Financial Developments

The Energy Information Administration's (EIA) *Performance Profiles of Major Energy Producers 2007* 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 the EIA on Form EIA-28, the Financial Reporting System (FRS).

Net Income and Profitability

Net income for FRS companies in 2007 declined for the first time since 2002, falling to $125 billion (**Table 1**), which represents a decrease of 8 percent (in constant 2007 dollars)[1] from the 2006 level. Despite the decline, the 2007 net income level was the third highest in the history of the FRS survey (**Figure 1**) and was more than three times higher than the average FRS net income from 1974 through 2004. Excluding unusual items, net income in 2007 also declined by 8 percent from 2006.

Table 1. Consolidated Income Statement for FRS Companies and the U.S. Census Bureau's All Manufacturing Companies, 2006-2007
(Billion 2007 Dollars)

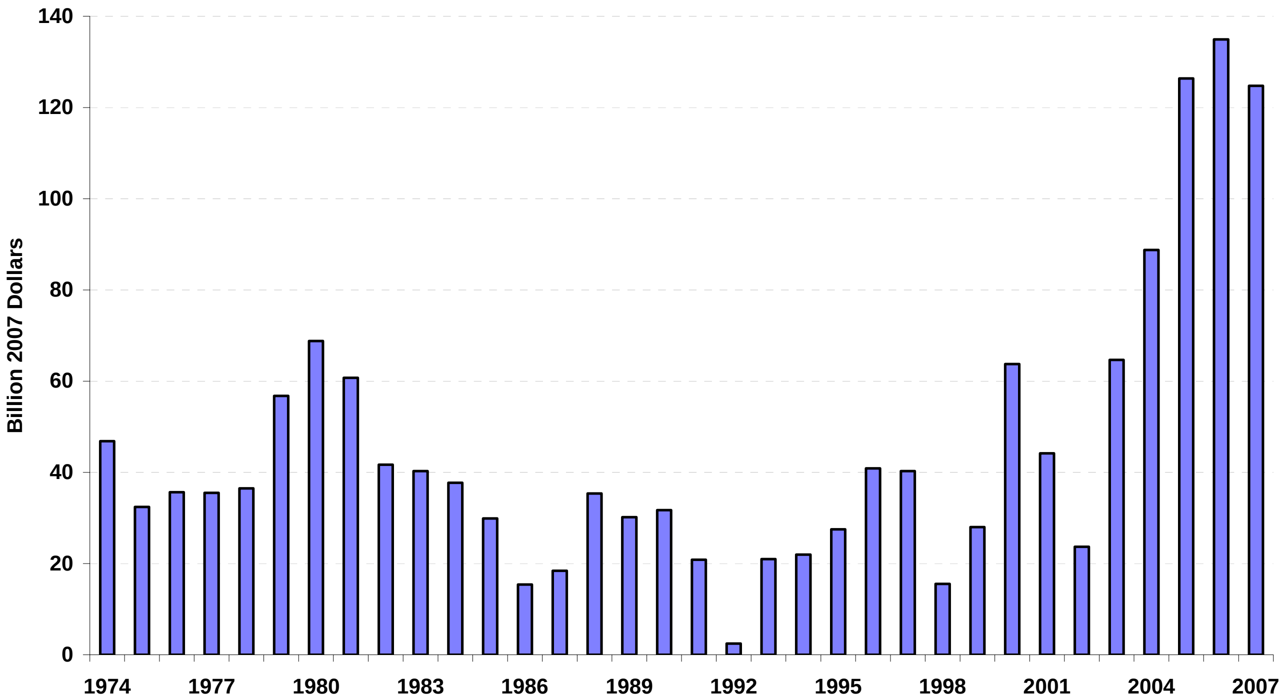
	FRS Companies			All Manufacturing Companies		
Income Statement Items	2006	2007	Percent Change 2006-2007	2006	2007	Percent Change 2006-2007
Operating Revenues	1426.1	1444.2	1.3	5,946.1	6,056.2	1.9
Operating Expenses	1226.7	1270.6	3.6	5,525.5	5,642.8	2.1
Operating Income (Revenues minus Expenses)	199.4	173.6	-13.0	420.5	413.5	-1.7
Interest Expense	12.1	10.9	-10.4	98.4	109.6	11.4
Other Revenue (Expense)	40.3	46.6	15.5	302.9	291.7	-3.7
Income Tax Expense	92.7	84.5	-8.8	138.1	158.8	15.0
Net Income	134.9	124.8	-7.5	487.0	436.8	-10.3
Net Income Excluding Unusual Items	131.8	121.9	-7.5	NA	NA	

Note: Sum of components may not equal total due to independent rounding. Percent changes were calculated from unrounded data. Data for All Manufacturing Companies are provided for comparison to a broader industry benchmark.
NA= not available.
Sources: **FRS Companies**: Energy Information Administration Form EIA-28 (Financial Reporting System); **All Manufacturing Companies:** U.S. Census Bureau, Quarterly Financial Report.

The decline in net income resulted from a larger increase in operating expenses compared to operating revenues. Operating revenue growth slowed to 1 percent per year in both 2006 and 2007, compared to prior-year values,

[1] Unless otherwise indicated, all dollar values and percentage changes in this report are based in constant 2007 dollars, adjusted using the gross domestic product (GDP) deflator.

Figure 1. FRS Net Income, 1974-2007



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

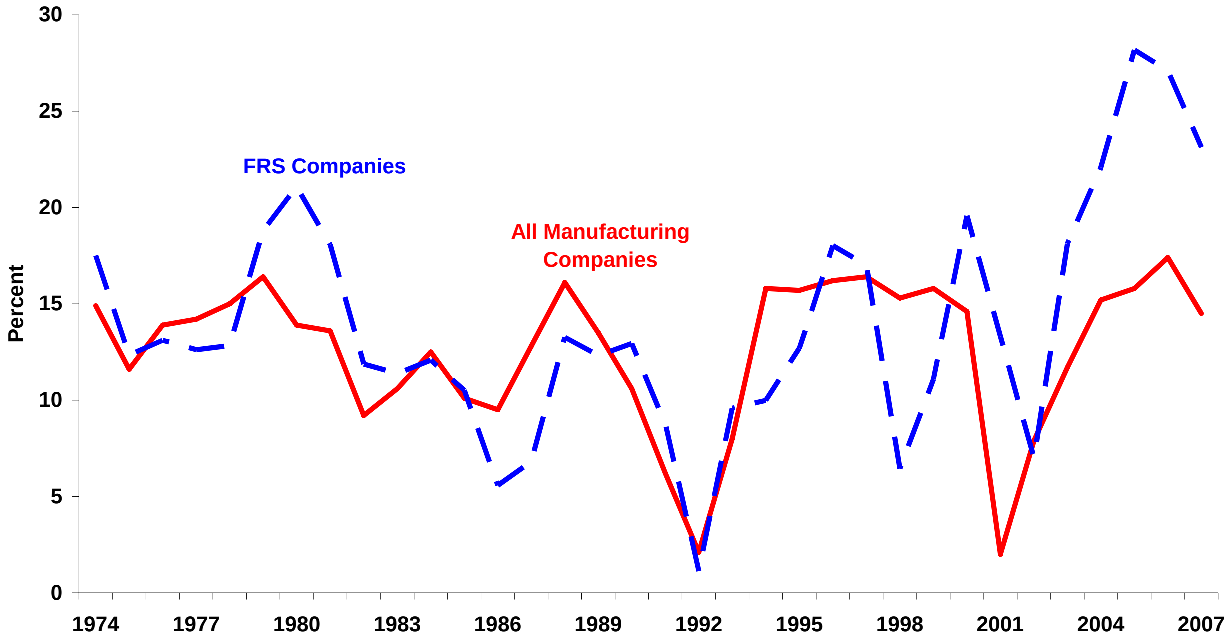
after increasing 21 percent per year from 2002 to 2005. For the first time since 2002, operating expenses increased at a faster rate than revenues, rising 4 percent in 2007 compared to 2006.

