



# Devon Energy Corporation

## Company Profile

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**Datamonitor USA**

245 5th Avenue  
4th Floor  
New York, NY 10016  
USA

t:+1 212 686 7400  
f:+1 212 686 2626  
e:usinfo@datamonitor.com

**Datamonitor Europe**

Charles House  
108-110 Finchley Road  
London NW3 5JJ  
United Kingdom

t:+44 20 7675 7000  
f:+44 20 7675 7500  
e:eurinfo@datamonitor.com

**Datamonitor Germany**

Kastor & Pollux  
Platz der Einheit 1  
60327 Frankfurt  
Deutschland

t:+49 69 9754 4517  
f:+49 69 9754 4900  
e:deinfo@datamonitor.com

**Datamonitor Hong Kong**

2802-2803 Admiralty Centre  
Tower 1  
18 Harcourt Road  
Hong Kong

t:+852 2520 1177  
f:+852 2520 1165  
e:hkinfo@datamonitor.com

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## COMPANY OVERVIEW

Devon Energy Corporation (Devon Energy) is engaged in oil and gas exploration, development, and production; the transportation of oil, gas, and natural gas liquids; and the processing of natural gas. The company primarily operates in North America. It is headquartered in Oklahoma City, Oklahoma and employs about 5,000 people.

The company recorded revenues of \$11,362 million during the financial year ended December 2007 (FY2007), an increase of 16.3% over 2006. The operating profit of the company was \$4,224 million in FY2007, an increase of 18.3% over 2006. The net profit was \$3,596 million in FY2007, an increase of 26.8% over 2006.

## KEY FACTS

<b>Head Office</b>	Devon Energy Corporation 20 North Broadway Oklahoma City Oklahoma 73102 8260 USA
<b>Phone</b>	1 405 235 3611
<b>Fax</b>	1 405 552 4550
<b>Web Address</b>	<a href="http://www.devonenergy.com">http://www.devonenergy.com</a>
<b>Revenue / turnover (USD Mn)</b>	11,362.0
<b>Financial Year End</b>	December
<b>Employees</b>	5,000
<b>New York Ticker</b>	DVN

## **BUSINESS DESCRIPTION**

Devon Energy Corporation (Devon Energy) is an independent oil and gas producer in the US and one of the largest independent processors of natural gas and natural gas liquids in North America. The company also owns natural gas pipelines and processing and treatment facilities in many of its producing areas, making it one of North America's larger processors of natural gas liquids (NGLs). Devon Energy's production mix is about 60% natural gas and 40% oil and natural gas liquids, such as propane, butane, and ethane. The company's operations are primarily concentrated in the US and Canada. Devon Energy also operates in selected international locations such as Azerbaijan, China, and Brazil.

The company identifies its segments based on geographic areas: the US, Canada, and international.

The company's operations in the US are focused in Barnett Shale, Carthage, Washakie, Groesbeck and the Permian Basin, and onshore and offshore Gulf of Mexico regions. The company also has certain midstream assets, including natural gas and natural gas liquids (NGL) processing plants and pipeline systems. Devon's midstream assets include assets serving the Barnett Shale region in north Texas. These assets include approximately 2,700 miles of pipeline, two gas processing plants with 750 million cubic feet (mmcf) per day of total capacity, and a 15 thousand barrels (mmbbls) per day NGL fractionator.

Its midstream assets also include its 50% ownership interest in the Access Pipeline transportation system in Canada. This is a 220-mile dual pipeline system which extends from the company's Jackfish operations in northern Alberta to a 350 mmbbls storage terminal in Edmonton. The dual pipeline system allows the company to blend the Jackfish heavy oil production with condensate and transport the combined product to the Edmonton crude oil market.

In Canada, the company is developing its 100%-owned Jackfish thermal heavy oil project in the non-conventional oil sands of east central Alberta. Production is expected to ramp up throughout 2008 toward a peak production target of 35,000 barrels (bbls) per day. Its operations are also carried out in Lloydminster located to the south and east of Jackfish in eastern Alberta and western Saskatchewan.

Its Canadian Deep Basin operations include portions of west central Alberta and east central British Columbia. This area produces primarily natural gas and natural gas liquids from conventional reservoirs. Its Peace River Arch operation is located in west central Alberta, which produces primarily natural gas and NGLs from conventional reservoirs. In Northeast British Columbia, the company's assets are located primarily in British Columbia and to a lesser extent in northwestern Alberta, which produce principally natural gas from conventional reservoirs.

Devon Energy is also exploring for new reserves internationally. Outside North America, Devon's largest international property in terms of proved reserves is the Azeri-Chirag-Gunashli (ACG) oil field located offshore Azerbaijan in the Caspian Sea. ACG produces crude oil from conventional

reservoirs. Its operations in China are at the Panyu development in the Pearl River Mouth Basin in the South China Sea. Panyu fields produce oil from conventional reservoirs. In Brazil, the company commenced oil production from its Polvo development area (in which the company has 60% interest) in 2007.

