Financial Developments

The U.S. Energy Information Administration's (EIA) *Performance Profiles of Major Energy Producers 2009* provides a financial review and analysis of the domestic and worldwide activities and operations of the major U.S.-based energy-producing companies. *Performance Profiles* examines companies' operations on a consolidated corporate level, by individual lines of business, by major functions within each line of business, and by geographic regions. The report focuses on annual aggregate changes in profits, cash flow, and investment in the United States and international energy industry. It also explores changes in the majors' exploration and development expenditures, production, reserves additions, and refining costs and margins. The analysis in this report is based on detailed financial and operating data and information submitted each year to EIA on Form EIA-28, the Financial Reporting System (FRS).

Net Income and Profitability

Net income for FRS companies fell 66 percent (in constant 2009 dollars)[1] to $30 billion in 2009 from $88 billion in 2008 (**Table 1**). This was the lowest level of earnings since 2002 and was sharply lower than the record high levels of recent years (**Figure 1**). Substantial reductions in oil and natural gas prices in 2009 slowed revenue growth. FRS companies cut operating costs but by less than the decline in revenue, resulting in a 69-percent drop in operating income. FRS companies also reported a 43-percent decline in "Other Revenue," which was driven primarily by smaller gains on the sales of property, plant, and equipment and lower earnings for affiliates of FRS companies that are not included in the operating data.

FRS companies continued to write down assets in 2009 but the amount was significantly lower than in 2008. Natural gas prices generally declined in 2009, while oil prices generally rose from their level at the end of 2008. Excluding the effect of asset impairments and other special items, net income for FRS companies decreased 66 percent to $50 billion in 2009.

The FRS companies' return on stockholders' equity (ROE) fell to 5 percent in 2009, the lowest level since 1992 (**Figure 2**). For the first time since 2002, the profitability of FRS companies fell below that of the Census Bureau's All Manufacturing Companies (**Figure 3**), which is a survey of the financial results of manufacturing corporations with assets greater than $250,000. From 2000 to 2008, the FRS companies outperformed the Census Bureau's All Manufacturing Companies by an average of 7 percentage points, compared with an average 2 percentage points lower from 1985 to 1999, but in 2009, the FRS companies' ROE fell 4 percentage points below this industry benchmark.

Among the FRS companies' lines of business and business segments, oil and natural gas production continued to be the most profitable, contributing $42 billion in net income in 2009 (**Table 2**), although this was a decline of 43 percent from the 2008 level, due in large part to lower revenues as a result of much lower oil and natural gas prices. Return on net investment in place (ROI) for the oil and natural gas production segment fell to 7 percent in 2009 from 13 percent in 2008. The difference between domestic and foreign ROI widened as domestic oil and gas production ROI fell to 4 percent, the lowest level since 1998 (**Figure 4**).

The refining/marketing segment reported a loss of $7 billion in 2009, compared with a $14-billion gain in 2008. Domestic refining/marketing had a $9-billion loss in 2009, while foreign refining/marketing net income fell 77 percent to $3 billion. ROI for domestic refining/marketing in 2009 declined to the lowest level ever reported in

[1] Unless otherwise indicated, all dollar values and percentage changes in this report are based in constant 2009 dollars, adjusted using the gross domestic product (GDP) deflator.

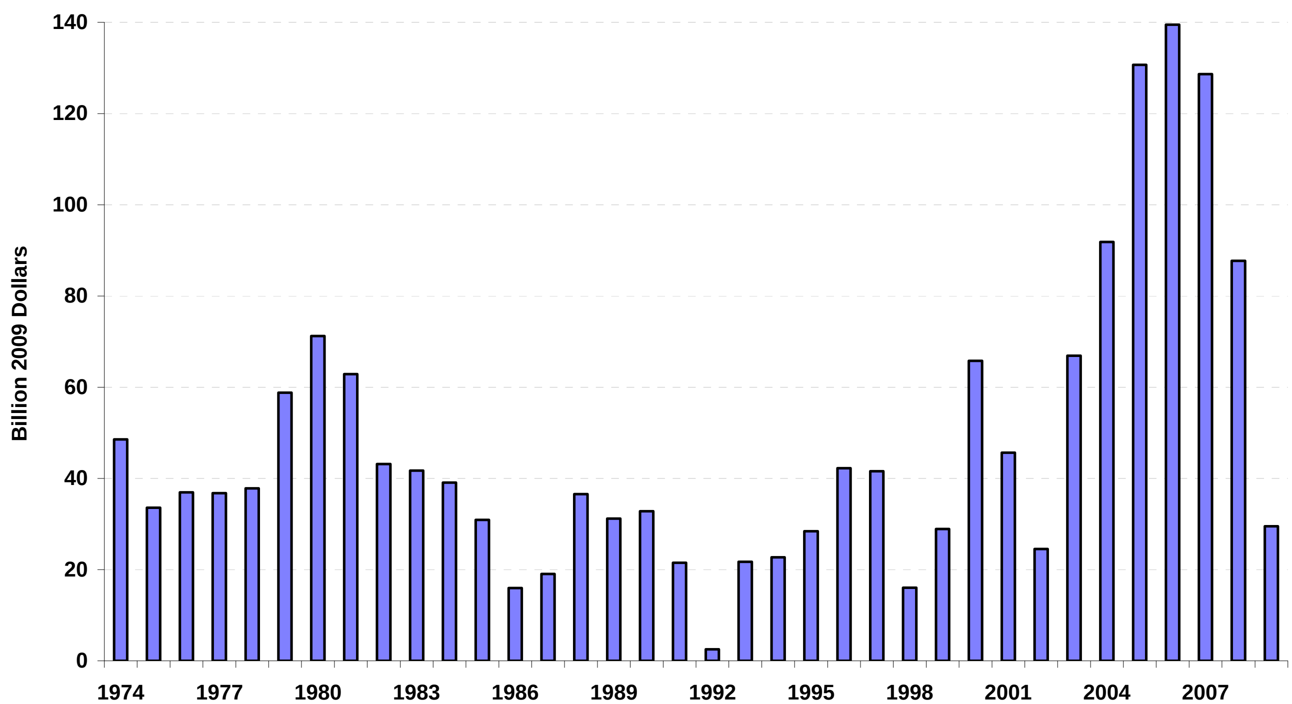
Table 1. Consolidated Income Statement for FRS Companies, 2008-2009
(Billion 2009 Dollars)

Income Statement Items	FRS Companies 2008	2009	Percent Change 2008-2009
Operating Revenues	1,834.7	1,145.6	-37.6
Operating Expenses	1,669.1	1,094.3	-34.4
Operating Income (Revenues minus Expenses)	165.6	51.2	-69.1
Interest Expense	11.5	10.9	-5.3
Other Revenue (Expense)	32.9	18.8	-42.8
Income Tax Expense	99.4	29.7	-70.1
Net Income	87.7	29.5	-66.4
Net Income Excluding Special Items	144.7	49.8	-65.6

Note: Sum of components may not equal total due to independent rounding. Percent changes were calculated from unrounded data.
NA= not available.