Profitability—the measure of a company's or an industry's net income relative to the equity or capital provided by its investors—declined to 23 percent in 2007. Even though the FRS companies' return on stockholders' equity (ROE) has fallen 5 percentage points from its peak in 2005, ROE in 2007 was higher than any other year in the survey except for 2005 and 2006 (**Figure 2**). The profitability of the FRS companies continued to outpace industry benchmarks (**Figure 3**). The FRS companies' ROE averaged 7 percentage points higher than that of the Census Bureau's All Manufacturing Companies from 2000 to 2007, compared to an average 2 percentage points lower from 1985 to 1999.

Among the FRS companies' lines of business and business segments, oil and natural gas production continued to be the most profitable, contributing $87 billion in net income in 2007 (**Table 2**), although this was a decline of 9 percent from the 2006 level. Revenues were driven higher by increases in crude oil prices but moderated by natural gas wellhead prices, which were nearly unchanged from the previous year (see Overview of 2007 Petroleum and Natural Gas Markets). Operating expenses, however, rose by more than revenues as increased drilling activity continued to drive up exploration, development, and production costs. Return on net investment in place (ROI) for the oil and natural gas production segment fell to 17 percent in 2007 from 21 percent in 2006. ROI for foreign oil and gas production fell farther than that of domestic production, which narrowed the difference between them (**Figure 4**).

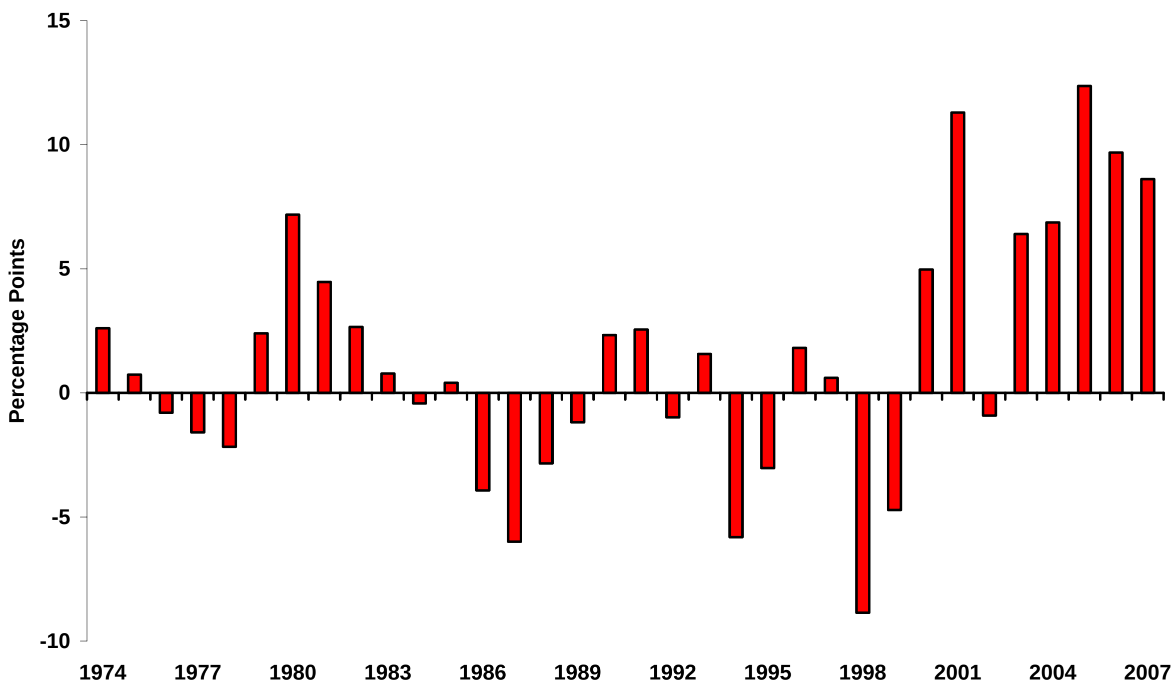
The refining/marketing segment provided $32 billion in earnings in 2007, which was a decrease of 3 percent from 2006. Despite the decline, the refining/marketing segment continues to contribute substantially to net income. Domestic earnings in 2007 exceeded all years in the survey except 2006 and foreign refining/marketing earnings were the highest since 1980. Petroleum product prices rose by more than crude oil prices in 2007, resulting in an increase in the average domestic refining/marketing gross margin of $0.26 per barrel. Per-barrel operating costs, however, increased by more than the gross margin, which reduced the net refined product margin for the first time

Figure 2. Return on Stockholders' Equity for FRS Companies and All Manufacturing Companies, 1974-2007



Sources: **FRS Companies**: 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, 1974-2007



Sources: **FRS Companies**: 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, 2006-2007
(Million 2007 Dollars)

Line of Business	Net Income 2006	Net Income 2007	Net Income Percent Change 2006-2007	Net Income Excluding Unusual Items 2006	Net Income Excluding Unusual Items 2007	Net Income Excluding Unusual Items Percent Change 2006-2007
Petroleum						
U.S. Petroleum						
Oil and Natural Gas Production	42,883	40,055	-6.6	42,023	37,228	-11.4
Refining/Marketing	24,967	22,381	-10.4	25,321	21,329	-15.8
Pipelines	235	260	10.6	170	273	60.8
Total U.S. Petroleum	68,085	62,696	-7.9	67,513	58,830	-12.9
Foreign Petroleum						
Oil and Natural Gas Production	52,769	47,005	-10.9	51,383	49,436	-3.8
Refining/Marketing[a]	7,752	9,201	18.7	7,557	8,444	11.7
Total Foreign Petroleum	60,521	56,207	-7.1	58,940	57,881	-1.8
Total Petroleum	128,606	118,902	-7.5	126,454	116,709	-7.7
Downstream Natural Gas	3,758	8,794	134.0	3,879	7,803	101.2
Electric Power	1,188	-1,562	-231.5	1,404	-1,372	-197.8
Other Energy[b]	582	783	34.5	519	783	51.0
Nonenergy	6,412	5,626	-12.3	6,821	5,912	-13.3
Total Allocated	140,547	132,543	-5.7	139,076	129,836	-6.6
Nontraceable[c]	-5,637	-7,773	--	-7,312	-7,964	--
Consolidated Net Income[d]	134,910	124,770	-7.5	131,763	121,872	-7.5

[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 unusual items was $3,147 million and $2,898 million in 2006 and 2007, respectively.

