



## XTO Energy Inc.

### Company Profile

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## COMPANY OVERVIEW

XTO Energy is a domestic energy producer primarily engaged in the acquisition, development, exploitation and exploration of producing natural gas and oil properties. The company primarily operates in the US. It is headquartered in Fort Worth, Texas and employs about 2,360 people.

The company recorded revenues of \$5,513 million during the financial year ended December 2007 (FY2007), an increase of 20.5% over 2006. The operating profit of the company was \$2,892 million during FY2007, an increase of 8.2% over 2006. The net profit was \$1,691 million in FY2007, a decrease of 9.1% over 2006.

## KEY FACTS

|                                    |   |
|------------------------------------|---|
| <b>Head Office</b>                 | XTO Energy Inc.<br>810 Houston St.<br>Fort Worth<br>Texas 76102 6298<br>USA |
| <b>Phone</b>                       | 1 817 870 2800  |
| <b>Fax</b>                         | 1 817 870 1671  |
| <b>Web Address</b>                 | <a href="http://www.xtoenergy.com">http://www.xtoenergy.com</a>             |
| <b>Revenue / turnover (USD Mn)</b> | 5,513.0   |
| <b>Financial Year End</b>          | December  |
| <b>Employees</b>                   | 2,361   |
| <b>New York Ticker</b>             | XTO   |

## **BUSINESS DESCRIPTION**

XTO Energy performs its activities through acquisition, development, exploitation and exploration of natural gas and oil properties. It is also engaged in the production, processing, marketing and transportation of oil and natural gas. XTO currently owns interests in 25,163 wells in Texas, New Mexico, Arkansas, Oklahoma, Kansas, Wyoming, Colorado, Alaska, Utah, Louisiana, Mississippi and Montana. As of December 31, 2007, XTO Energy owns 11.29 trillion cubic feet equivalent (Tcfe) of proved reserves of which 66% are proved developed. Gas volumes account for 84% of total reserves.

The company operates in only one operating segment: exploration and production of oil, natural gas and natural gas liquids.

XTO Energy has grown primarily through acquisitions of proved oil and gas reserves, followed by development and exploitation activities and acquisition of additional interests in or near such acquired properties. The company's proved reserves are principally located in relatively long lived fields in the following areas: Eastern Region, including the East Texas Basin, northwestern Louisiana and Mississippi; North Texas Region including the Barnett Shale; San Juan Region; Permian and South Texas Region; and Mid Continent and Rocky Mountain Region.

The company's estimated proved reserves were 9.44 trillion cubic feet (Tcf) of natural gas, 67 million barrels (Bbls) of natural gas liquids and 241 million Bbls of oil, as on December 31, 2007. During 2007, the company's average daily production was 1.46 Bcf of gas, 13,545 Bbls of natural gas liquids and 47,047 Bbls of oil.

The company operates gas gathering systems in several of its core producing areas. It also operates gas processing plants in Texas County, Oklahoma and the Cotton Valley Field of Louisiana. The company's gas gathering and processing operations are only in areas where it has production and are considered activities that facilitate its natural gas production and sales operations.

The company markets its gas production and the gas output of its gathering and processing systems. A large portion of its natural gas is processed, and the resultant natural gas liquids are marketed by unaffiliated third parties.

## **HISTORY**

Cross Timbers Oil Company was incorporated in Delaware in 1990 to acquire the business and properties of predecessor entities that were created from 1986 through 1989.

During 1991, the company established Cross Timbers Royalty Trust by conveying a 90% net profits interest in substantially all of the royalty and overriding royalty interests that the company then owned in Texas, New Mexico and Oklahoma, and a 75% net profits interest in seven non operated working interest properties in Texas and Oklahoma.

The company completed its initial public offering in 1993. The company established Hugoton Royalty Trust in 1998, by conveying an 80% net profits interest in principally gas-producing regions in the Hugoton area of Kansas and Oklahoma, the Anadarko Basin of Oklahoma and the Green River Basin of Wyoming.

In 2001, the company completed the acquisition of producing properties located in East Texas and Louisiana from Herd Producing Company of Tyler, Texas. In the same year, Cross Timbers Oil Company changed its name to XTO Energy.