## **HISTORY**

Devon Energy Corporation (Devon Energy) was founded by Larry W Nichols and John W Nichols, in 1971. It was listed on the American Stock Exchange, in 1988. The company acquired Hondo Oil and Gas, in 1992; and two years later purchased Alta Energy, which operated in New Mexico, Texas, and Wyoming.

In 1996, the company acquired Kerr-McGee's North American onshore operations. This acquisition increased the company's reserves by 46%. The company then acquired Northstar Energy, in 1998.

Devon Energy continued with its acquisition strategy, acquiring Pennz Energy, in 1999. This acquisition expanded Devon Energy's presence in international oil and gas assets in Azerbaijan, Brazil, Egypt, Qatar, and Venezuela. The company acquired Santa Fe Snyder, in 2000. The deal increased Devon's proven reserves by nearly 400 million barrels.

In 2001, Devon Energy acquired Anderson Exploration and with this acquisition the company became the third largest gas producer in Canada. In early 2002, Devon Energy acquired Mitchell Energy & Development. This acquisition added Barnett shale in North Texas to the company's portfolio and augmented its natural gas processing and natural gas liquids business. As part of its strategy to refocus on core operations, the company sold its Indonesian operations to PetroChina, in 2002.

In 2003, the company acquired Ocean Energy, which made it one of the largest independent oil and natural gas company. In the same year, the company announced to sell its Cherokee coal-bed methane project to Quest Resource.

In early 2005, Devon Energy sold its non-core oil and gas properties in the offshore Gulf of Mexico and onshore in the US and Canada. In the same year, the company acquired oil and gas properties in the Iron River area of western Canada from ExxonMobil Canada Energy.

In 2006, Devon Energy signed a production sharing contract with Chinese National Offshore Oil Corporation (CNOOC) covering block 11/34 offshore eastern China. Devon Energy increased its presence in the Barnett Shale in north Texas by completing the \$2.2 billion acquisition of Chief Holdings, in the same year.

Further in 2006, Devon Energy increased its ownership in a discovery in the deepwater Gulf of Mexico, from which the first production was expected in the year 2009. In the same year, the company made its fourth oil discovery in the Gulf of Mexico. Subsequently, the company signed a \$690 million four-year contract with Seadrill Offshore, a Bermuda-based international offshore drilling contractor, to utilize the West Sirius semi-submersible drilling rig in the Gulf of Mexico.

Further in 2006, the company made an oil discovery with the Mission Deep well (in which the company and Anadarko Petroleum Corporation, an independent oil and gas exploration and production company, had a 50/50 interest) on Green Canyon block 955.

In January 2007, Devon Energy announced to divest all of its assets in West Africa. The assets included estimated proved reserves of approximately 90 million oil-equivalent barrels (boe) as at December 31, 2006 which represented approximately 4% of Devon's proved reserves. The properties would produce approximately 11 million boe in 2007.

In July 2007, Devon Energy's Board of Directors approved a plan to form a new, publicly-traded master limited partnership (MLP). The MLP would own a minority interest in Devon Energy's US onshore marketing and midstream business. This business would include natural gas gathering and processing assets located in Texas, Oklahoma, Wyoming, and Montana. In the same month, the company reported first oil production from its Polvo oil field in Brazil.

In October 2007, the company sold its Egyptian oil and gas operations to Dana Petroleum, an oil and gas exploration and production company.

In March 2008, the company agreed to sell its oil and gas business in the African nation of Cote d'Ivoire to Afren, an independent oil and gas exploration, development, and production company, for \$205 million. In the following month, the company agreed to sell its oil and gas business in the African nation of Equatorial Guinea to GEPetrol, the national oil company of Equatorial Guinea, for \$2.2 billion.

In May 2008, Devon Energy sold its operations in the West African nation of Gabon to Oranje-Nassau Energie (a subsidiary of Oranje-Nassau Groep) for \$205.5 million. In the same month, the company completed the previously announced sale of its oil and gas business in the African nation of Equatorial Guinea.

In November 2008, Devon Energy completed a transaction to acquire an interest in the Drunkard's Wash coalbed natural gas field in east-central Utah held by a subsidiary of Chevron Corporation.