-- = Not meaningful.

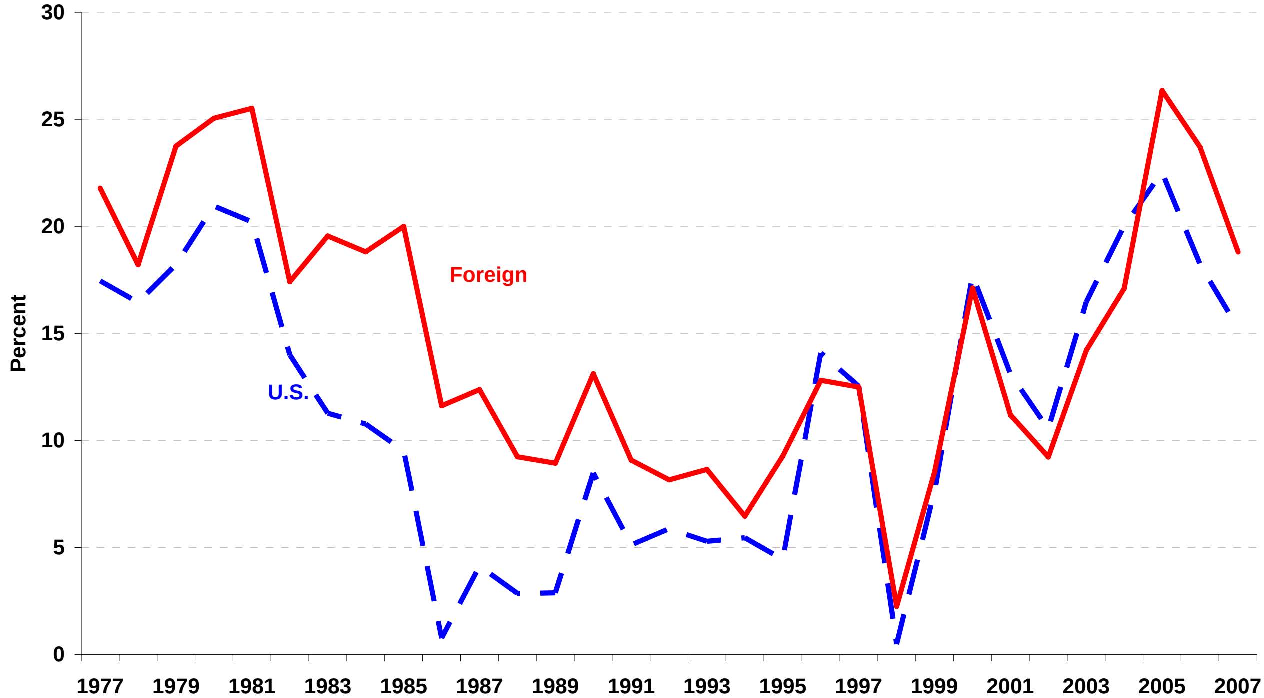
Source: Energy Information Administration, Form EIA-28 (Financial Reporting System).

since 2002 (**Figure 5**). Even with the decline, the 2007 net margin remained higher than every year in the survey except 2006. From 2003 to 2007, the domestic net margin averaged three times higher than the average net margin in the 1990s. Refining/marketing ROI declined to 22 percent in 2007, which was down 2 percentage points from the peak in 2006, but higher than every year of the survey before 2005. ROI for domestic and foreign refining/marketing were nearly identical (**Figure 6**).

Net income in the downstream natural gas line of business increased significantly, rising to almost $9 billion in 2007. Even though revenues declined, expenses, which include purchases of natural gas, fell further. Stronger liquefied natural gas (LNG) prices were cited as one reason for the gain in downstream natural gas earnings.[2] LNG prices are often tied to crude oil prices, particularly in Asia, and foreign earnings increased by more than domestic earnings.

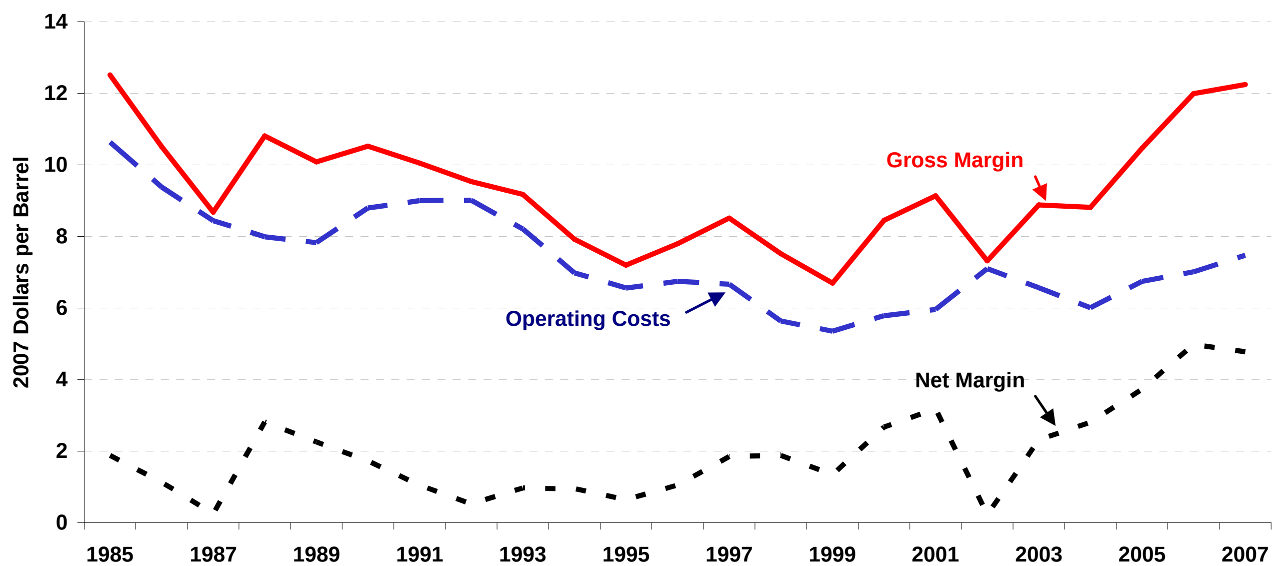
[2] Royal Dutch Shell plc, *Annual Review and Summary Financial Statements 2007*, p. 26.

