Major Findings

This edition of *Performance Profiles* reviews financial and operating data for the calendar year 2007 and discusses important trends and emerging issues relevant to U.S. energy company operations. The data in this report are submitted annually on Form EIA-28, the Financial Reporting System (FRS), by the major U.S.-based oil and natural gas producers and petroleum refiners.

FRS companies' net income declined after reporting record-high net income for 3 consecutive years.

- Net income decreased 8 percent (in constant 2007 dollars) from the record-high 2006 level to $125 billion in 2007. Operating revenue growth slowed to 1 percent per year in both 2006 and 2007, compared to prior-year values, after increasing 21 percent per year from 2002 to 2005. Operating expenses rose 4 percent in 2007 from 2006. This was the first time since 2002 that operating expenses grew at a faster rate than revenues.

- FRS companies earned a 23 percent return on stockholders' equity (ROE) in 2007. Although the ROE in 2007 was 5 percentage points lower than the peak in 2005, it remained more than 8 percentage points higher than the average ROE for the Census Bureau's All Manufacturing Companies.

Upstream and downstream profits declined in 2007 from record-high 2006 levels.

- Oil and natural gas production continued to be the most profitable business segment, contributing $87 billion in net income, but this was a decline of 9 percent from the peak in 2006. Return on net investment in place (ROI) fell to 17 percent in 2007 from 21 percent in 2006.

- Net income for the refining/marketing segment decreased 3 percent from 2006 but remained at a historically-high level of $32 billion in 2007. The domestic net refined product margin declined for the first time since 2002 as per-barrel operating costs increased by more than the gross product margin. From 2003 to 2007, the domestic net margin averaged three times higher than the average net margin in the 1990s. Refining/marketing ROI declined 2 percentage points from the record-high level set in 2006 to 22 percent in 2007.

Cash flow and capital expenditures decreased in 2007, but they remained at historically-high levels for FRS companies.

- Cash flow from operations decreased 4 percent from the peak in 2006 to $191 billion in 2007. This relatively high level of cash flow reduced the need for other sources of funding. Other major sources of cash (proceeds from equity offerings, issuing long-term debt, and sales of assets) also declined in 2007.

- The largest use of cash was for capital expenditures, which decreased 18 percent from 2006 to $164 billion in 2007. Despite the decline, capital expenditures in 2007 were higher than any previous year in the survey except 2006. FRS companies increased funds used to reduce long-term debt and to repurchase their own stock. Overall sources of cash exceeded uses, resulting in an increase of $5 billion in cash and cash equivalents.

Lower expenditures for acquisitions led to a decline in total upstream spending in 2007.

- While expenditures for exploration, development, and production increased, lower expenditures for acquisitions led to an overall decline in upstream expenditures in 2007, which fell 22 percent to $161 billion. Despite the decline, expenditures in 2007 were higher than every year since 1985 except 2006.

- Exploration expenditures by FRS companies in 2007 increased to the highest level since 1985. For the third year in a row, development expenditures reached the highest level in the history of the FRS survey.

Oil production decreased, while natural gas production increased; natural gas reserves additions remained robust.

- Worldwide production of oil (crude oil and natural gas liquids combined) by FRS companies decreased 4 percent in 2007 relative to 2006, as decreases occurred in all but two FRS regions. FRS companies' worldwide production of natural gas increased 2 percent in 2007, led by the U.S. Onshore region. In 2007, the FRS companies accounted for 42 percent of U.S. oil production and 43 percent of U.S. natural gas production.

- Worldwide natural gas reserves additions by FRS companies in 2007 exceeded all previous years in the survey except for 2005. Oil reserves additions, on the other hand, have declined in recent years. Each year from 2004 to 2007, FRS companies' worldwide oil reserves additions were lower than all prior survey years except 1986.

- The FRS companies' worldwide reserves replacement rate for natural gas was 126 percent in 2007 while the reserves replacement rate for oil was 78 percent. In what could have implications for future oil and natural gas production by FRS companies, six of the seven highest producing region/resource combinations (e.g., U.S. Onshore natural gas) did not find sufficient reserves to replace production in the 5-year period from 2003 to 2007.

Finding and lifting costs continued to rise.

- Average worldwide finding costs for FRS companies increased 5 percent from the previous period to $18.49 per barrel of oil equivalent (boe) in the 2005–2007 period (finding costs are averaged over a 3-year period), with one-half of the FRS regions experiencing increased finding costs and one-half decreased finding costs. The U.S. Offshore region ($50 per boe) and Africa ($38 per boe) had the highest finding costs among the FRS regions.

- Lifting costs (also called production costs) increased 17 percent from 2006 to $9.98 per boe in 2007. Direct lifting costs increased 19 percent while production taxes rose 9 percent. Finding and lifting costs combined increased 9 percent from the prior period to $27.10 per boe in the 2005–2007 period.

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

- Capital expenditures for the FRS companies' domestic refining/marketing segment increased 52 percent from 2006 to $20 billion in 2007 while foreign refining/marketing capital expenditures fell 35 percent. Companies reported substantial investments to expand capacity, increase the capability to process heavier crude oil, enhance the quality of products, improve refinery operations and reduce emissions, and add ethanol and biodiesel capabilities. From 2000 to 2007, average annual capital expenditures in the FRS domestic refining/marketing segment nearly doubled from that of 1990 to 1999, which reflects the improved return on investment in recent years.

- While several companies made investments to expand capacity, FRS companies reported that their U.S. refinery capacity decreased by almost 4 percent as one refinery was sold outside the FRS group and two others were spun off into a joint venture. FRS companies accounted for 78 percent of U.S. refining capacity in 2007. U.S. petroleum product sales by FRS companies declined 6 percent in 2007 relative to 2006. Several FRS companies disclosed plans to sell their company-owned and -operated outlets.