## KEY EMPLOYEES

Name	Job Title	Board	Compensation
J. Larry Nichols	Chairman and Chief Executive Officer	Executive Board	12660499 USD
John W. Nichols	Chairman Emeritus	Executive Board	
John Richels	President and Director	Executive Board	5620193 USD
Thomas F. Ferguson	Director	Non Executive Board	298497 USD
David A. Hager	Director	Non Executive Board	147857 USD
John A. Hill	Director	Non Executive Board	294497 USD
Robert L. Howard	Director	Non Executive Board	292497 USD
Michael M. Kanovsky	Director	Non Executive Board	293497 USD
J. Todd Mitchell	Director	Non Executive Board	284497 USD
Mary P. Ricciardello	Director	Non Executive Board	132285 USD
Stephen J. Hadden	Senior Vice President, Exploration and Production	Senior Management	3279252 USD
R. Alan Marcum	Executive Vice President, Administration	Senior Management	
Frank W. Rudolph	Senior Vice President, Human Resources	Senior Management	
Darryl G. Smette	Senior Vice President, Marketing and Midstream	Senior Management	3675480 USD
Lyndon C. Taylor	Senior Vice President and General Counsel	Senior Management	
Jeff A. Agosta	Vice President, Corporate Finance and Treasurer	Senior Management	
Joseph P. Ash	Vice President and General Manager, International Division	Senior Management	
Jerome Beaudoin	Vice President and Chief Information Officer	Senior Management	
Don D. DeCarlo	Vice President and General Manager, Western Division	Senior Management	
Janice A. Dobbs	Corporate Secretary and Manager, Corporate Governance	Senior Management	
Bradley A. Foster	Vice President and General Manager, Central Division	Senior Management	
William D. Fulton	Vice President, Enterprise Project Management	Senior Management	
Danny J. Heatly	Vice President, Accounting	Senior Management	

<b>Name</b>	<b>Job Title</b>	<b>Board</b>	<b>Compensation</b>
Gregory T. Kelleher	Vice President and General Manager, Southern Division	Senior Management	
Richard K. Mitchell	Vice President, Drilling and E&P Services	Senior Management	
Paul R. Poley	Vice President, Human Resources	Senior Management	
K. Earl Reynolds	Vice President, Strategic Planning	Senior Management	
Terrence L. Ruder	Vice President and General Manager, Marketing and Midstream Division	Senior Management	
Chris Seasons	Vice President and General Manager, Canadian Division and President, Devon Canada	Senior Management	
Gina E. Sewell	Vice President, Tax	Senior Management	
William A. Van Wie	Vice President and General Manager, Exploration	Senior Management	
Tony D. Vaughn	Vice President and General Manager, Gulf Division	Senior Management	
Vincent W. White	Vice President, Communications and Investor Relations	Senior Management	

## **KEY EMPLOYEE BIOGRAPHIES**

### **J. Larry Nichols**

Board: Executive Board  
Job Title: Chairman and Chief Executive Officer  
Since: 2000  
Age: 65

Mr. Nichols has been the Chairman and Chief Executive Officer of Devon Energy since 2000. He is the co-founder of the company and has been a Director since 1971. He served as a President of the company from 1976 until 2003. He is also a Director of Baker Hughes and Sonic Corp.

### **John W. Nichols**

Board: Executive Board  
Job Title: Chairman Emeritus  
Since: 1999  
Age: 93

Mr. Nichols has been the Chairman Emeritus of Devon Energy since 1999. He is a co-founder of the company. He was the Chairman of the company from the time the company began operations in 1971 until 1999. He is a founding partner of Blackwood & Nichols, which put together the first public oil and gas drilling fund ever registered with the Securities and Exchange Commission. He is a non-practicing Certified Public Accountant.

### **John Richels**

Board: Executive Board  
Job Title: President and Director  
Since: 2007  
Age: 57

Mr. Richels has been the President of Devon Energy since 2004 and joined the Board of Directors in 2007. He previously served as a Senior Vice President of the company and President and Chief Executive Officer of the company's Canadian subsidiary. He joined the company through its 1998 acquisition of Canadian-based Northstar Energy Corp. Prior to joining Northstar, he was a Managing and Chief Operating Partner of the Canadian-based national law firm, Bennett Jones. He previously served as a Director of a number of publicly traded companies.

### **Thomas F. Ferguson**

Board: Non Executive Board  
Job Title: Director  
Since: 1982  
Age: 71

Mr. Ferguson has been a Non Executive Director of Devon Energy since 1982. He retired in 2005 from his position of Managing Director of United Gulf Management, a wholly-owned subsidiary of Kuwait Investment Projects. He had represented Kuwait Investment Projects on the boards of various companies in which it invests, including Baltic Transit Bank in Latvia and Tunis International Bank in Tunisia.

### **David A. Hager**

Board: Non Executive Board  
Job Title: Director  
Since: 2007  
Age: 51

Mr. Hager has been a Non Executive Director of Devon Energy since 2007. Before joining the company, he served as a Chief Operating Officer of Kerr-McGee prior to its merger with Anadarko Petroleum Corporation in 2006. He has more than 25 years of oil and gas exploration and production experience, including an extensive background in planning and executing deepwater exploration and development projects. He is also a Director of Pride International.

### **John A. Hill**

Board: Non Executive Board  
Job Title: Director  
Since: 2000  
Age: 66

Mr. Hill has been a Non Executive Director of Devon Energy since 2000 following company's merger with Santa Fe Snyder Corp. He serves as a Vice Chairman and Managing Director of First Reserve, an oil and gas investment management company and has been with the company since 1983. Prior to creating First Reserve, he was President and Chief Executive Officer of several investment banking and asset management companies and served as the Deputy Administrator of the Federal Energy Administration during the Ford Administration.

