.

In 1996, Newfield achieved record operating results. In the meantime, a healthy stock market and Newfield’s continued achievements enabled the Company to reward stockholders with a 2-for-1 stock split. The strong ride continued the following year as total annual revenues rose to just under \$200 million. By 1997, Newfield had reviewed possible activities in more than 1,000 Gulf of Mexico blocks, and had expanded its focus area to onshore Louisiana and to just beyond the 600-foot water depth line on the continental shelf. A modest effort began to search internationally for impact projects where Newfield’s core competencies could be applied. In May 1997, Newfield closed the acquisition of the assets of Huffco International L.L.C., which included rights to drill in the Bohai Bay, offshore China. And like Newfield’s first attempts in the Gulf and then onshore, the first drilling attempt was not a success. And, as before, Newfield will make other tries in selected international areas.

“All along our expansion has been systematic,” said David Trice, a founder and initial CFO of Newfield who left to run Huffco and subsequently rejoined Newfield as Vice President - Finance and International. “If you look at a map of our expansion, it has come in rings and only when we could maintain our focus, which is a founding principle of Newfield. It will be just the same as we expand internationally.” Focus became a true challenge in 1998 as events in the energy industry proved to make 1998 one of the most difficult in Newfield’s history. Oil and gas prices decreased, dropping 25% from 1997 levels. However, rig costs and marine operation expenses, which hit historical highs for Newfield, did not fall as quickly. The result was Newfield’s most difficult year in financial terms – oil and gas revenues slipped slightly to \$196 million from \$199 million in 1997 and a writedown due to accounting procedures led to a net loss of \$57.7 million. However, there was plenty of good news to report. Proved oil and gas reserves reached 513 Bcfe, an increase of 18% over 1997. Additions to Newfield’s proved reserve base were 167 Bcfe, a healthy 188% replacement of production and 1998 production increased 20% to 88.5



Bcfe. Finally, earnings from operations were \$10.4 million for the year. “It wasn’t our best year,” Foster says. “In hindsight I don’t think we reacted as quickly as we could have to the run-up in costs, but we learned some things about operating during a down year.” Most notably, Newfield kept a strong, conservative balance sheet. Maintaining that strong fiscal posture positions the Company to grow even if the energy industry continues to slump.

As the curtain was drawn on 1998, ending Newfield’s second five year span, the Company is no longer the unheralded firm it was in 1994. It is now one of the largest operators in the Gulf of Mexico, with gross operated daily production of 590 MMcfe. Investors have watched the stock price climb from \$8.75 per share at the IPO to \$20.88 at the end of 1998. Five years ago, Newfield was based solely in the shallow waters of the Gulf of Mexico. Today it is branching outward as a mature Company positioned to take advantage of opportunities around the globe.



1999 and Beyond

- ⇒ Clear, competitive strengths in Gulf of Mexico
- ⇒ Continued expansion within Gulf Coast focus area
- ⇒ Strong credit statistics and conservative financial strategy
- ⇒ Application of Gulf of Mexico competencies in selected international areas
- ⇒ Maintain leadership position in low cost, safe operations
- ⇒ Production growth of 20% projected in 1999
- ⇒ Talented, experienced and motivated employees with equity incentives

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Corporate Information

DIRECTORS

Philip J. Burguieres ()(**)(55)**

Chairman Emeritus
Weatherford International, Inc.

Charles W. Duncan, Jr. (*)()(72)**

Private Investor
Duncan Interests

Joe B. Foster (64)

*Chairman, President and
Chief Executive Officer*
Newfield Exploration Company

Dennis R. Hendrix (*)()(59)**

Retired Chairman
PanEnergy Corp.
Director
Duke Energy Corporation

Terry Huffington (*)()(44)**

Chairman and President
Huffco Group, Inc.

Howard H. Newman (*)()(51)**

Managing Director
E.M. Warburg, Pincus & Co., LLC

Thomas G. Ricks (*)()(45)**

President and Chief Executive Officer
The University of Texas Investment
Management Company

John C. Sawhill (*)()(62)**

President and Chief Executive Officer
The Nature Conservancy

C. E. (Chuck) Shultz ()(**)(59)**

Chairman and Chief Executive Officer
Dauntless Energy, Inc.

Robert W. Waldrup (54)

Vice President - Operations
Newfield Exploration Company

(*) Member of the Compensation
Committee

(**) Member of the Audit Committee

(***) Member of the Management
Development Committee

OFFICERS

Joe B. Foster (64)

*Chairman, President and
Chief Executive Officer*

Robert W. Waldrup (54)

Vice President - Operations

David A. Trice (50)

Vice President - Finance and International

Terry W. Rathert (46)

*Vice President - Planning and
Administration and Secretary*

David E. Schaible (38)

*Vice President - Acquisitions and
Development*

Elliott Pew (44)

Vice President - Exploration

William D. Schneider (47)

Vice President - International Exploration

Ronald P. Lege (54)

Controller and Assistant Secretary

C. William Austin (46)

Legal Counsel and Assistant Secretary

James P. Ulm, II (36)

Treasurer

MARKET INFORMATION

The Company's common stock is traded on the NYSE under the symbol **NEX**. The stock began trading November 12, 1993. The range of high and low quarterly sales prices for 1997 and 1998, as reported by the NYSE, are set forth below:

	<u>High</u>	<u>Low</u>
1997		
First Quarter	28	18 1/2
Second Quarter	23 7/8	16 7/8
Third Quarter	28 1/8	19 15/16
Fourth Quarter	33	20
1998		
First Quarter	27 11/16	19 9/16
Second Quarter	26 3/8	17 13/16
Third Quarter	24 7/8	15 7/16
Fourth Quarter	26 7/16	16 5/8

TRANSFER AGENT

For more information regarding change of address or other matters concerning your stockholder account, please contact the transfer agent directly at:

ChaseMellon Shareholders Services L.L.C.
Overpeck Centre
85 Challenger Road
Ridgefield Park, NJ 07660
(800) 635-9270
www.chasemellon.com

On December 31, 1998, the closing sale price for the Company's stock was \$20 7/8 per share. Management believes after inquiry, that the number of beneficial owners of the Company's common stock is in excess of 2,000.

ANNUAL MEETING

The Annual Meeting of Stockholders of Newfield Exploration Company will be held May 5, 1999, at 11:00 a.m. at the Hotel Sofitel, 425 North Sam Houston Parkway East, Houston, Texas.

CORPORATE ADDRESS

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Suite 2020
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OUTSIDE LEGAL COUNSEL

Vinson & Elkins L.L.P.
Houston, Texas

AUDITORS

PricewaterhouseCoopers LLP
Houston, Texas

CREDITS

Newfield employees Chris Clark, Andy Lundy, Chris Mabie and Mike Minarovic contributed photographs to this annual report.

FORM 10-K

Stockholders may obtain without charge a copy of Newfield's Form 10-K report as filed with the Securities and Exchange Commission. For copies or answers to questions about Newfield Exploration Company, please contact Stockholder Relations at the corporate address.