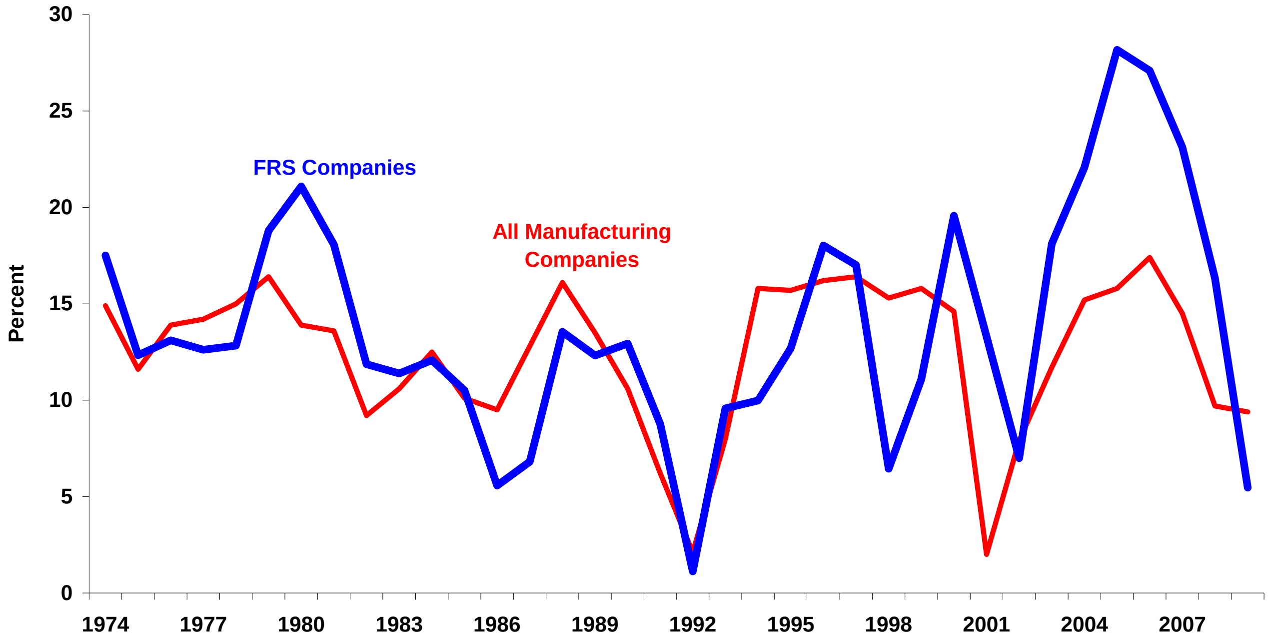
Source: U.S. Energy Information Administration Form EIA-28 (Financial Reporting System).

Figure 1. FRS Net Income, 1974-2009



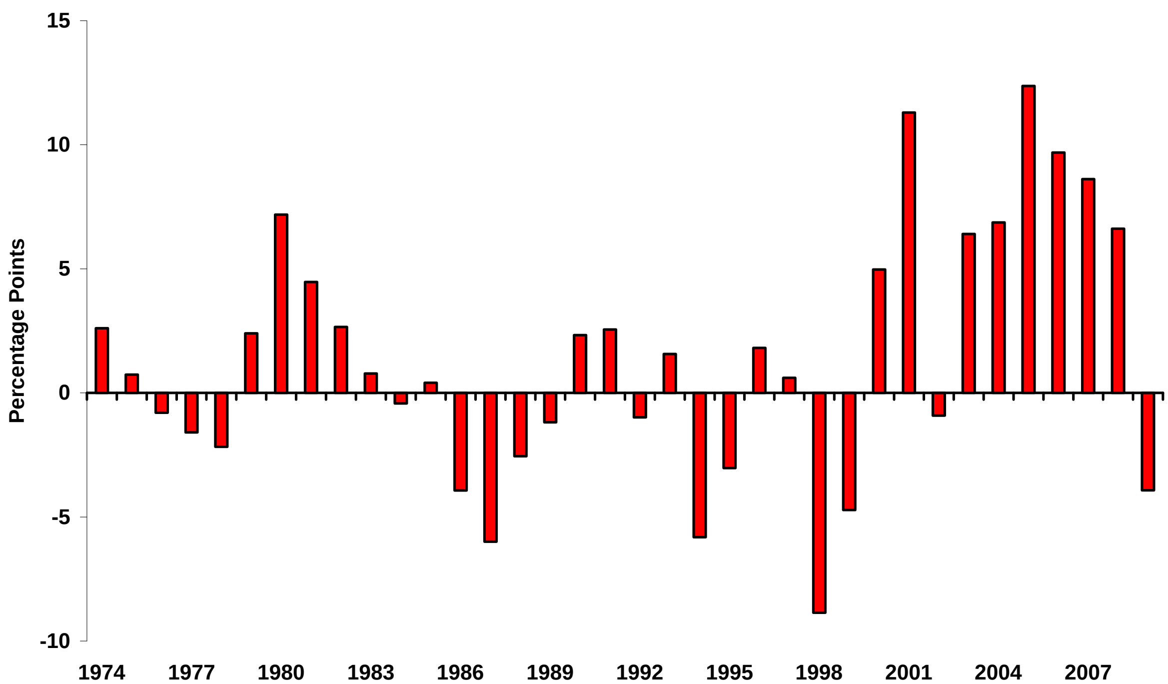
Note: The FRS group of companies has changed incrementally over the years.
Source: U.S. Energy Information Administration, Form EIA-28 (Financial Reporting System).