Figure 4. Return on Net Investment in Place for U.S. and Foreign Oil and Natural Gas Production for FRS Companies, 1977-2007



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

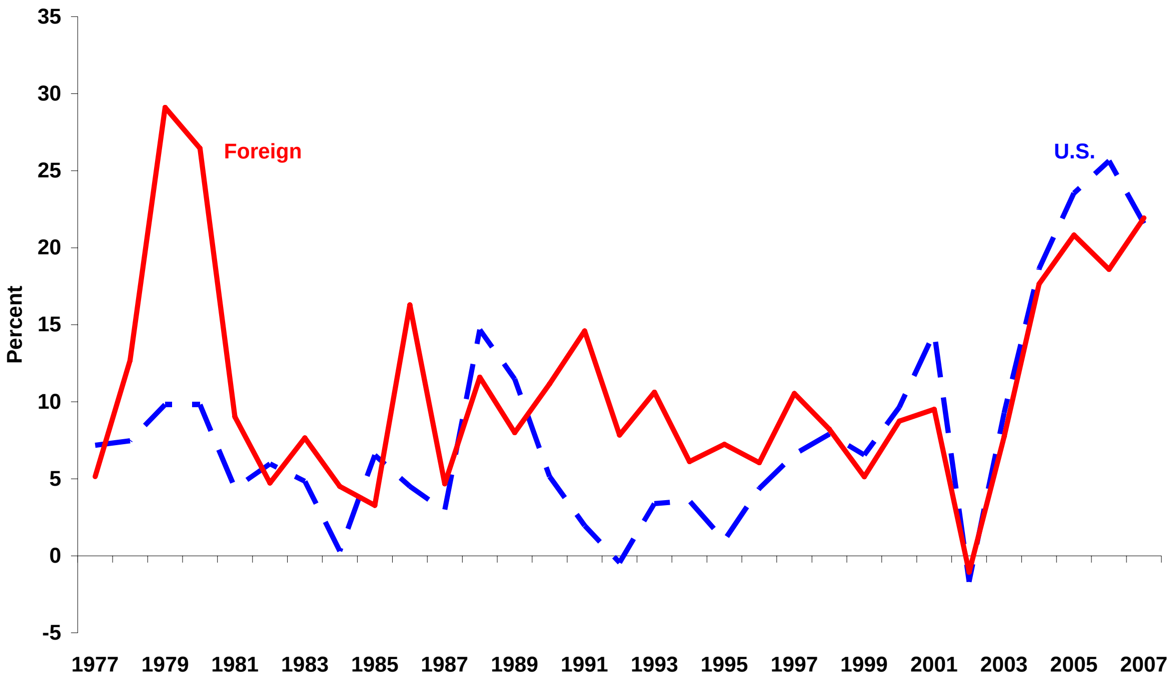
Figure 5. U.S. Refined Product Margins and Costs per Barrel of Petroleum Product Sold for FRS Companies, 1985-2007



Note: The gross margin is refined product revenues less raw material cost and product purchases divided by refined product sales volume.

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

Figure 6. Return on Net Investment in Place for U.S. and Foreign Refining/Marketing for FRS Companies, 1977-2007



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

The nonenergy line of business contributed $6 billion in net income, a decrease of 12 percent from 2006. Chemical operations account for a large portion of the nonenergy line of business, and lower margins were cited as a major reason for lower chemical earnings.[3]

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.

Cash flow from operations for FRS companies decreased 4 percent from the previous year to $191 billion in 2007 (**Table 3**), reflecting the decline in net income. Oil and natural gas production contributed 77 percent of the cash flow from operations (on a pretax basis), and refining/marketing contributed another 19 percent (**Table 4**).

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[3] Energy Information Administration, *Financial News for Major Energy Companies, Fourth Quarter 2007* (February 2008), p. 5, available at http://www.eia.doe.gov/emeu/perfpro/news_m/q407.pdf (as of November 20, 2008).

Table 3. Sources and Uses of Cash for FRS Companies, 2006-2007
(Billion 2007 Dollars)

Sources and Uses of Cash	2006	2007	Absolute Change 2006-2007	Percent Change 2006-2007
Main Sources of Cash				
Cash Flow from Operations	199.5	191.0	-8.5	-4.3
Proceeds from Long-Term Debt	84.1	72.8	-11.3	-13.4
Proceeds from Disposals of Assets	42.8	33.4	-9.4	-22.0
Proceeds from Equity Security Offerings	23.2	2.1	-21.1	-90.9
Main Uses of Cash				
Additions to Investment in Place	199.6	164.6	-35.0	-17.6
Reductions in Long-Term Debt	51.4	63.2	11.8	23.1
Dividends to Shareholders	39.6	33.3	-6.2	-15.8
Purchase of Treasury Stock	42.8	54.1	11.3	26.4
Other Investment and Financing Activities, Net	-23.4	21.0	44.4	NM
Net Change in Cash and Cash Equivalents	-7.2	5.0	12.2	NM

NM = Not meaningful.
Note: Sources minus uses plus other investment and financing activities (net) may not equal net change in cash and cash equivalents due to independent rounding.

Percent changes were calculated from unrounded data.

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

Table 4. Line-of-Business Contributions to Pretax Cash Flow, Income Taxes, and Cash Flow for FRS Companies, 2006-2007
(Billion 2007 Dollars)

Contribution to Pretax Cash Flow [a]	2006	2007	Absolute Change 2006-2007	Percent Change 2006-2007
Petroleum				
Oil and Natural Gas Production	196.1	184.5	-11.6	-5.9
Refining, Marketing, and Transport	53.8	46.6	-7.2	-13.4
Downstream Natural Gas	6.6	10.4	3.8	57.9
Electric Power	2.2	-3.0	-5.2	NM
Other Energy[b]	0.7	0.7	0.0	6.7
Chemicals	8.5	6.9	-1.6	-18.5
Other Nonenergy	-0.6	-0.7	-0.1	NM
Nontraceable	-6.4	-5.6	0.8	-12.1
Total Contribution to Pretax Cash Flow[a]	260.8	239.9	-21.0	-8.0
Current Income Taxes	-83.7	-82.4	--	-1.6
Other (Net)	22.3	33.5	11.1	49.8
Cash Flow from Operations	199.5	191.0	-8.5	-4.3

[a]Defined as the sum of operating income, depreciation, depletion, and amortization, and dry hole expense.
[b]The Other Energy line of business includes coal, nuclear, and non-conventional energy.
NM = Not meaningful.
Note: Sum of components may not equal total due to independent rounding. Percent changes were calculated from unrounded data.
Source: Energy Information Administration, Form EIA-28 (Financial Reporting System).