He is also Chairman of the Board of Trustees of the Putnam Funds in Boston, a Trustee of Sarah Lawrence College, and a Director of various companies controlled by First Reserve.

### **Robert L. Howard**

Board: Non Executive Board

Job Title: Director  
Since: 2003  
Age: 71

Mr. Howard has been a Non Executive Director of Devon Energy since 2003. He served as a Director of Ocean Energy from 1996 to 2003. He retired in 1995 from his position as Vice President of Domestic Operations, Exploration, and Production of Shell Oil. He is also a Director of Southwestern Energy and McDermott International.

### **Michael M. Kanovsky**

Board: Non Executive Board  
Job Title: Director  
Since: 1998  
Age: 59

Mr. Kanovsky has been a Non Executive Director of Devon Energy since 1998. He was a co-founder of Northstar Energy and served on Northstar's Board of Directors from 1982 to 1998. He is the President of Sky Energy. He is also a Director of Accrete Energy, ARC Resources, Bonavista Petroleum, Pure Technologies, and TransAlta.

### **J. Todd Mitchell**

Board: Non Executive Board  
Job Title: Director  
Since: 2002  
Age: 49

Mr. Mitchell has been a Non Executive Director of Devon Energy since 2002. He currently serves as the President of Walton Mitchell & Company, a private energy investment company. He served as the President of GPM, a family-owned investment company, from 1998 to 2006; and as Vice President for Strategic Planning from 2006 to 2007.

### **Mary P. Ricciardello**

Board: Non Executive Board  
Job Title: Director  
Since: 2007  
Age: 57

Ms. Ricciardello has been a Non Executive Director of Devon Energy since 2007. She retired in 2002 after a 20-year career with Reliant Energy, an independent power producer and marketer. She worked with Reliant Energy since 1982 and served in various financial management positions with Reliant Energy including Comptroller, Vice President, and most recently as Senior Vice President

and Chief Accounting Officer. She serves on the boards of US Concrete and Noble Corp. She is a Certified Public Accountant.

### **Stephen J. Hadden**

Board: Senior Management  
Job Title: Senior Vice President, Exploration and Production  
Since: 2004  
Age: 53

Mr. Hadden has been the Senior Vice President, Exploration and Production of Devon Energy since 2004. Before joining the company, in 2002, he was an independent consultant. Before that, he was with Texaco, now Chevron Corporation. He joined Texaco as a Field Engineer in 1977 and subsequently held a series of engineering and management positions.

### **R. Alan Marcum**

Board: Senior Management  
Job Title: Executive Vice President, Administration  
Since: 2008  
Age: 42

Mr. Marcum has been the Executive Vice President, Administration of Devon Energy since 2008. He has been with Devon since 1995, and most recently held the position of Vice President and Controller. Prior to joining Devon, Mr. Marcum was employed by KPMG Peat Marwick (now KPMG) as a Senior Auditor. He holds a Bachelor of Science degree from East Central University, majoring in accounting and finance. Mr. Marcum is a Certified Public Accountant and a member of the Oklahoma State Society of Certified Public Accountants.

### **Frank W. Rudolph**

Board: Senior Management  
Job Title: Senior Vice President, Human Resources  
Since: 2007  
Age: 51

Mr. Rudolph has been the Senior Vice President, Human Resources of Devon Energy since 2007. In the seven years prior to joining the company, he was the Vice President of Human Resources for Banta Corporation, an international printing and supply chain management company. His career in human resources began at R. R. Donnelly & Sons and spans more than 25 years. He has also held human resources management positions at SANWA-Overhead Door Corp, US West Communications, Clark Refining and Marketing, James River Corporation, and Tenneco Packaging.

### **Darryl G. Smette**

Board: Senior Management  
Job Title: Senior Vice President, Marketing and Midstream  
Since: 1999  
Age: 60

Mr. Smette has been the Senior Vice President, Marketing and Midstream of Devon Energy since 1999. He previously held the position of Vice President, Marketing and Administrative Planning in the company from 1989 to 1999. His marketing background includes 15 years with Energy Reserves Group/BHP Petroleum (Americas). He is also an oil and gas industry Instructor. He is a member of the Oklahoma Independent Producers Association, Natural Gas Association of Oklahoma, and the American Gas Association.

### **Lyndon C. Taylor**

Board: Senior Management  
Job Title: Senior Vice President and General Counsel  
Since: 2007  
Age: 49

Mr. Taylor has been the Senior Vice President and General Counsel of Devon Energy since 2007. Before that, he served as the company's Deputy General Counsel since 2005. Prior to joining the company, he was with Skadden, Arps, Slate, Meagher & Flom, for 20 years, most recently as Managing Partner of its Houston office's energy practice.

### **Jeff A. Agosta**

Board: Senior Management  
Job Title: Vice President, Corporate Finance and Treasurer  
Since: 2003  
Age: 40

Mr. Agosta has been the Vice President, Corporate Finance and Treasurer of Devon Energy since 2003. He joined the company in 1997 as part of the corporate development group and most recently served as Manager of Corporate Planning and Finance. Previously, he served as a Manager with D.R. Payne and Associates, the management consulting firm, and with KPMG in the audit and consulting groups.