Figure 2. Return on Stockholders' Equity for FRS Companies and All Manufacturing Companies, 1974-2009



Sources: **FRS Companies**: U.S. Energy Information Administration, Form EIA-28 (Financial Reporting System). **All Manufacturing Companies**: U.S. Census Bureau Quarterly Financial Report, All Manufacturing Companies.

Figure 3. Difference Between FRS and All Manufacturing Companies Return on Stockholders' Equity, 1974-2009



Sources: **FRS Companies**: U.S. Energy Information Administration, Form EIA-28 (Financial Reporting System). **All Manufacturing Companies:** U.S. Census Bureau Quarterly Financial Report, All Manufacturing Companies.

Table 2. Contributions to Net Income by Line of Business for FRS Companies, 2008-2009
(Million 2009 Dollars)

Line of Business	Net Income 2008	Net Income 2009	Net Income Percent Change 2008-2009	Net Income Excluding Special Items 2008	Net Income Excluding Special Items 2009	Net Income Excluding Special Items Percent Change 2008-2009
Petroleum						
U.S. Petroleum						
Oil and Natural Gas Production	32,594	10,628	-67.4	52,418	24,534	-53.2
Refining/Marketing	3,045	-9,396	n.a.	8,611	-5,663	n.a.
Pipelines	238	478	100.7	239	478	99.6
Total U.S. Petroleum	35,877	1,710	-95.2	61,268	19,349	-68.4
Foreign Petroleum						
Oil and Natural Gas Production	40,132	31,019	-22.7	66,494	31,699	-52.3
Refining/Marketing[a]	11,162	2,576	-76.9	11,392	2,107	-81.5
Total Foreign Petroleum	51,294	33,595	-34.5	77,886	33,806	-56.6
Total Petroleum	87,171	35,305	-59.5	139,154	53,155	-61.8
Downstream Natural Gas	3,581	6,722	87.7	3,494	6,995	100.2
Electric Power	9,396	-1,767	n.a.	9,396	-1,767	n.a.
Other Energy[b]	-327	206	n.a.	1,187	216	-81.8
Nonenergy	-2,383	1,316	n.a.	1,317	1,368	3.9
Total Allocated	97,439	41,782	-57.1	154,549	59,967	-61.2
Nontraceable[c]	-9,731	-12,280	n.a.	-9,811	-10,130	n.a.
Consolidated Net Income[d]	87,708	29,502	-66.4	144,737	49,837	-65.6

[a]International Marine is included in Refining/Marketing.

[b]The Other Energy line of business includes coal, nuclear, and non-conventional energy.

[c]Revenues and expenses that cannot be directly attributed to a line of business.

[d]The total amount of special items was -$57,030 million and -$20,335 million in 2008 and 2009, respectively.

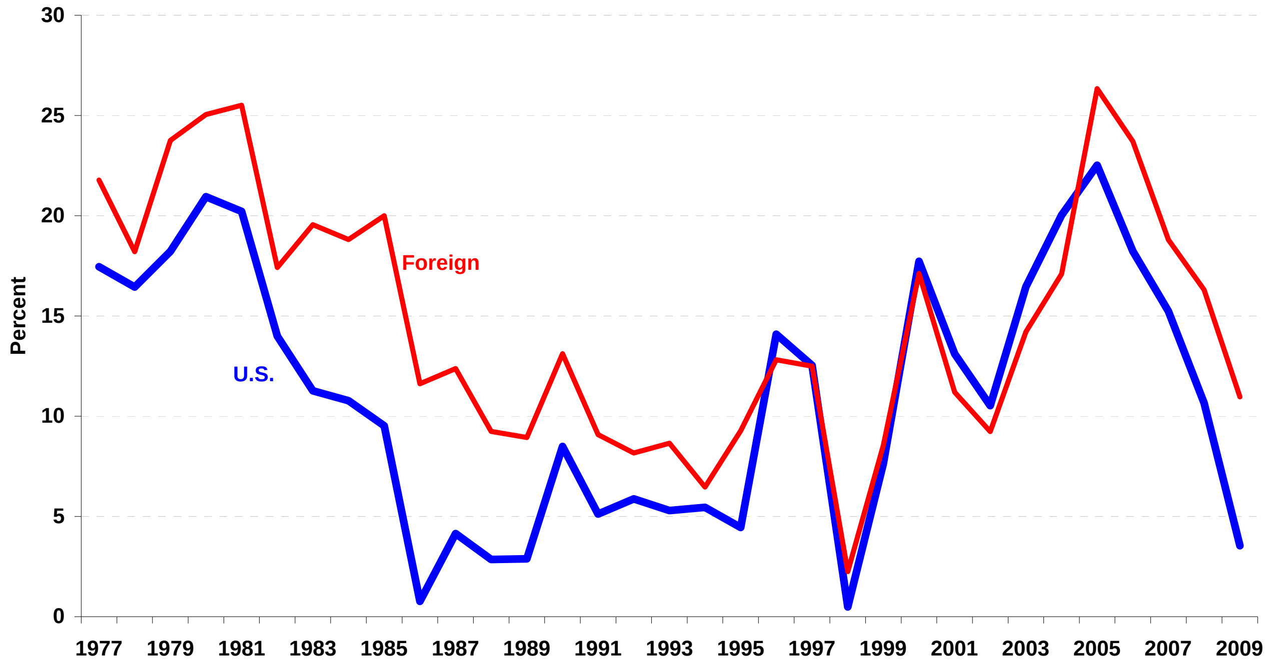
n.a.: not applicable

Source: U.S. Energy Information Administration, Form EIA-28 (Financial Reporting System).

the FRS survey, negative 7 percent. Foreign refining/marketing ROI remained positive but was significantly lower, dropping to 6 percent in 2009 from 26 percent in 2008 (**Figure 5**).