Other major sources of cash also declined in 2007 from 2006 (**Table 3**). Proceeds from equity security offerings fell 91 percent from the 2006 level to $2 billion in 2007. The 2006 amount was influenced by major acquisitions that did not occur at the same level in 2007. Proceeds from the disposal of assets declined 22 percent in 2007, but remained at a relatively high level. The higher price environment in recent years pushed up asset values, and companies took advantage by selling off assets to raise cash. Proceeds from the disposal of assets in each year from 2005 to 2007 were higher than every year from 1986 to 2004.

The largest use of cash was for capital expenditures, which decreased by 18 percent from the previous year to $165 billion in 2007 (**Table 5**). Despite the decline, capital expenditures in 2007 were higher than any previous year in the survey except 2006. Oil and natural gas production (domestic and foreign combined) accounted for 70 percent of the total. Domestic refining/marketing's share of capital expenditures nearly doubled, rising to 12 percent.

Table 5. Additions to Investment in Place by Line of Business for FRS Companies, 2006-2007
(Billion 2007 Dollars)

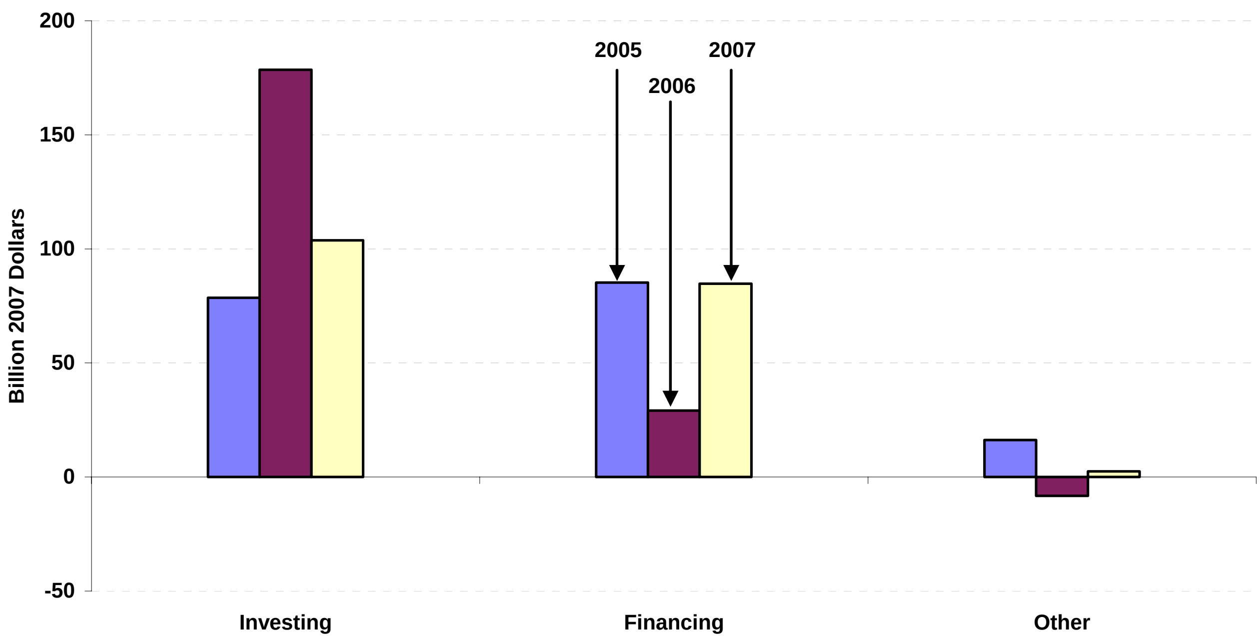
Lines of Business	2006	2007	Percent Change 2006-2007	Percent Change Excluding Mergers and Acquisitions 2006-2007
Petroleum				
U.S. Petroleum				
Oil and Natural Gas Production	95.5	61.2	-35.9	16.4
Refining/Marketing				
Refining	11.2	17.1	51.8	57.9
Marketing	1.5	2.0	31.4	12.9
Transport	0.7	1.4	94.6	94.6
Total Refining/Marketing	13.5	20.5	51.8	54.2
Pipelines	1.0	0.9	-15.7	-44.0
Total U.S. Petroleum	110.1	82.6	-25.0	23.5
Foreign Petroleum				
Oil and Natural Gas Production	63.8	53.3	-16.4	5.0
Refining/Marketing[a]	5.9	3.8	-34.7	-14.0
Total Foreign Petroleum	69.6	57.1	-18.0	3.3
Total Petroleum	179.7	139.7	-22.3	14.1
Downstream Natural Gas	12.0	9.6	-19.9	19.2
Electric Power	1.6	0.4	-74.7	-71.9
Other Energy[b]	0.5	7.8	1406.0	3193.6
Chemicals	2.5	3.5	40.7	41.8
Other Nonenergy	0.8	0.8	3.8	46.0
Nontraceable[c]	2.6	2.8	7.0	12.9
Additions to Investment in Place[d]	199.6	164.6	-17.6	20.5
Additions Due to Mergers and Acquisitions	81.1	21.8	-73.1	
Total Additions Excluding Mergers and Acquisitions	118.5	142.8	20.5	

[a]International Marine is included in Refining/Marketing.
[b]The Other Energy line of business includes coal, non-conventional, and renewable energy.
[c]Investments that cannot be directly attributed to a line of business.
[d]Additions to investment in place = additions to property, plant, and equipment, plus additions to investments and advances.
Note: Sum of components may not equal total due to independent rounding. Percent changes were calculated from unrounded data.
Source: Energy Information Administration, Form EIA-28 (Financial Reporting System).

FRS companies continued to use stock buyback programs to distribute part of their cash flow to shareholders. The amount of cash used by FRS companies to repurchase their own stock rose 26 percent to $54 billion in 2007 (**Table 3**). From 1986 to 2003, FRS companies' purchases of their own stock averaged $6 billion per year, while from 2004 to 2007, the average was $37 billion per year. Dividends to shareholders declined 16 percent to $33 billion in 2007. The decrease was influenced by a large decline in the dividend of one survey respondent; most FRS companies increased their dividend in 2007. Meanwhile, funds used to reduce long-term debt increased by 23 percent in 2007. This reduction in long-term debt contributed to a decline in the ratio of long-term debt to stockholders' equity for FRS companies from 35 percent in 2006 to 32 percent in 2007 (**Table C2**), the lowest level since 1981.

Overall, net uses of cash for investing activities fell to $104 billion in 2007 from $179 billion in 2006 (**Figure 7**), primarily as a result of the relatively lower level of merger and acquisition activity in 2007, which reduced capital expenditures (**Figure 8**). Net uses of cash for financing activities increased to $85 billion from $29 billion as a result of higher purchases of company stock, lower equity offerings, and lower net proceeds from long-term debt. Total sources of cash exceeded uses, resulting in an increase of $5 billion in cash and cash equivalents.