### **Joseph P. Ash**

Board: Senior Management  
Job Title: Vice President and General Manager, International Division  
Since: 2007  
Age: 50

Mr. Ash has been the Vice President and General Manager, International Division of Devon Energy since 2007. He was most recently a Director of Special Projects after serving as Exploration and Development Manager in the Southern Division. Prior to that, he served as Exploration and Business Development Manager in the International Division. He joined the company in 2000 when the company acquired Santa Fe Snyder Corporation. He began his oil and gas career in 1985 with Mitchell Energy Corporation.

### **Jerome Beaudoin**

Board: Senior Management  
Job Title: Vice President and Chief Information Officer  
Since: 2004  
Age: 47

Mr. Beaudoin has been the Vice President and Chief Information Officer of Devon Energy since 2004. He previously served as a Manager of the information services and technology department for the company's Canadian division. Prior to joining the company, he was divisional Chief Information Officer for the Midstream Division of TransCanada Pipelines. Subsequent to this position, he managed the International and North American Pipeline Systems Division at TransCanada.

### **Don D. DeCarlo**

Board: Senior Management  
Job Title: Vice President and General Manager, Western Division  
Since: 2002  
Age: 51

Mr. DeCarlo has been the Vice President and General Manager, Western Division of Devon Energy since 2002. He previously served as the Vice President and General Manager of the company's Rocky Mountain Division and served in the same capacity for Santa Fe Snyder Corp. In 1989, he joined Santa Fe Energy Resources as an Engineering Manager in Tulsa, Oklahoma. During his eleven year tenure with Santa Fe, he held management positions there. Previously, he worked with Tenneco Oil Company, in 1978.

### **Janice A. Dobbs**

Board: Senior Management  
Job Title: Corporate Secretary and Manager, Corporate Governance  
Since: 2001  
Age: 60

Ms. Dobbs has been the Corporate Secretary and Manager, Corporate Governance of Devon Energy since 2001. She joined the company in 1999 as the Manager of Corporate Governance and Assistant Corporate Secretary. From 1993 to 1999, she served as the Corporate Secretary and Compliance

Manager of Chesapeake Energy. From 1975 until her association with Chesapeake, she was the corporate/securities Legal Assistant with Andrews Davis Legg Bixler Milsten & Price, a law firm in Oklahoma City. Prior to that, she was the Corporate/Securities Legal Assistant with Texas International Petroleum, an Oklahoma City oil and gas exploration and production company.

She is a Certified Legal Assistant, an associate member of the American Bar Association, a Director and member of the Society of Corporate Secretaries & Governance Professionals, and a member of the National Association of Stock Plan Professionals.

## **MAJOR PRODUCTS AND SERVICES**

Devon Energy is engaged in oil and gas exploration and production. The company's key products and services include the following:

- Exploration, production, processing, and marketing of oil
- Exploration, production, processing, and marketing of natural gas
- Exploration, production, processing, and marketing of natural gas liquids (NGLs)

## **REVENUE ANALYSIS**

The company recorded revenues of \$11,362 million during FY2007, an increase of 16.3% over 2006. Devon Energy Corporation (Devon Energy) identifies its segments based on geographic areas.

Devon Energy generates revenues through three segments: the US (66.2% of the total revenues during fiscal year 2007), Canada (21.6%), and international (12.2%).

### **Revenues by Segment**

During FY2007, the US segment recorded revenues of \$7,521 million, an increase of 9.8% over 2006.

The Canada segment recorded revenues of \$2,454 million in FY2007, an increase of 7.1% over 2006.

The international segment recorded revenues of \$1,387 million in FY2007, as compared with \$624 million in 2006.

## SWOT ANALYSIS

Devon Energy Corporation (Devon Energy) is an independent US-based energy company engaged primarily in oil and gas exploration, development, and production; the transportation of oil, gas, and NGLs; and the processing of natural gas. Devon Energy has a strong position in the Barnett Shale having proved reserves of 724 mmboe. Its strong position in the Barnett Shale enables it to deliver competitive results. Intense competition, however, threatens to erode the market share of the company.

<b>Strengths</b>	<b>Weaknesses</b>
Strong position in the Barnett Shale Field Increasing total proved reserves and increasing production Strong financial performance	Lack of scale Market concentration
<b>Opportunities</b>	<b>Threats</b>
Increasing natural gas business Expanding exploration activities in Brazil and China Jackfish thermal heavy oil project	Intense competition Geopolitical risks Government regulations

### Strengths

Strong position in the Barnett Shale Field

Devon Energy has a strong position in the Barnett Shale Field. Barnett Shale is a natural gas field in the US which produces more than three billion cubic feet of gas per day from a geological formation that extends over 5,000 square miles. Devon Energy is the largest natural gas producer in Texas and the Barnett Shale in north Texas is the company's largest and most important asset. Additionally, the Barnett Shale is one of the largest onshore natural gas fields in North America and the company is its largest producer.