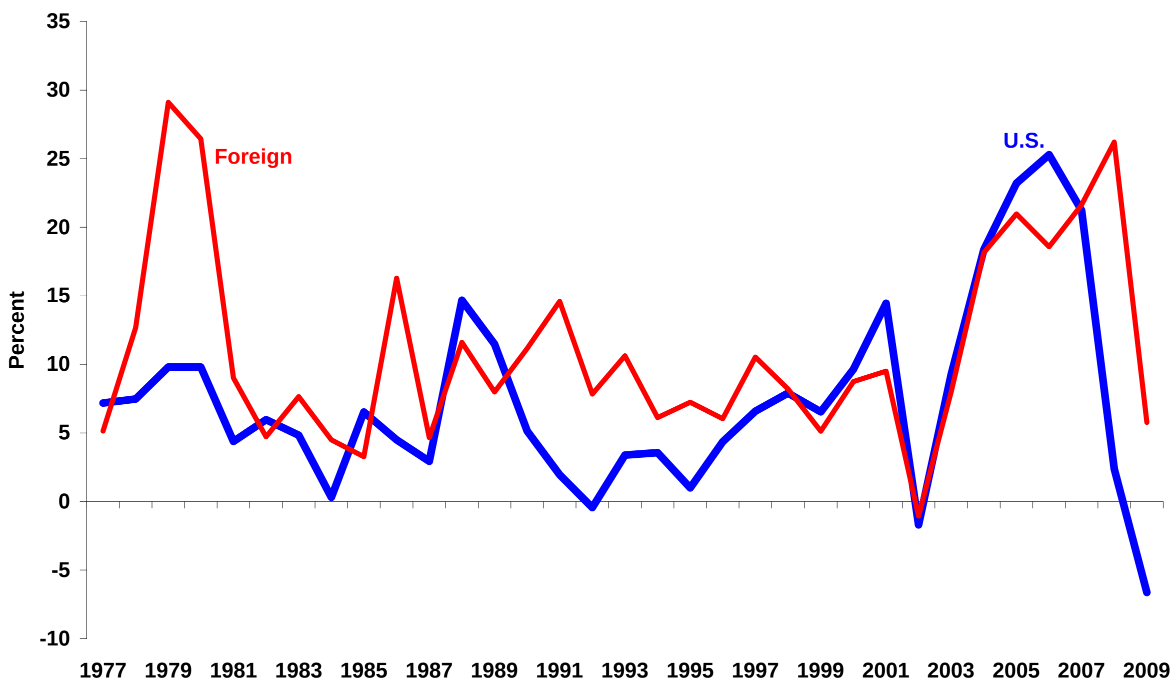
The FRS companies' average domestic refining/marketing gross margin (essentially the difference between product prices and raw material input costs) dropped to the lowest level since 1999 and was the second lowest level ever reported on the survey (**Figure 6**). Per-barrel operating costs also declined, but by a much smaller amount. Refinery energy costs fell 48 percent from 2008, reflecting the decline in petroleum and natural gas prices, while marketing costs and other operating costs each decreased by 17 percent. The combination of the lower average gross margin and operating costs led to the first negative net margin reported by FRS companies, negative $0.36 per barrel in 2009.

Figure 4. Return on Net Investment in Place for U.S. and Foreign Oil and Natural Gas Production for FRS Companies, 1977-2009



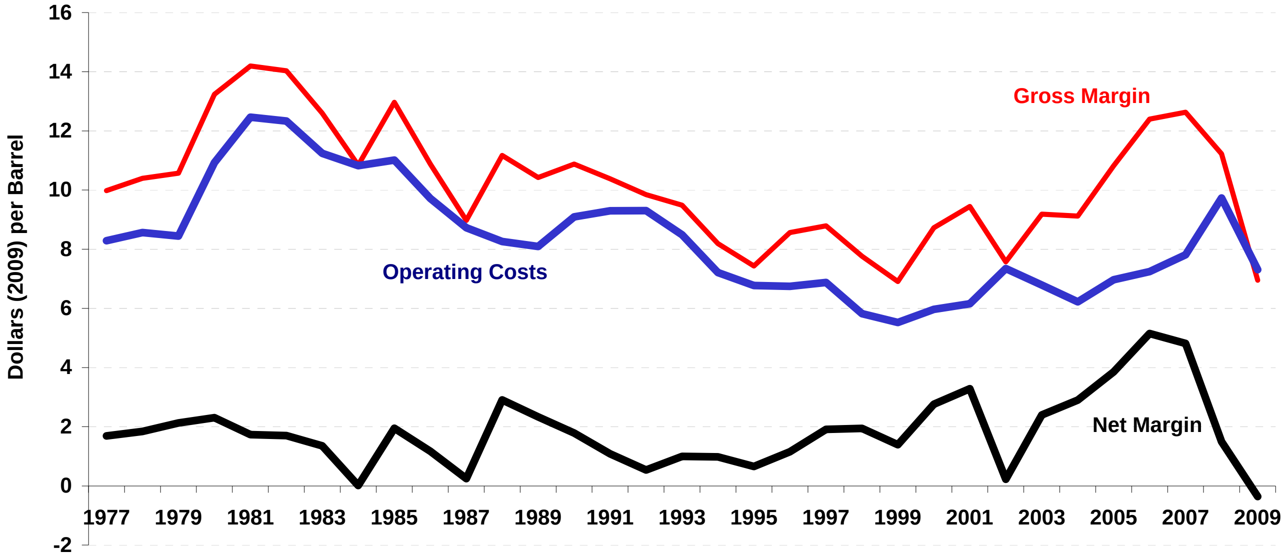
Source: U.S. Energy Information Administration, Form EIA-28 (Financial Reporting System).

Figure 5. Return on Net Investment in Place for U.S. and Foreign Refining/Marketing for FRS Companies, 1977-2009



Source: U.S. Energy Information Administration, Form EIA-28 (Financial Reporting System).

Figure 6. U.S. Refined Product Margins and Costs per Barrel of Petroleum Product Sold for FRS Companies, 1977-2009



Note: The gross margin is refined product revenues less raw material cost and product purchases divided by refined product sales volume.
Source: U.S. Energy Information Administration, Form EIA-28 (Financial Reporting System).

The marketing/trading segments of the downstream natural gas and electric power lines of business heavily influenced the earnings of these lines of business. Net income for the downstream natural gas line of business increased 88 percent to $7 billion in 2009 while electric power net income dropped from a $9-billion gain in 2008 to a $2-billion loss in 2009. The non-energy line of business reported net income of $1 billion in 2009 after showing a loss in 2008. Chemical operations account for a large portion of the non-energy line of business. Higher margins, higher sales volumes, and lower operating costs were cited as reasons for higher chemical earnings.[2]

Cash Flow and Capital Expenditures

The cash flow statement provides information on sources and uses of cash, with sections for operations, investing activities, and financing activities. Cash flow from operations consists of net income after taxes plus depreciation and other noncash expenses. Investing activities include the net effect of buying and selling property, plant, and equipment. Financing activities include the net effect of issuing and purchasing company stock, issuing and paying off debt, and paying dividends. Major sources of cash include cash flow from operations, sales of assets, and proceeds from issuing debt or equity. Primary uses of cash include making capital expenditures, paying dividends, purchasing company stock, and paying off debt. Capital expenditures represent the value of assets acquired in the current time period net of depreciation and also include investments and advancements to unconsolidated affiliate companies. This report also refers to capital expenditures as additions to investment in place. The current cash flow statement was added to the survey in 1986.

