Major Findings

This edition of *Performance Profiles* reviews financial and operating data for the calendar year 2006. Although the focus is on 2006 activities and results, it also discusses important trends and emerging issues relevant to U.S. energy company operations.

The Financial Reporting System (FRS) companies reported record-high net income for the third consecutive year.

- The FRS companies' 2006 net income increased 7 percent (in constant 2006 dollars) from the 2005 level to $131 billion, the highest in the history of the FRS survey. Operating revenues increased by 1 percent in 2006 from the 2005 level, driven by increases in crude oil and petroleum product prices, but tempered by a decline in natural gas wellhead prices.

- The FRS companies earned a 27-percent return on stockholders' equity (ROE) in 2006, down slightly from the peak of 28 percent in 2005 but more than 9 percentage points higher than the average ROE for the Census Bureau's All Manufacturing Companies.

Upstream profit growth slowed; downstream continued to set records.

- Among the FRS companies' lines of business and business segments, oil and natural gas production continued to be the most profitable, contributing $92 billion in net income. This net income was the highest in the history of the FRS survey, although it was only 0.5 percent above the 2005 level. Return on net investment in place (ROI) fell to 20 percent in 2006 from 24 percent in 2005.

- Net income for the FRS companies' refining/marketing segment increased 7 percent from 2005 to $32 billion in 2006. The net refined product margin rose to $5.29 per barrel in 2006, which was by far the highest in the history of the FRS, $1.66 per barrel higher than the previous peak in 2005. Refining/marketing ROI reached 24 percent in 2006, also the highest in the history of the FRS survey.

Capital expenditures increased by $57 billion in 2006; cash balances remained high.

- Cash flow from operations for the FRS companies increased 10 percent from 2005 to $194 billion in 2006. Major acquisitions in 2006 resulted in substantial increases in proceeds from long-term debt and equity security offerings, and FRS companies also continued to obtain additional cash by selling off assets.

- The largest use of cash was for capital expenditures, which increased 42 percent from 2005 expenditures to $195 billion in 2006. FRS companies also used substantial funds to reduce long-term debt and to repurchase their own stock.

- Overall uses of cash exceeded sources in 2006, but despite the decline, balances of cash and marketable securities for FRS companies at the end of 2006 were higher than in any previous year in the survey except 2005.

Expenditures for exploration, development, property acquisition, and production (E&P) exceeded $200 billion in 2006.

- In contrast to 2003 and 2004, E&P expenditures in 2005 and 2006 rose substantially as drilling activity and drilling costs increased. In 2006, E&P expenditures rose $68 billion to $203 billion, surpassing the level of cash flow from operations. Expenditures for unproved and proved property acquisition accounted for 62 percent of the increase in E&P expenditures in 2006, as several large acquisitions occurred.

- Exploration expenditures by FRS companies in 2006 increased to the highest level since 1985. Development expenditures reached the highest level in the history of the FRS survey.

Oil and gas production by FRS Companies increased; their reserve additions failed to keep pace.

- Worldwide production of oil (crude oil and natural gas liquids combined) by FRS companies increased 0.4 percent in 2006 relative to 2005 and production of natural gas rose 1.5 percent, despite decreases in U.S. oil production and U.S. offshore gas production. In 2006, the FRS companies accounted for 44 percent of U.S. oil production, as well as 43 percent of U.S. natural gas production.

- The FRS companies' reserve additions through drilling (excluding purchases and sales of reserves) fell 27 percent from 2005 to 4 billion barrels of oil equivalent (boe) in 2006, driven by large downward revisions of natural gas reserves, combined with lower extensions and discoveries of oil.

- The FRS companies' reserve replacement rate for natural gas was 88 percent in 2006, the first time since 1992 that the FRS companies failed to add sufficient reserves to replace natural gas production. The reserve replacement rate for oil was 59 percent, the fourth time in the past 5 years that the reserve replacement rate for oil among FRS companies fell short of 100 percent. For domestic production and reserves only, the oil reserve replacement rate for the FRS companies was 39 percent in 2006, and the natural gas replacement rate was 101 percent, while the corresponding rates for all producers were 81 percent and 136 percent, respectively.

Finding and lifting costs continued to rise significantly.

- Average worldwide finding costs for the FRS companies increased 51 percent from the previous period to $17.23 per boe in the 2004–2006 period (finding costs are averaged over a 3-year period). Most of the increase resulted from a rise in exploration and development spending, which was amplified by a decline in reserve additions. All FRS regions exhibited increased finding costs in 2004–2006 from the previous period.

- Finding costs in the U.S. Offshore region increased from $8.12 per boe in the 1999–2001 period to $63.71 per boe in the 2004–2006 period. Between these two periods, expenditures increased 42-percent increase, while reserve additions fell 82 percent.

- Lifting costs (also called production costs) increased 17 percent from 2005 to $8.32 per boe in 2006. Direct lifting costs accounted for 54 percent and production taxes 46 percent of the increase. Finding and lifting costs combined increased 39 percent from 2003-2005 to $24.29 per boe in 2004–2006.

Refining and marketing capital expenditures remained high; petroleum product sales declined.

- Capital expenditures for the FRS companies' refining/marketing segment worldwide fell 12 percent from 2005 to $19 billion in 2006. The 2006 value, however, was higher than all but three of the 30 years since the survey began in 1977. Companies reported substantial investments to comply with environmental regulations, to expand capacity and upgrade facilities in order to process heavier types of crude oil, and to enhance their capability to develop and blend biofuels.

- U.S. petroleum product sales by FRS companies declined 5 percent in 2006 relative to 2005. Domestic refinery utilization fell to 92.5 percent in 2006 as refinery output declined while distillation capacity increased. The FRS companies accounted for 81 percent of U.S. refining capacity in 2006.