Figure 7. FRS Companies' Net Uses of Cash Flow, 2005-2007



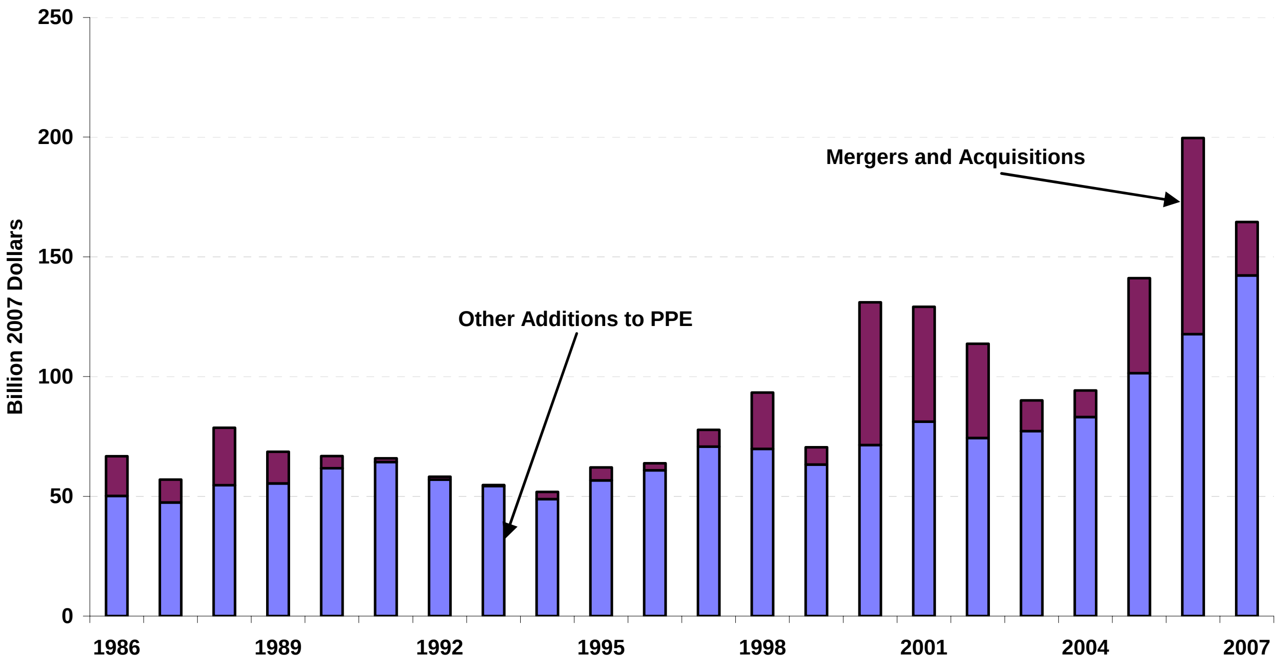
Investing - buying and selling property, plant, and equipment. Financing - issuing and purchasing company stock, issuing and paying off debt, and paying dividends.
Source: Energy Information Administration, Form EIA-28 (Financial Reporting System).

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 are predominant.

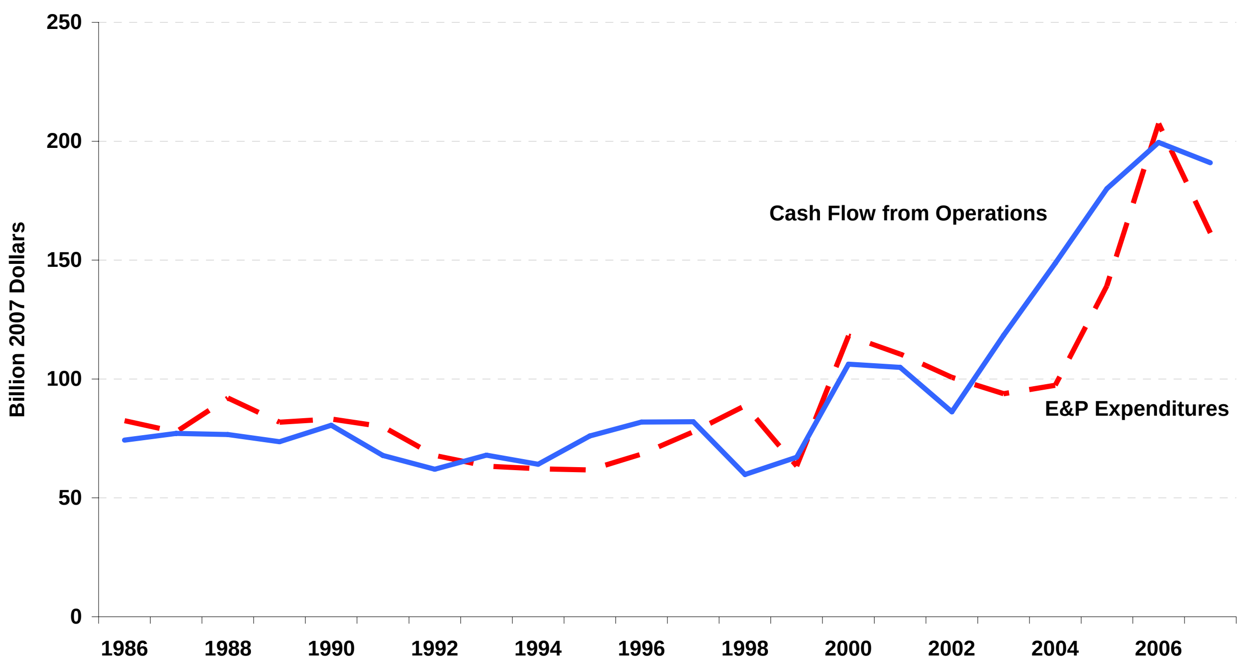
While expenditures for exploration, development, and production increased, lower expenditures for acquisitions led to an overall decline in E&P expenditures in 2007, which fell 22 percent to $161 billion (**Figure 9**). Despite

Figure 8. FRS Capital Expenditures, 1986-2007



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

Figure 9. Cash Flow from Operations and Exploration and Production (E&P) Expenditures for FRS Companies, 1986-2007