[2] U.S. Energy Information Administration, *Financial News for Major Energy Companies, Fourth Quarter 2009* (February 2010), p. 6, available at http://www.eia.gov/emeu/perfpro/news_m/q409.pdf (as of October 13, 2010).

The effects of the economic slowdown were evident in the FRS companies' cash flow statement in 2009, which showed declines in both sources and uses of cash. Cash flow from operations decreased 41 percent from 2008 to $131 billion in 2009 (**Table 3**), led by the decline in net income. Proceeds from the disposal of assets fell 52 percent to $12 billion in 2009 as the value of assets declined. Funds raised from equity security offerings declined 30 percent to $5 billion while proceeds from issuing long-term debt increased slightly to $77 billion.

Table 3. Sources and Uses of Cash for FRS Companies, 2008-2009
(Billion 2009 Dollars)

Sources and Uses of Cash	2008	2009	Absolute Change 2008-2009	Percent Change 2008-2009
Main Sources of Cash				
Cash Flow from Operations	221.9	131.5	-90.4	-40.8
Proceeds from Long-Term Debt	76.4	76.9	0.6	0.7
Proceeds from Disposals of Assets	25.6	12.2	-13.4	-52.2
Proceeds from Equity Security Offerings	7.4	5.2	-2.2	-29.5
Main Uses of Cash				
Additions to Investment in Place	200.6	138.5	-62.0	-30.9
Reductions in Long-Term Debt	58.2	52.3	-5.9	-10.2
Dividends to Shareholders	31.8	32.2	0.5	1.5
Purchase of Treasury Stock	56.1	19.8	-36.3	-64.7
Net Change in Cash and Cash Equivalents	-2.9	-20.7	-17.8	n.a.

Percent changes were calculated from unrounded data.

n.a.: not applicable

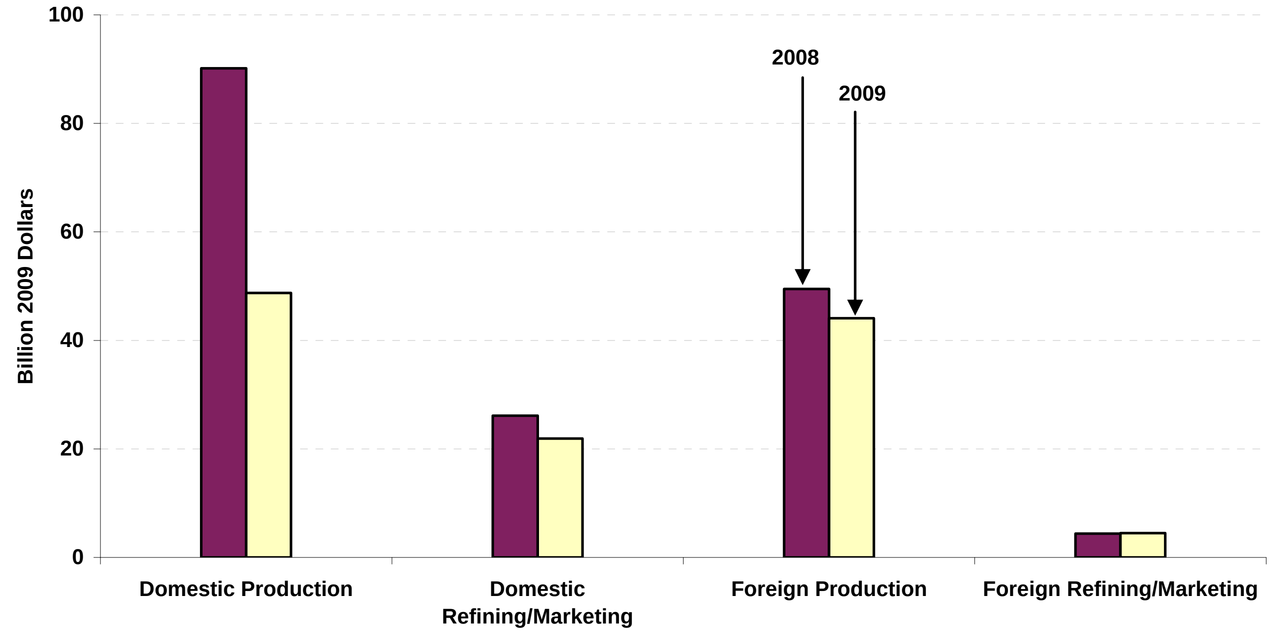
Source: U.S. Energy Information Administration, Form EIA-28 (Financial Reporting System).

Capital expenditures fell 31 percent to $139 billion in 2009, but remained the largest use of cash. Despite the large decline, capital expenditures in 2009 remained higher than every year prior to 2005. Oil and natural gas production (domestic and foreign combined) accounted for 67 percent of the total and refining/marketing 19 percent. Domestic oil and natural gas production capital expenditures fell 46 percent in 2009 from 2008 and foreign upstream capital expenditures fell 11 percent (**Figure 7**).

The amount of cash used to repurchase company stock fell 65 percent to $20 billion in 2009. Funds used to reduce long-term debt fell 10 percent from the previous year, which, combined with the slight increase in proceeds from long-term debt, resulted in an increase in the long-term debt to equity ratio to 39 percent, the highest since 2004. FRS companies maintained dividend payments, which increased 2 percent to $32 billion.