In the following year, XTO Energy completed the acquisition of producing properties in the San Juan Basin of New Mexico from Marathon Oil Company. In the same year, the company also completed the acquisition of coal bed methane gas producing properties in southwestern Colorado from J M Huber Corporation, as a part of its long term growth strategy.

The company acquired the natural gas and coal bed methane producing properties in the Raton Basin of Colorado, the Hugoton Field of southwestern Kansas and the San Juan Basin of New Mexico, from units of Williams in 2003. In the same year, it also completed the acquisition of coal bed methane and natural gas producing properties in the San Juan Basin of New Mexico and Colorado from Markwest Hydrocarbon. XTO energy also acquired producing properties in the East Texas, Arkoma and San Juan Basins in 2003.

XTO Energy continued its acquisition spree in 2004. In early 2004, the company acquired producing properties from multiple parties in East Texas and northern Louisiana, adding approximately 182 billion cubic feet of gas equivalent (Bcfe) in reserves. In the same year, XTO Energy acquired properties in both the Barnett Shale of North Texas and the Arkoma Basin of Arkansas, adding approximately 175 Bcfe of natural gas reserves.

Moreover, in 2004, the company agreed to purchase properties in the Permian Basin of West Texas and in the Powder River Basin of Wyoming, from ExxonMobil Corporation. The company also purchased natural gas and oil properties from Chevron Texaco Corporation for \$1.1 billion in the same year. These properties expanded XTO's operations in its Eastern Region, the Permian Basin and Mid-Continent area while opening new coal bed methane operations in the Rocky Mountains and a new operating region in South Texas.

XTO Energy agreed to purchase properties from Plains Exploration & Production Company for \$350 million in 2005. These properties further expanded the company's operations in its core Eastern Region of East Texas and northern Louisiana. In the same year, the company strengthened its position as a leading player in the Barnett Shale with the acquisition of privately held Antero Resources Corporation for \$685 million. Later in the year, the company also purchased producing properties in the Permian Basin of West Texas and New Mexico from ExxonMobil Corporation for \$215 million.

In 2006, XTO Energy completed the acquisition of producing properties from Total E&P USA for approximately \$300 million. These properties further expanded the company's operations in its core Eastern Region of East Texas. In the same year, the company acquired privately held Peak Energy Resources, a Barnett Shale producer.

Further in 2006, XTO Energy stated that it would retain its underlying property interests in both Hugoton Royalty Trust (HGT) and Cross Timbers Royalty Trust (CRT), which were planned to be divested by the company in the previous year.

The company acquired natural gas and oil properties from Dominion Resources for \$2.5 billion in July 2007. The proven reserves purchased were estimated to be 1.06 trillion cubic feet of gas equivalent (Tcfe).

XTO Energy acquired 24,000 net acres in the Barnett Shale from multiple parties for approximately \$550 million in October 2007.

In February 2008, XTO Energy entered into definitive agreements with multiple parties to acquire producing properties located in its Eastern and San Juan Regions and to purchase acreage positions in the Woodford, Fayetteville and Barnett shales for a total of about \$1 billion.

In April 2008, XTO Energy entered into a definitive agreement to acquire producing properties, leasehold acreage and gathering infrastructure from Southwestern Energy Company for about \$520 million. In the same month, the company entered into a definitive agreement to acquire 152,000 net acres of Marcellus Shale leasehold in western Pennsylvania and West Virginia from Linn Energy for \$600 million.

In July 2008, the company acquired Bakken Shale for \$1.8 billion from Headington Oil Company. In the same month, XTO Energy entered into definitive agreements with multiple parties to purchase producing properties located in its Eastern and San Juan Regions and acreage positions in the Marcellus.

In September 2008, XTO Energy acquired Hunt Petroleum Corporation, a privately-held company.