The company had 727,000 net acreage of area in the Barnett Shale and had proved reserves of 724 mmboe in the Barnett Shale area during FY2007. For the same period, the company had approximately 3,200 wells producing gas from the Barnett Shale. The company increased its proved reserves in the Barnett Shale by 19% in the year 2007. The company drilled 539 wells in the Barnett Shale in the year 2007 as compared with 383 wells in the year 2006, which included its 1,000th horizontal well.

Devon Energy's strong position in the Barnett Shale enables it to deliver competitive results.

#### Increasing total proved reserves and increasing production

Devon Energy's total proved reserves of oil, gas, and NGLs have been increasing for the past few years. The company's total proved reserves increased from 2,000 million barrel of oil equivalent (mmboe) in financial year 2005 (FY2005) to 2,496 mmboe in FY2007, at a CAGR of 12%. The company's proved reserves in the US increased from 1,232 mmboe in FY2005 to 1,642 mmboe in FY2007, at a CAGR of 15%. Its Canada reserves increased from 636 mmboe in FY2005 to 734 mmboe in FY2007, at a CAGR of 7%.

The company has also been recording increasing production of oil, gas, and NGLs since 2005. The company's production has increased from 206 mmboe in FY2005 to 224 mmboe in FY2007, at a CAGR of 4%.

Increasing total proved reserves and increasing production of oil, gas, and NGLs give Devon Energy a significant competitive advantage.

#### Strong financial performance

Devon Energy has been recording strong financial performance over the last five years. The company's revenues have increased from \$6,962 million in financial year 2003 (FY2003) to \$11,362 million in FY2007, at a CAGR of 13%. The company's operating profit has increased from \$2,170 million in FY2003 to \$4,224 million in FY2007, at a CAGR of 18%; while the net profit has increased from \$1,737 million in FY2003 to \$3,596 million in FY2007, at a CAGR of 20%.

Strong top line growth coupled with improved profitability has enabled the company to position itself aggressively in its key markets.

## **Weaknesses**

#### Lack of scale

The company lacks the scale to compete with large players in the markets in which it operates. Many of its competitors are much larger, such as Exxon Mobil Corporation, which recorded \$404,552 million in revenues in FY2007; and Chevron Corporation, which recorded \$220,904 million in revenues during the same period. Devon Energy on the other hand recorded revenues of approximately \$11,362 million in FY2007. Lack of scale limits the company's ability to compete effectively with large players.

#### Market concentration

The company's operations are primarily concentrated in North America (in the US and Canada). The company generated 66.2% of its total revenues from the US and 21.6% from Canada, in FY2007; and only 12.2% from other international countries. About 88% of Devon's production is from North America. Devon Energy's dependence on North America increases the risk of negative financial impact due to events that affect the region. The concentration of company's operations in North America not only increases its exposure to local factors but also deprives the company of higher revenues from high growth markets in countries outside the US.

## **Opportunities**

### Increasing natural gas business

The consumption of natural gas in the US is expected to increase. Total natural gas consumption in the US is projected to increase from around 22.0 trillion cubic feet in 2005 to 26.1 trillion cubic feet in 2030. Much of the growth is expected before 2020, with demand for natural gas in the electric power sector growing from 5.8 trillion cubic feet in 2005 to a peak of 7.2 trillion cubic feet in 2020. Continued growth in residential, commercial, and industrial consumption of natural gas is expected during the period.

Furthermore, the Henry Hub natural gas spot price averaged \$7.17 per thousand cubic feet (Mcf) in 2007 and is expected to average about \$11 per Mcf in both 2008 and 2009.

Since the company is engaged in the production and marketing of natural gas, the increasing demand for natural gas in the US coupled with rising prices make it well positioned to drive top-line growth.

### Expanding exploration activities in Brazil and China

Although currently focused in North America, Devon Energy has been expanding its exploration activities in Brazil and China. These are countries with stable political, fiscal, and regulatory environments and where the company has alliances with experienced and capable partners.

Devon Energy established a foothold in Brazil with its 2004 Polvo discovery in the offshore Campos Basin. It began producing oil at Polvo in the second half of 2007 and expects to drill a total of 10 producing wells and three water injection wells. The company also holds interests in nine offshore leases in Brazil, encompassing nearly 800,000 net acres.

China is another country where Devon Energy has established offshore production. In the first quarter of 2008, it began drilling an exploratory well on Block 42/05, located in the South China Sea. In addition to Block 42/05, Devon Energy also holds Blocks 53/30 and 64/18 in the South China Sea and Block 11/34 in the Yellow Sea. These lease blocks could hold more than one billion barrels of combined net resource potential for the company.

With China and Brazil being among the fastest growing economies in the world, Devon Energy's expanding exploration activities in Brazil and China provide significant growth opportunities for the company. Devon Energy's expanding international exploration activities also diversifies its business risks.