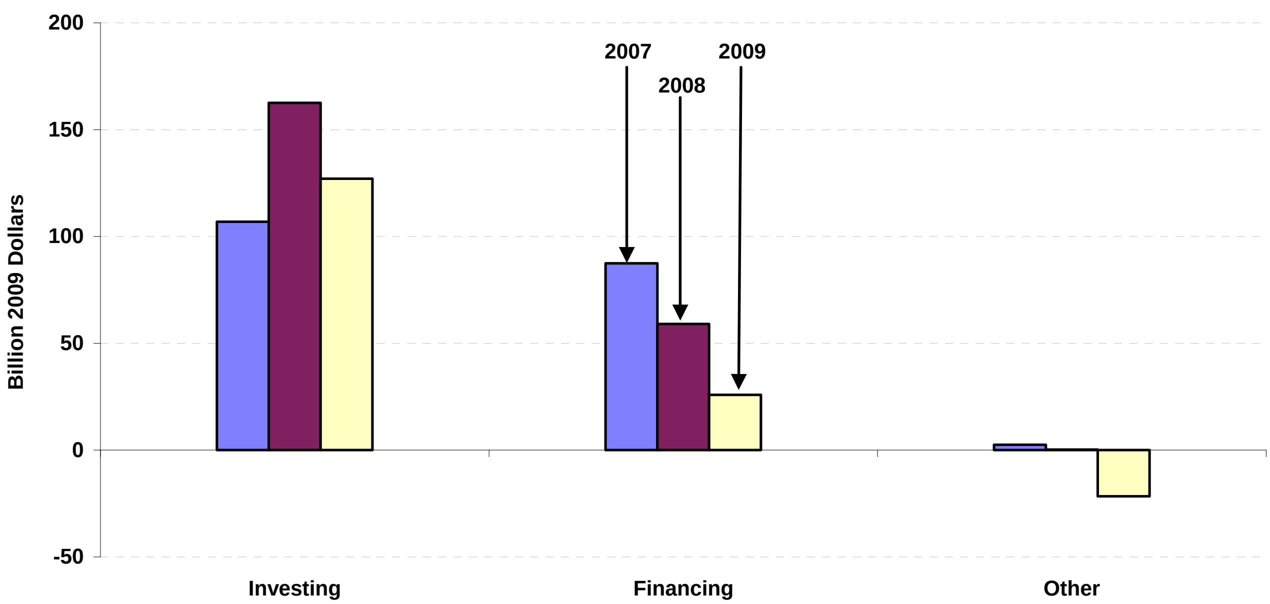
Overall, net uses of cash for investing activities decreased 22 percent to $127 billion in 2009 (**Figure 8**). Merger and acquisition activity fell to the lowest level since 1999. (See **Table 4** for a listing of some of the acquisition transactions.) Other additions to property, plant, and equipment declined for the first time since 2002 but remained higher than every year prior to 2007 (**Figure 9**). Net uses of cash for financing activities dropped to $26 billion in 2009 from $59 billion in 2008 primarily as a result of much lower repurchases of company stock. Total uses of cash exceeded sources, resulting in the largest decline in cash and cash equivalents ever reported in the FRS survey, a decrease of $21 billion in 2009.

Figure 7. FRS Companies' Capital Expenditures by Petroleum Business Segment, 2008-2009



Capital Expenditures - additions to property, plant and equipment plus additions to investments and advances to unconsolidated affiliates.
Source: U.S. Energy Information Administration, Form EIA-28 (Financial Reporting System).

Figure 8. FRS Companies' Net Uses of Cash Flow, 2007-2009



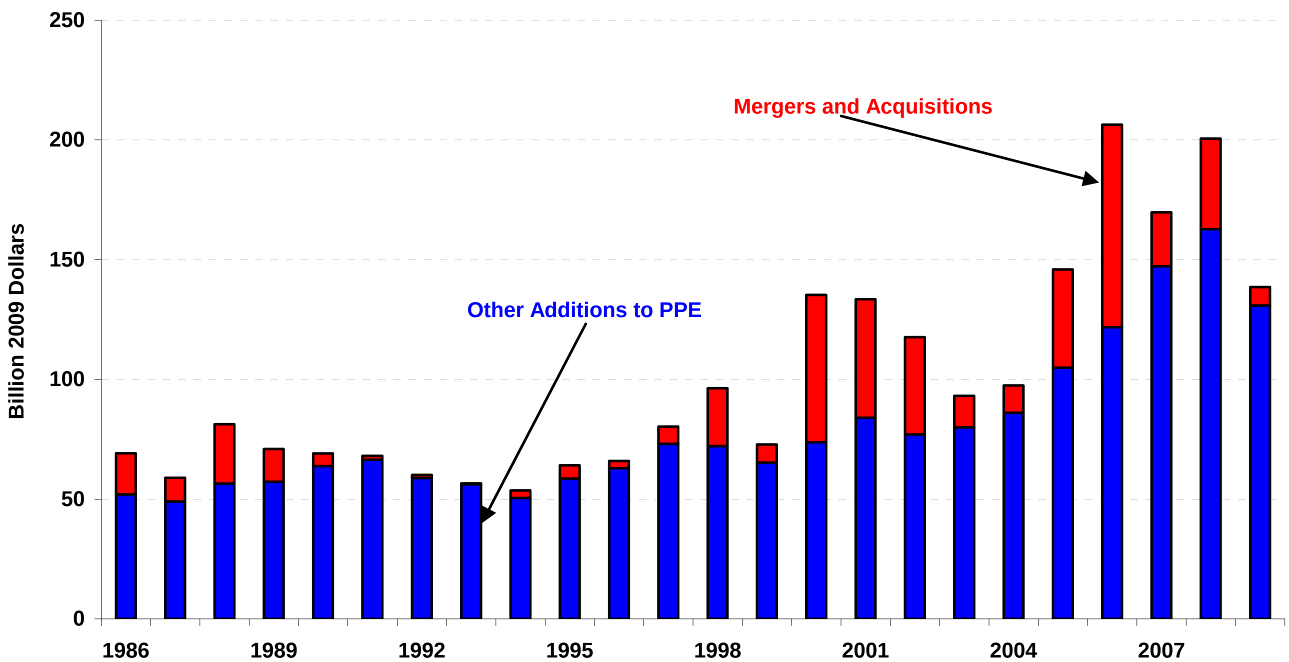
Investing - buying and selling property, plant, and equipment. Financing - issuing and purchasing company stock, issuing and paying off debt, and paying dividends.
Source: U.S. Energy Information Administration, Form EIA-28 (Financial Reporting System).

Table 4. Reported Value of Mergers, Acquisitions, and Related Transactions by FRS Companies, 2009
(Million Dollars)

Acquiring Company	Assets Acquired	Reported Value of Acquisition
Total	25 percent Barnett shale interest from Chesapeake	2,250
Valero	Ethanol plants and site development	429
Occidental	Phibro LLC from Citigroup, Inc.	370
Occidental	Plains All American Pipeline	330
Occidental	California properties from Crimson	300
Williams	Properties in the Piceance Basin	253
Anadarko	Property exchange	230
Occidental	Calcium chloride business from Dow Chemical	210
Apache	Nine Permian Basin properties from Marathon	187
Williams	51 percent interest in Laurel Mountain, LLC	126

Sources: Company annual reports to shareholders and press releases.