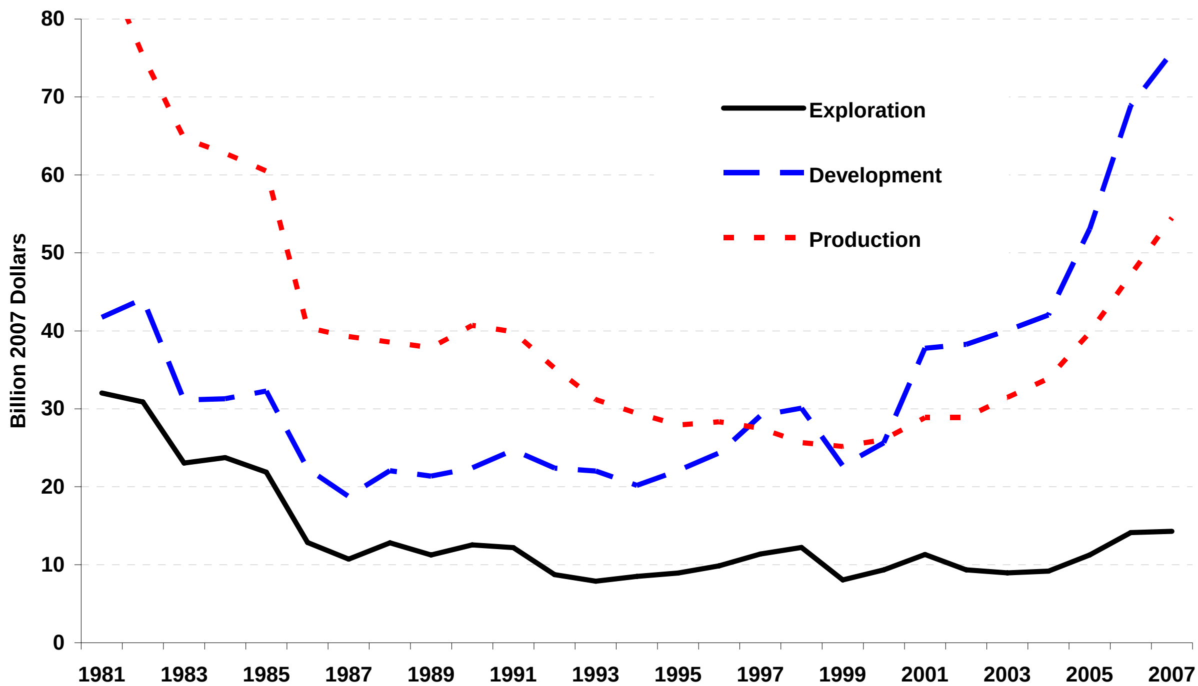


Note: E&P expenditures includes exploration, development, production, unproved acreage, and proved acreage expenditures.
Source: Energy Information Administration, Form EIA-28 (Financial Reporting System).

the decline, E&P expenditures in 2007 were higher than every year since 1985 except 2006. Expenditures for unproved and proved property acquisitions accounted for 11 percent of the total in 2007, compared to 37 percent in 2006. Development expenditures comprised 47 percent of the total E&P expenditures in 2007, production expenditures contributed 34 percent, and expenditures for exploration accounted for 9 percent.

Compared to the 2006 level, development expenditures increased 10 percent to $76 billion in 2007 (**Figure 10**). For the third year in a row, development expenditures reached the highest level in the history of the FRS survey. While exploration expenditures increased just 1 percent from 2006, the $14 billion spent for exploration was the highest since 1985. Production expenditures rose 15 percent from 2006 to $54 billion in 2007, which also was the highest level since 1985.

Figure 10. FRS Worldwide Expenditures for Exploration, Development, and Production, 1981-2007



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

Regional E&P 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 in the U.S. Onshore region increased 20 percent from 2006 to $36 billion in 2007 (**Figure 11**), which was more than three times the level in 2003. FRS companies spent 84 percent of the increase in exploration and development expenditures in 2007 in domestic onshore areas. Expenditures for development predominate in the U.S. Onshore region: they rose to $32 billion in 2007, which was 42 percent of FRS companies' development expenditures worldwide.

One of the major reasons for the large increase in onshore spending in 2007 was an acceleration in drilling in unconventional natural gas shale plays. Advances in fracturing and horizontal drilling technology have increased recovery rates and improved the economics of drilling in these formations.[4] Devon drilled 539 wells in the Barnett Shale in 2007, substantially increasing its industry-leading production in the play.[5] Chesapeake continued its

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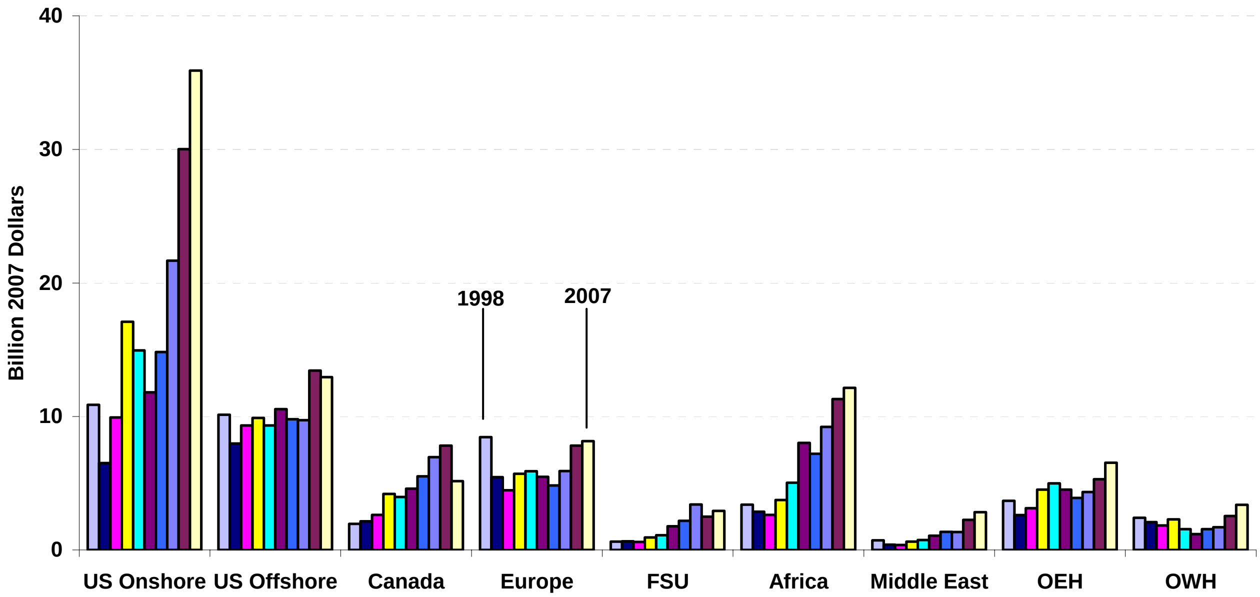
[4] "Halliburton: Shale Plays Drive Drilling Boom," *Oil Daily* (April 22, 2008), p. 1.
[5] "Devon Maintains Breakneck Pace in Barnett," *Oil Daily* (February 7, 2008), p. 1.
[7] Chesapeake Energy Corporation, 2007 U.S. Securities and Exchange Commission Form 10-K filing, p. 32.