## KEY EMPLOYEES

| <b>Name</b>              | <b>Job Title</b>   | <b>Board</b>        | <b>Compensation</b> |
|--------------------------|--|---------------------|---------------------|
| Bob R. Simpson           | Chairman   | Executive Board     | 37073010 USD        |
| Keith A. Hutton          | Chief Executive Officer  | Executive Board     | 6283838 USD         |
| Vaughn O. Vennerberg, II | President  | Executive Board     | 4473182 USD         |
| Louis G. Baldwin         | Executive Vice President and Chief Financial Officer           | Executive Board     | 1864728 USD         |
| Timothy L. Petrus        | Executive Vice President, Acquisitions                         | Executive Board     | 1768609 USD         |
| Gary D Simpson           | Senior Vice President, Investor Relations and Finance          | Executive Board     |                     |
| William H. Adams, III    | Director   | Non Executive Board | 294919 USD          |
| Lane G. Collins          | Director   | Non Executive Board | 181276 USD          |
| Phillip R. Kevil         | Director   | Non Executive Board | 204823 USD          |
| Jack P. Randall          | Director   | Non Executive Board | 205797 USD          |
| Scott G. Sherman         | Director   | Non Executive Board | 224218 USD          |
| Herbert D. Simons        | Director   | Non Executive Board | 224003 USD          |
| Brent W. Clum            | Senior Vice President and Treasurer                            | Senior Management   |                     |
| James L. Death           | Senior Vice President, Land                                    | Senior Management   |                     |
| Nick J. Dungey           | Senior Vice President, Natural Gas Operations                  | Senior Management   |                     |
| Ken K. Kirby             | Senior Vice President, East Texas Operations                   | Senior Management   |                     |
| Bennie G. Kniffen        | Senior Vice President and Controller                           | Senior Management   |                     |
| Frank G. McDonald        | Senior Vice President, General Counsel and Assistant Secretary | Senior Management   |                     |
| F. Terry Perkins, Jr.    | Senior Vice President, Reservoir Engineering                   | Senior Management   |                     |
| Mark J. Pospisil         | Senior Vice President, Geology and Geophysics                  | Senior Management   |                     |
| Edwin S. Ryan            | Senior Vice President, Land Administration                     | Senior Management   |                     |
| Terry L. Schultz         | Senior Vice President, Marketing                               | Senior Management   |                     |
| Douglas C. Schultze      | Senior Vice President, Midcontinent Operations                 | Senior Management   |                     |
| Kenneth F. Staab         | Senior Vice President, Engineering                             | Senior Management   |                     |
| Mark A. Stevens          | Senior Vice President, Taxation                                | Senior Management   |                     |

## KEY EMPLOYEE BIOGRAPHIES

### **Bob R. Simpson**

Board: Executive Board  
Job Title: Chairman  
Since: 1996  
Age: 59

Mr. Simpson has been the Chairman of XTO Energy since 1996. He is one of the co-founders of XTO Energy. He has also been the Chief Executive Officer and held similar positions within the company and its predecessors since 1986. He was the Vice President of Finance and Corporate Development at Southland Royalty Company (1979-86) and Tax Manager at Southland Royalty Company (1976-79).

### **Keith A. Hutton**

Board: Executive Board  
Job Title: Chief Executive Officer  
Age: 49

Mr. Hutton is currently the Chief Executive Officer of XTO Energy. He has worked in various engineering positions for XTO Energy over the past 19 years and served as its President since 2005. Prior to that, he spent five years with Sun Oil Company in both the international and domestic divisions.

### **Vaughn O. Vennerberg, II**

Board: Executive Board  
Job Title: President  
Age: 53

Mr. Vennerberg is currently the President of XTO Energy. He has worked in various land, acquisition and administration positions for the company over the past 19 years. He most recently served as the Senior Executive Vice President and Chief of Staff since 2005. Prior to joining XTO Energy in 1987, he was employed by Cotton Petroleum Corporation and Texaco Inc. He has more than 27 years of experience in the oil and gas industry.

### **Louis G. Baldwin**

Board: Executive Board  
Job Title: Executive Vice President and Chief Financial Officer

Age: 58

Mr. Baldwin is currently the Executive Vice President and Chief Financial Officer of XTO Energy. He is also an Advisory Director of XTO Energy. Prior to joining XTO Energy as the Vice President and Treasurer in 1986, he was employed by Southland Royalty Company in Fort Worth.