Figure 9. FRS Capital Expenditures, 1986-2009



PPE - property, plant, and equipment.
Source: U.S. Energy Information Administration, Form EIA-28 (Financial Reporting System).

Oil and Gas Production Expenditures

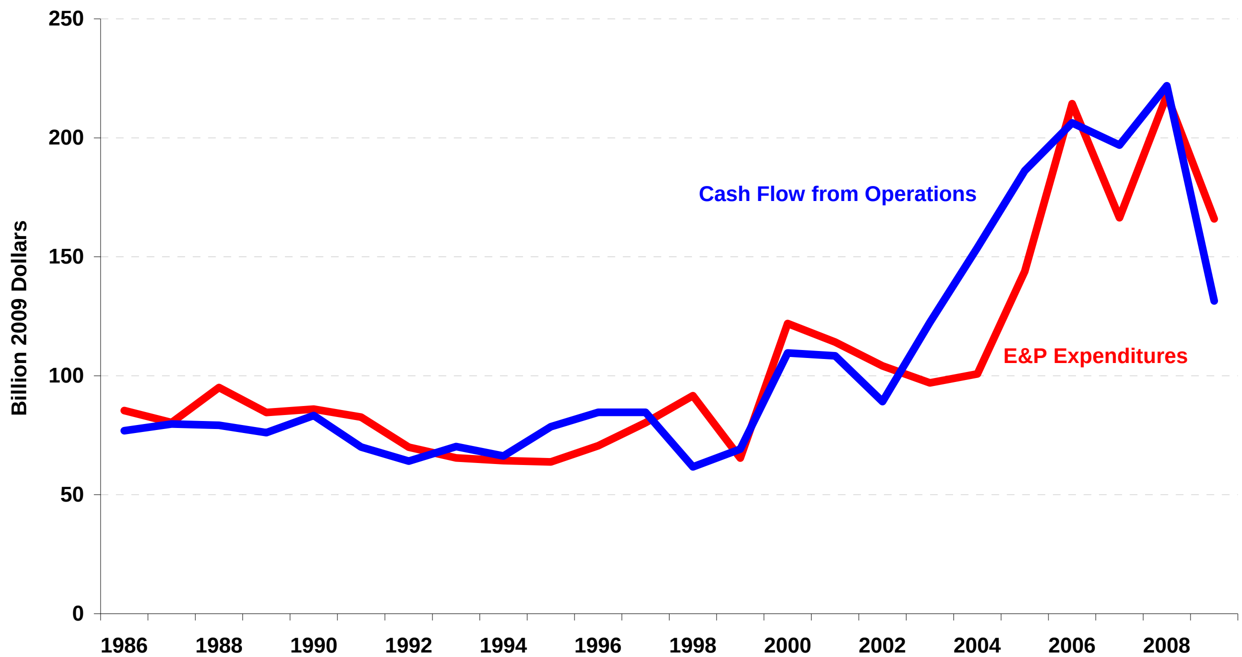
In addition to capital expenditures, FRS companies report expenditures for unproved and proved property acquisition, exploration, development, and production (E&P) for the oil and natural gas production segment. The data include current and capital expenditures, but capital expenditures predominate.

E&P expenditures decreased 24 percent from 2008 to $166 billion in 2009 (**Figure 10**). The $52 billion decline in E&P expenditures was considerably less than the $90 billion drop in cash flow from operations, and the 2009 expenditure level remained higher than every year prior to 2006. Expenditures for development accounted for 43 percent of the 2009 E&P expenditure total and production added 39 percent. Exploration comprised 10 percent of the total, the highest share since 1999. Acquisition expenditures fell in 2009; their share of expenditures declined to 7 percent.

Compared with the 2008 level, development expenditures decreased 21 percent to $71 billion in 2009 (**Figure 11**). It was the first decline in development expenditures since 1999. Exploration expenditures fell 1 percent to $17 billion but remained higher than every year from 1986 through 2007. Expenditures for production declined 6 percent to $65 billion in 2009.

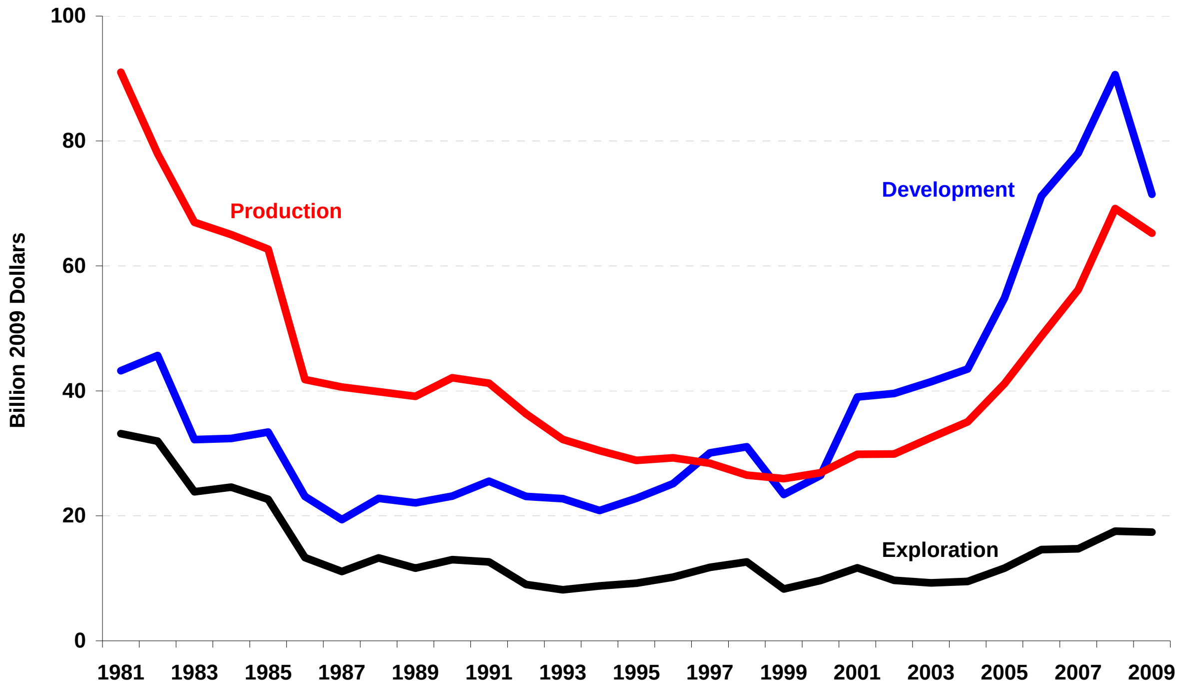
Regional expenditures are also reported, which provide insight into trends in upstream investment by FRS companies across world regions. The U.S. Onshore remains the most active region for the FRS companies' oil and natural gas operations. Expenditures for exploration and development (excluding expenditures for acquisitions) in the U.S. Onshore region fell 34 percent from 2008 to $30 billion in 2009 (**Figure 12**), which, despite the decline, remained nearly twice the level in 2004. Expenditures for development predominate in the U.S. Onshore region: they declined to $25 billion in 2009, which was 35 percent of FRS companies' development expenditures worldwide. Exploration expenditures, though considerably smaller than development expenditures, decreased 2 percent in 2009 to $5 billion.

