

Results of Operations from Natural Gas and Oil Producing Activities

The table below sets forth the results of operations from natural gas and oil producing activities:

| <i>(in millions)</i> | 2019 | 2018 | 2017 |
|---|----------|----------|----------|
| Sales | \$ 1,703 | \$ 2,525 | \$ 2,086 |
| Production (lifting) costs | (781) | (974) | (891) |
| Depreciation, depletion and amortization | (462) | (514) | (440) |
| | 460 | 1,037 | 755 |
| Provision for income taxes ⁽¹⁾ | 110 | — | — |
| Results of operations ⁽²⁾ | \$ 350 | \$ 1,037 | \$ 755 |

(1) Prior to the recognition of a valuation allowance, in 2018 and 2017 the Company recognized income tax provisions of \$254 million and \$287 million, respectively.

(2) Results of operations exclude the gain (loss) on unsettled commodity derivative instruments. See [Note 6](#).

The results of operations shown above exclude general and administrative expenses and interest expense and are not necessarily indicative of the contribution made by the Company's natural gas and oil operations to its consolidated operating results. Income tax expense is calculated by applying the statutory tax rates to the revenues less costs, including depreciation, depletion and amortization, and after giving effect to permanent differences and tax credits.

Natural Gas and Oil Reserve Quantities

The Company engaged the services of Netherland, Sewell & Associates, Inc., or NSAI, an independent petroleum engineering firm, to audit the reserves estimated by the Company's reservoir engineers. In conducting its audit, the engineers and geologists of NSAI studied the Company's major properties in detail and independently developed reserve estimates. NSAI's audit consists primarily of substantive testing, which includes a detailed review of the Company's major properties, and accounted for approximately 99% of the present worth of the Company's total proved reserves as of December 31 of 2019, 2018 and 2017. A reserve audit is not the same as a financial audit, and a reserve audit is less rigorous in nature than a reserve report prepared by an independent petroleum engineering firm containing its own estimate of reserves. Reserve estimates are inherently imprecise, and the Company's reserve estimates are generally based upon extrapolation of historical production trends, historical prices of natural gas and crude oil and analogy to similar properties and volumetric calculations. Accordingly, the Company's estimates are expected to change, and such changes could be material and occur in the near term as future information becomes available. For more information over reserves, refer to the table titled "Changes in Proved Undeveloped Reserves (Bcfe)" in "Business – Exploration and Production" in [Item 1](#) of this Annual Report.