Major Findings

This edition of *Performance Profiles* reviews financial and operating data for the calendar year 2009 and discusses important trends and emerging issues relevant to U.S. energy company operations. Major U.S.-based oil and natural gas producers and petroleum refiners submit the data in this report annually on Form EIA-28, the Financial Reporting System (FRS).

FRS companies' net income declined to the lowest level since 2002.

- Net income fell 66 percent (in constant 2009 dollars) to $30 billion in 2009 from $88 billion in 2008. 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 earned a 5-percent return on stockholders' equity (ROE) in 2009, 4 percentage points below the average ROE of the Census Bureau's All Manufacturing Companies. For the first time since 2002, the profitability of FRS companies fell below this industry benchmark.

Upstream and downstream profits fell substantially in 2009.

- Oil and natural gas production continued to be the most profitable business segment, contributing $42 billion in net income, but this was a decline of 43 percent from 2008. Return on net investment in place (ROI) fell to 7 percent in 2009 from 13 percent in 2008.

- The refining/marketing segment reported a loss of $7 billion in 2009, compared with a $14-billion gain in 2008. ROI for domestic refining/marketing in 2009 declined to the lowest level ever reported in 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. 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. This contributed to the first negative net margin reported by FRS companies, negative $0.36 per barrel in 2009.

Cash flow and capital expenditures fell substantially in 2009.

- Cash flow from operations decreased 41 percent from 2008 to $131 billion in 2009, led by the decline in net income. Proceeds from the sales of assets fell 52 percent from 2008 to $12 billion in 2009 as the value of assets declined in the lower price environment. Funds raised from equity security offerings declined 30 percent to $5 billion, while proceeds from issuing long-term debt increased slightly to $77 billion.

- The largest use of cash was for capital expenditures, which decreased 31 percent from 2008 to $139 billion in 2009. Despite the large decline, capital expenditures in 2009 remained higher than every year prior to 2005. The amount of cash used to repurchase company stock fell 65 percent to $20 billion in 2009, but FRS companies maintained dividend payments, which increased 2 percent to $32 billion. FRS companies' long-term debt to equity ratio rose to 39 percent, the highest since 2004. 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.

Upstream expenditures fell but remained at historically high levels.

- Expenditures for exploration, development, property acquisition, and production decreased 24 percent from 2008 to $166 billion in 2009. The 2009 expenditure level remained higher than every year prior to 2006.

Compared with the 2008 level, development expenditures decreased 21 percent to $71 billion in 2009. 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.

Oil and natural gas production and reserve additions increased.

- Worldwide production of oil (crude oil and natural gas liquids combined) by the FRS companies was up markedly in 2009, while natural gas production grew slightly. The increase in oil production was the first substantial increase since 2001. In contrast, the increase in natural gas production was the smallest since 2006. Beginning in 2009, oil sands and other nonconventional oil production were included in the oil and natural gas production segment. This contributed to a substantial increase in oil production in Canada. Natural gas production decreased in three of the nine FRS regions, led by Europe. In 2009, FRS companies accounted for 43 percent of U.S. oil production and 43 percent of U.S. natural gas production.

- Worldwide reserve additions by the FRS companies for oil and for natural gas increased in 2009, with both growing more than 50 percent. Additions were most notable in the U.S. Onshore and Canada regions for oil and the U.S. Onshore and Other Eastern Hemisphere regions for natural gas.

Finding and lifting costs both declined.

- Average worldwide finding costs for the FRS companies decreased to $18.31 per barrel of oil equivalent (boe) of reserves added in the 2007-2009 period compared with the 2006-2008 period, a decline of $5.79 per boe from 2008. Finding costs declined in all FRS regions except the Former Soviet Union, Africa, and the Middle East. The U.S. Offshore, which had the highest finding costs among the FRS regions in 2006-2008, had the largest fall in 2007-2009. Europe's costs also fell substantially in 2007-2009. Europe had the highest finding costs among the foreign regions in 2006-2008. Canada displayed a large decline in part likely because of the inclusion of oil sands in 2009.

- Reversing an almost decade-long trend, worldwide total lifting costs for the FRS companies fell $1.19 per boe, to $11.51 per boe, in 2009. Total lifting costs also fell in each of the FRS regions except Canada, where they rose $2.49, probably reflecting the inclusion of oil sands in 2009. Production taxes were the major contributor to the decline in total lifting costs. Worldwide they declined $0.84 per boe in 2009, which is 70 percent of the decline in total lifting costs. Production taxes typically rise and fall with changes in the prices of oil and natural gas, both of which fell in 2009. Direct lifting costs fell 14 percent in the United States but increased in every foreign region. Finding and lifting costs combined fell almost $5 per boe in the 2007–2009 period to $29.81 per boe.

U.S. refining/marketing capital expenditures declined but remained high; U.S. refinery capacity increased.

- 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. 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.

- FRS companies reported that their U.S. refinery capacity increased 2 percent, which includes the addition of three refinery joint ventures to the FRS survey. FRS companies accounted for 78 percent of U.S. refining capacity in 2009.