Figure 10. Cash Flow from Operations and Exploration and Production (E&P) Expenditures for FRS Companies, 1986-2009



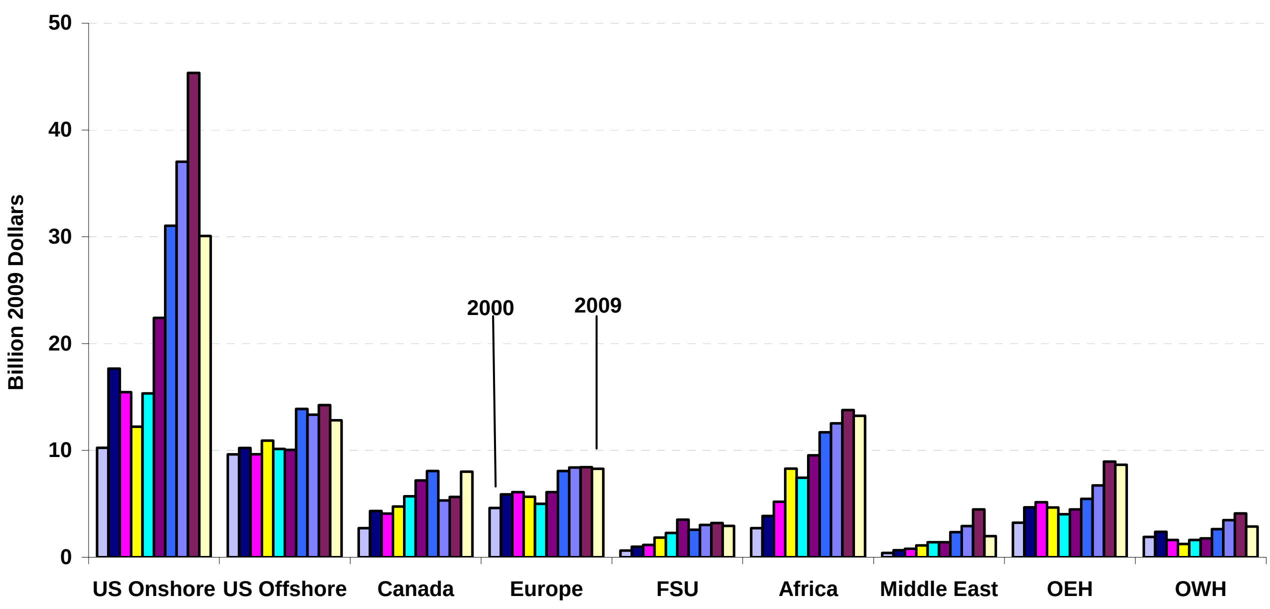
Note: E&P expenditures includes exploration, development, production, unproved acreage, and proved acreage expenditures.
Source: U.S. Energy Information Administration, Form EIA-28 (Financial Reporting System).

Figure 11. FRS Worldwide Expenditures for Exploration, Development, and Production, 1981-2009



Source: U.S. Energy Information Administration, Form EIA-28 (Financial Reporting System).

Figure 12. FRS Expenditures for Oil and Natural Gas Exploration and Development by Region, 2000-2009



Note: FSU is Former Soviet Union. OEH is Other Eastern Hemisphere, which is primarily the Asia Pacific region. OWH is Other Western Hemisphere, which is primarily Central and South America and the Caribbean.
Source: U.S. Energy Information Administration, Form EIA-28 (Financial Reporting System).

Exploration and development expenditures in the U.S. Offshore region decreased 10 percent from 2008 to $13 billion in 2009 (**Figure 12**). Expenditures for exploration account for 33 percent of the total in the U.S. Offshore region, compared with an average of 20 percent for FRS worldwide expenditures.

Exploration and development expenditures in foreign FRS regions decreased 5 percent from 2008 to $46 billion in 2009. All regions except Canada declined from the previous year. Exploration and development expenditures in Canada jumped 42 percent from 2008 to $8 billion in 2009. This was the first year that companies included expenditures from oil sands mining operations in the oil and gas production segment, because of a new Securities and Exchange Commission (SEC) rule. Development spending accounted for nearly all of the increase.

In 2009, FRS companies put more exploration and development expenditures into Africa than any other foreign region, as they have every year since 2002. Exploration and development expenditures in Africa decreased 4 percent from 2008 to $13 billion in 2009. Exploration and development expenditures in the Other Eastern Hemisphere region were the second highest among the FRS foreign regions, remaining slightly ahead of Canada and Europe despite declining 3 percent from 2008 to $9 billion in 2009.

Refining/Marketing Capital Expenditures

Capital expenditures for the FRS companies' domestic refining/marketing segment decreased 16 percent from 2008 to $22 billion in 2009 while foreign refining/marketing capital expenditures increased 2 percent (**Figure 7**). Despite the net income loss reported by domestic refining/marketing, capital expenditures in 2009 remained higher than all but 3 prior years in the survey. From 2000 to 2009, average annual capital expenditures in the FRS domestic refining/marketing segment were twice that of 1990 to 1999, which reflects the improved return on investment throughout most of this period compared with the 1990s.