#### Jackfish thermal heavy oil project

In Canada, the company is developing its 100%-owned Jackfish thermal heavy oil project in the non-conventional oil sands of east central Alberta. In FY2007, the company completed construction and commenced steam injection. Oil production from Jackfish is expected to ramp up throughout 2008 toward a peak production target of 35,000 barrels per day. Additionally, Devon Energy began front-end engineering and design work on an extension of its Jackfish project. Like the first phase, this second phase of Jackfish is also expected to eventually produce 35,000 barrels per day. The completion of the Jackfish thermal heavy oil project would add to the company's topline growth.

### **Threats**

#### Intense competition

The company faces intense competition in the oil and gas industry. It competes with major integrated and other independent oil and gas companies for the acquisition of oil and gas leases and properties. It also competes in the marketing of oil, gas and NGLs. Its competitors include Abraxas Petroleum, Anadarko Petroleum, Apache, BP, ConocoPhillips, Chevron, and ExxonMobil, among others. Some of its competitors have financial and other resources substantially larger than the company. Additionally, many of its larger competitors might have a competitive advantage when responding to factors that affect demand for oil and natural gas production. Such an intense competition threatens to erode the market share of the company.

#### Geopolitical risks

Devon energy has its operations outside North America primarily in Azerbaijan, Brazil, and China. In these areas outside North America, the company faces political and economic risks and other uncertainties, which include the risk of war, acts of terrorism, import and export regulations, taxation policies, and transportation regulations and tariffs. It also includes exchange controls and currency fluctuations. Much of the geopolitical risks associated with operating in these countries are outside the company's control. Failure to anticipate some of these events or the inability to mitigate risks in these regions could seriously impair its operations.

#### Government regulations

The company faces several government regulations. Its oil and gas operations are subject to laws and regulations, including regulations related to the acquisition of seismic data, the location of wells, drilling and casing of wells, well production, and spill prevention plans. The regulations also includes

the use, transportation, storage, and disposal of fluids and materials incidental to oil and gas operations; surface usage and the restoration of properties upon which wells have been drilled; and the plugging and abandoning of wells.

Certain of its US oil and natural gas leases are granted by the federal government and administered by various federal agencies, including the Bureau of Land Management and the Minerals Management Service (MMS) of the Department of the Interior. Such leases require compliance with detailed federal regulations and orders that regulate drilling and operations on lands covered by these leases, and calculation and disbursement of royalty payments to the federal government. The MMS has been particularly active in recent years in evaluating and, in some cases, promulgating new rules and regulations regarding competitive lease bidding and royalty payment obligations for production from federal lands.

Such regulations could negatively impact the operations of the company.

## **TOP COMPETITORS**

The following companies are the major competitors of Devon Energy Corporation

Anadarko Petroleum Corporation  
Apache Corporation  
BP Plc  
ConocoPhillips  
ExxonMobil Corporation  
TOTAL S.A.  
Abraxas Petroleum Corporation  
Swift Energy Company  
Imperial Oil Limited  
Petrohawk Energy Corporation  
XTO Energy Inc.  
Cimarex Energy, Co.  
EOG Resources  
FMC Technologies Inc.  
Forest Oil Corporation  
Occidental Petroleum Corporation  
Plains Exploration & Production Company  
Western Gas Partners, LP

## **COMPANY VIEW**

A statement by J. Larry Nichols, Chairman and Chief Executive Officer of Devon Energy Corporation, is given below. The statement has been taken from the company's 2007 annual report.

2007 was the best year in Devon's 20-year history as a public company. We increased oil and natural gas production 12% to 224 million oil-equivalent barrels. This production growth, coupled with robust oil and natural gas prices, drove earnings and cash flow to the highest levels ever. Net earnings reached a record \$3.6 billion, or \$8.00 per diluted share, and cash flow from operations climbed to \$6.7 billion.

During 2007, we also executed the largest drilling program in the company's history with excellent results. We drilled 2,395 successful oil and natural gas wells, adding almost 400 million equivalent barrels of new reserves at very attractive finding and development costs. This drove year-end proved oil and natural gas reserves to an all-time high of 2.5 billion oil-equivalent barrels.

We also achieved first production in 2007 on three important long-term projects: our Jackfish thermal oil sands project, our Merganser gas field in the deepwater Gulf of Mexico and our Polvo oil development in Brazil's Campos Basin. In addition, we sanctioned for development our first project in the deepwater Gulf of Mexico's Lower Tertiary trend. Yes, Devon's 2007 performance was outstanding on all fronts.

### **Committed to Results**

Devon's 2007 growth reflects production increases from each of our geographic segments: the United States, Canada and International. In the United States, Devon continued its reign as the undisputed leader in North America's flagship gas resource play, the Barnett Shale. Our extensive experience base and technological advances are allowing us to drill wells more quickly and to increase per well recoveries. In 2007, only four years after Devon pioneered horizontal drilling in the play, we drilled our 1,000th horizontal Barnett well. During the year, we increased Devon's share of Barnett production by more than one third to 950 million cubic feet equivalent per day. Furthermore, we now expect to reach a production goal for the Barnett of one billion cubic feet of gas equivalent per day in mid-2008, 18 months ahead of schedule.