Figure 11. FRS Expenditures for Oil and Natural Gas Exploration and Development by Region, 1998-2007



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

active drilling program, reporting that it had established a top-three position in every major unconventional play onshore in the United States east of the Rockies.[7]

While unconventional natural gas has received considerable attention, oil remains an important component of onshore exploration and development. EOG raised its estimate of recoverable reserves from the Bakken Shale oil play in North Dakota to 80 million barrels, and it expects that this area will have a significant impact on EOG's oil production in 2008 and beyond.[8] Chevron maintained its position as the top oil-equivalent producer in California, where 80 percent of the crude oil production is heavy oil. An active drilling program and application of new technology have helped reduce decline rates.[9]

Exploration and development expenditures in the U.S. Offshore region decreased 4 percent from 2006 to $13 billion in 2007, but, except for 2006, this was the highest level since 1982. From 1992 to 2007, FRS companies spent more for exploration in the U.S. Offshore region than in any other FRS region, although the onshore reached nearly the same level as offshore in 2007.

Chevron is one of the largest producers of oil and natural gas on the Gulf of Mexico shelf. Exploration in 2007 resulted in multiple discoveries in areas near existing Chevron production leases, which will allow more rapid development of these new discoveries.[10] Shell began producing from the Deimos field in the Gulf of Mexico, with Phase I peak production expected to reach 30,000 barrels of oil equivalent per day.[11] Marathon strengthened its deepwater exploration strategy in 2007, with high bids on 27 blocks in the Gulf of Mexico. Marathon also announced the deepwater Droshky discovery that could begin producing by 2010.[12]

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[8] "EOG Raises Target for Bakken Shale Oil Play," *Oil Daily* (October 31, 2007), p. 1.
[9] Chevron Corporation, *2007 Supplement to the Annual Report*, p. 14.
[10] Chevron Corporation, *2007 Supplement to the Annual Report*, p. 15.
[11] Royal Dutch Shell plc, *Annual Review and Summary Financial Statements 2007*, p. 25.
[12] Marathon Oil Corporation, *2007 Annual Report*, pp. 5, 15.

Exploration and development expenditures in foreign FRS regions increased 4 percent from 2006 to $41 billion in 2007. Four of the seven foreign FRS regions reached the highest amount of exploration and development expenditures in the history of the FRS survey.

In 2007, FRS companies put more exploration and development expenditures into Africa than any other foreign region, as they have in every year since 2002. Exploration and development expenditures in Africa increased 7 percent from 2006 to $12 billion in 2007. Africa represented 14 percent of Chevron's companywide net oil-equivalent production in 2007. Chevron has exploration and development projects in several countries in Africa, and it reported that production began from three fields in Angola and one field in Chad in 2007.[13] Exxon Mobil also has substantial exploration and development activities in Nigeria and Angola, and it announced that production began in the Marimba North and Rosa projects in Angola.[14]

Despite being a mature producing region, Europe continued to be an important area for the FRS companies' exploration and development expenditures, totaling $8 billion in 2007. Apache reprocessed a seismic survey of the Forties field to identify bypassed oil and locate future drilling prospects, and it also made substantial investments in drilling, recompletions, and facility upgrades in the region.[15] ConocoPhillips continued to explore in the North Sea and announced a discovery near its 2006 Jasmine discovery. An appraisal program confirmed the viability of ConocoPhillips' Clair Ridge discovery, and development planning is underway.[16]

Refining/Marketing Capital Expenditures

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 (**Table 5**). The companies reported that they used capital expenditures 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.

Tesoro acquired Shell's Los Angeles refinery, products terminal, and 138 U.S.A.-branded retail outlets in 2007 (**Table 6**). Marathon is expanding the capacity of its Garyville refinery from 256,000 barrels per day to 436,000 barrels per day, making it one of the largest refineries in the United States. The expansion is scheduled to be completed in 2009.[17] Several companies noted expansions to increase the capability to process heavier, higher sulfur crude oil, including Canadian bitumen blends.

ConocoPhillips completed a coking unit, a vacuum distillation unit, and revamps of heavy oil and distillate hydrotreaters to expand its capability to produce ultra-low-sulfur diesel fuel and low-sulfur gasoline, as well as to comply with required reductions in sulfur dioxide emissions.[18] Marathon continued to invest in transportation and storage assets to increase its ethanol blending capacity, with the goal of having the capability to blend to a 10-percent level across its entire gasoline distribution network.[19]

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[13] Chevron Corporation, *2007 Supplement to the Annual Report*, pp. 12, 18.
[14] Exxon Mobil Corporation, *2007 Summary Annual Report*, p. 22.
[15] Apache Corporation, 2007 U.S. Securities and Exchange Commission Form 10-K filing, p. 7.
[16] ConocoPhillips Company, *2007 Annual Report*, p, 12.
[17] Marathon Oil Corporation, *2007 Annual Report*, p. 22.
[18] ConocoPhillips Company, 2007 U.S. Securities and Exchange Commission Form 10-K filing, p. 24.
[19] Marathon Oil Corporation, *2007 Annual Report*, p. 22.

Table 6. Value of Mergers, Acquisitions, and Related Transactions by FRS Companies, 2007
(Million Dollars)

Acquiring Company	Assets Acquired	Reported Value of Acquisition
ConocoPhillips	EnCana joint venture-production assets	7,500
XTO	Properties from Dominion	2,576
Alenco	East Texas properties from Leor Energy	2,550
ConocoPhillips	EnCana joint venture-refining assets	2,500
Tesoro	Refinery and terminal assets from Shell	1,820
El Paso	Peoples Energy Production Company	887
XTO	Producing and unproved properties in the Barnett Shale	550
Hess	Genghis Khan property in the Gulf of Mexico	371
Occidental	Qatar properties from Anadarko	350
Chesapeake	West Texas joint venture with Anadarko	310
Tesoro	138 retail stations from USA Petroleum	286
Occidental	Buyout of minority interest of PolyOne	261
El Paso	South Texas Properties	254
ConocoPhillips	Keystone Pipeline from TransCanada Corporation	207
Equitable	Interest in Nora LLC	121
ConocoPhillips	30% interst in Kebabangan Cluster PSC, Malaysia	120
ConocoPhillips	New exploration permit, offshore Northwest Australia	118
ConocoPhillips	Golden Pass LNG from ExxonMobil	102
ConocoPhillips	Sweeny Cogeneration LP from AEP	78

Sources: Company annual reports to shareholders and press releases.

Tesoro completed a control modernization project at its Golden Eagle refinery, which will improve refinery yields and reduce energy costs. Tesoro also added a cogeneration plant to reduce energy costs.[20] In addition, Exxon Mobil indicated that it continued to deploy state-of-the-art process control technology at its refineries to enhance operations safety and reliability and to increase margins.[21]

[20] Tesoro Corporation, U.S. Securities and Exchange Commission Form 10-K filing, pp. 31, 32, 37.
[21] Exxon Mobil Corporation, *2007 Financial and Operating Review*, p. 71.