### **Timothy L. Petrus**

Board: Executive Board  
Job Title: Executive Vice President, Acquisitions  
Age: 53

Mr. Petrus is currently the Executive Vice President, Acquisitions of XTO Energy. He is also an Advisory Director of the company. Prior to joining XTO Energy in 1988, he was the Vice President at Texas American Bank and a Senior Project Engineer at Exxon.

### **Gary D Simpson**

Board: Executive Board  
Job Title: Senior Vice President, Investor Relations and Finance

Mr. Simpson is currently the Senior Vice President, Investor Relations and Finance of XTO Energy. He is also an Advisory Director of XTO Energy. Prior to joining XTO Energy in 1999, he was an Operations Engineer for Arco International Oil & Gas.

### **William H. Adams, III**

Board: Non Executive Board  
Job Title: Director  
Since: 2001  
Age: 49

Mr. Adams has been a Non Executive Director of XTO Energy since 2001. He is a career banker with more than 25 years experience. He is the Chairman and a principal owner of Texas Appliance Supply, Inc. He is the Chief Executive Officer of JABB Associates. Previously, he served as Regional President of Compass Bank in Fort Worth, Texas and its Texas Bank. He also previously served as the President of Frost Bank - South in Arlington.

He has served on the Board of Directors of Downtown Fort Worth, Inc., North Texas Public Broadcasting Corporation, Fort Worth Stock Show Syndicate and has been very active with the Fort Worth Chamber of Commerce.

### **Lane G. Collins**

Board: Non Executive Board  
Job Title: Director  
Since: 2005  
Age: 67

Mr. Collins has been a Non Executive Director of XTO Energy since 2005. He was an Advisory Director of the company from 1998 until 2005. He is a Professor Emeritus of accounting at Baylor University in Waco, Texas, where he taught from 1978 until 2007. Previously, he taught for five years at the University of Southern California.

### **Phillip R. Kevil**

Board: Non Executive Board  
Job Title: Director  
Since: 2004  
Age: 57

Mr. Kevil has been a Non Executive Director of XTO Energy since 2004. He is a Certified Public Accountant with 27 years experience, primarily in the oil and gas industry. Previously, he was the Vice President of Taxation at XTO Energy and its predecessors from 1987 to 1997. He was a Tax Manager at Southland Royalty Company (1975-86) following his employment at Arthur Andersen and Company (1973-75).

### **Jack P. Randall**

Board: Non Executive Board  
Job Title: Director  
Since: 1997  
Age: 58

Mr. Randall has been a Non Executive Director of XTO Energy since 1997. He is co-founder of Randall & Dewey Division of Jefferies & Company, an oil and gas transactions advisory and consulting business. In 2005, Jefferies Group, Inc. acquired Randall & Dewey Partners, a company he co-founded in 1989. Prior to that, he was with Amoco Production Company (1975-89) where he was the Manager of Acquisitions and Divestitures for seven years.

### **Scott G. Sherman**

Board: Non Executive Board  
Job Title: Director  
Since: 1990  
Age: 74

Mr. Sherman has been a Non Executive Director of XTO Energy since 1990. He is the sole owner of Sherman Enterprises for the past seven years. He currently serves on the Board of Directors of Worth National Bank, Fort Worth. Previously, he owned and operated Eaglemotive Industries, an automotive parts manufacturing company, for 18 years. His civic pursuits include having served as Director of the Panther Boys Club.

### **Herbert D. Simons**

Board: Non Executive Board  
Job Title: Director  
Since: 2000  
Age: 72

Mr. Simons has been a Non Executive Director of XTO Energy since 2000. He is an attorney specializing in federal income tax law and was a counsel with the law firm of Winstead Sechrest & Minick P.C. from 1999 until his retirement in 2007. Prior to that, he was an associate and partner in the law firm of Butler & Binion from 1963 through 1999. He is a Certified Public Accountant and served as a member of the Rice University Accounting Council from 1981 until 1996.

### **Brent W. Clum**

Board: Senior Management  
Job Title: Senior Vice President and Treasurer

Mr. Clum is currently the Senior Vice President and Treasurer of XTO Energy. Prior to joining XTO Energy, he worked as a Portfolio Manager and analyst at Luther King Capital Management. He also served as a Managing Director at Invesco and was an analyst for T. Rowe Price and Associates.