As first mover in the Barnett, we established the best acreage position in the play, by far. We have thousands of future drilling locations in the best areas of the field, and we acquired this position at a fraction of the cost of the late-comers. As a result, Devon's returns in the Barnett are far superior to that of the competition. Furthermore, we are positioned for continued growth in the Barnett Shale for many years to come.

The Barnett Shale is only one of several key onshore areas in the United States. At Carthage in east Texas, we increased production by 19% in the fourth quarter of 2007 to 277 million cubic feet equivalent per day. In Oklahoma, we are applying our Barnett Shale experience to the Woodford

Shale play. In the Rocky Mountains, we continue active development programs in the Washakie and Powder River Basin areas in Wyoming and at Bear Paw in Montana.

Alberta's provincial government rocked the oil and gas industry in 2007 when it announced plans to increase the government's royalty take from energy producers. The rule changes are complex and impact different types of oil and gas production to varying degrees. As a result, Devon has reallocated some capital from Alberta to competing projects with more attractive returns elsewhere in Canada and in the United States. Fortunately, the economic impact of the royalty changes on two of our more significant areas of current investment in Alberta, Jackfish and Lloydminster, will be minimal.

In the fourth quarter of 2007, we completed construction of our 100%-owned Jackfish thermal oil sands project. With construction finished, we are injecting steam underground and oil is flowing to the surface. We expect production from Jackfish to climb gradually to a peak of 35,000 barrels per day and to continue producing at that rate for more than 20 years. We also expect to sanction a second 35,000 barrel per day project, Jackfish 2, in 2008. Southeast of Jackfish, in the Lloydminster area, we drilled 429 wells in 2007. This enabled us to increase production by 40 percent to 33,500 equivalent barrels per day. We expect to drill a similar number of wells at Lloydminster in 2008.

#### Committed to the Future

Devon's dependable and repeatable development projects underpin the production growth that we delivered in 2007 and expect to deliver in 2008. However, to ensure sustainable growth, the pipeline of development projects must be continually filled. To that end, we are committed to restocking our inventory of development projects through high-impact exploration.

Nothing better demonstrates Devon's long-term commitment and the promise it holds than our projects in the deepwater Lower Tertiary trend in the Gulf of Mexico. We drilled our first well in this emerging resource in 2002. And while we do not expect to produce our first barrel from the play until 2010, the potential of the prize more than justifies the wait.

Since 2002, we have made four significant discoveries in the deepwater Lower Tertiary. Devon's share of these four discoveries could be as much as 900 million barrels of oil. And this is just the beginning. As one of the first participants in the play, Devon was able to establish an extensive acreage position and gain considerable experience. We have a deep inventory of Lower Tertiary drilling prospects that will enable us to continue exploring the trend throughout the next decade.

Cascade, the first of Devon's four Lower Tertiary discoveries, is now entering the development phase. We are also moving closer to development decisions on the other three Lower Tertiary discoveries: Jack, St. Malo and Kaskida. We conducted appraisal drilling operations on each of these projects in 2007 and have more wells planned for 2008. We anticipate completing development plans within the next two years for Jack and St. Malo.

Devon's balanced portfolio of nearterm, predictable development projects backed by high-impact, long-term exploration uniquely positions the company for lasting success. In a world where oil and

natural gas are increasingly scarce commodities, we are well positioned to help satisfy the demand and reap the rewards.

### Commitment Runs Deep

We say farewell to a member of our senior management team this year. Marian Moon, senior vice president of administration, is retiring after a 24-year career with Devon. I deeply appreciate Marian's years of service and her significant contribution to Devon's success. We will miss her and wish her the very best.

Devon could not have achieved the growth and success we have enjoyed without the commitment of our employees. The company was recently named to FORTUNE magazine's list of the "100 Best Companies to Work for." We congratulate each and every member of our team for their contributions to creating the culture that earned this elite recognition.

The theme of this annual report, Commitment Runs Deep, reflects our culture and the promise that Devon has made to our stakeholders. This promise is our commitment to continuous improvement and delivering positive results. It is our commitment to respect the environment and to improve the communities in which we live and work. Most importantly, it is our commitment to treat everyone with honesty, fairness and respect. I am extremely proud of how Devon's employees are delivering on this promise. In the following pages we will share with you some examples of the depth of Devon's commitment.

## **LOCATIONS AND SUBSIDIARIES**

### **Head Office**

Devon Energy Corporation  
20 North Broadway  
Oklahoma City  
Oklahoma 73102 8260  
USA  
P:1 405 235 3611  
F:1 405 552 4550  
<http://www.devonenergy.com>

### **Other Locations and Subsidiaries**

<p>Devon Canada Corporation 2000, 400 - 3rd Avenue S.W. Calgary Alberta T2P 4H2 CAN</p>	<p>Devon Gulf, Gulf Coast and International Operations Devon Energy Tower 1200 Smith Street Houston Texas 77002 4313 USA</p>
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