### **James L. Death**

Board: Senior Management  
Job Title: Senior Vice President, Land

Mr. Clum is currently the Senior Vice President and Treasurer of XTO Energy. Prior to joining XTO Energy, he worked as a Portfolio Manager and analyst at Luther King Capital Management. He also served as a Managing Director at Invesco and was an analyst for T. Rowe Price and Associates.

### **Nick J. Dungey**

Board: Senior Management  
Job Title: Senior Vice President, Natural Gas Operations

Mr. Dungey is currently the Senior Vice President, Natural Gas Operations of XTO Energy. Prior to joining XTO Energy in 1995, he was the Manager of Operations and Planning for KN Energy and Senior Supply Representative for Panhandle Eastern Corp.

### **Ken K. Kirby**

Board: Senior Management  
Job Title: Senior Vice President, East Texas Operations

Mr. Kirby is currently the Senior Vice President, East Texas Operations of XTO Energy. Prior to joining XTO Energy in 1988, he worked as an area engineer for Crown Central Petroleum.

### **Bennie G. Kniffen**

Board: Senior Management  
Job Title: Senior Vice President and Controller  
Age: 57

Mr. Kniffen is currently the Senior Vice President and Controller of XTO Energy. Prior to joining XTO Energy in 1986, he served as Director of Audit for Southland Royalty and was a senior auditor for Arthur Andersen.

### **Frank G. Mcdonald**

Board: Senior Management  
Job Title: Senior Vice President, General Counsel and Assistant Secretary

Mr. McDonald is currently the Senior Vice President, General Counsel and Assistant Secretary of XTO Energy. Prior to joining XTO Energy in 1993, he was a Senior Counsel for Grace Energy Corporation and a shareholder of Kliewer and Hood.

### **F. Terry Perkins, Jr.**

Board: Senior Management  
Job Title: Senior Vice President, Reservoir Engineering

Mr. Perkins is currently the Senior Vice President, Reservoir Engineering of XTO Energy. Prior to joining XTO Energy in 1991, he worked as a reservoir engineer for Exxon Co. USA.

### **Mark J. Pospisil**

Board: Senior Management  
Job Title: Senior Vice President, Geology and Geophysics

Mr. Pospisil is currently the Senior Vice President, Geology and Geophysics of XTO Energy. He joined XTO Energy in 1997 as Manager of Exploration. He is a certified Petroleum Geologist and has worked for more than 20 years as a geologist in the petroleum industry with various companies.

### **Edwin S. Ryan**

Board: Senior Management  
Job Title: Senior Vice President, Land Administration

Mr. Ryan is currently the Senior Vice President, Land Administration of XTO Energy. Prior to joining XTO Energy in 1988, he worked as a Lease Broker for Steele & Associates and a Landman for Getty Oil Company/Texaco.

### **Terry L. Schultz**

Board: Senior Management  
Job Title: Senior Vice President, Marketing

Mr. Schultz is currently the Senior Vice President, Marketing of XTO Energy. Prior to joining XTO Energy in 1988, he worked as a Senior Gas Sales Representative at Southland Royalty and was co-owner of Paragon Energy.

## **MAJOR PRODUCTS AND SERVICES**

XTO Energy is primarily engaged in the acquisition, development, exploitation and exploration of oil and gas properties. The company's key products include the following:

- Natural gas
- Crude oil
- Natural gas liquids (NGLs)

# REVENUE ANALYSIS

Not available.

## SWOT ANALYSIS

XTO Energy is primarily engaged in the acquisition, development, exploitation and exploration of producing natural gas and oil properties. The company has strong reserves position, which increases its top line growth. Increasing consolidation in the North American electricity utility industry, however, will create larger entities, which would result in decreased market share and earnings growth of the company.

| <b>Strengths</b>   | <b>Weaknesses</b>  |
|--|--|
| Strong reserves position<br>Increasing revenue and profits<br>Strong cash position | Dependence on the US<br>High debt  |
| <b>Opportunities</b>   | <b>Threats</b>   |
| Strategic plans<br>Acquisitions  | Consolidation in the North American electricity utility industry<br>Environmental regulations<br>Economic slowdown in the US |

### Strengths

#### Strong reserves position

XTO Energy has a strong reserves position. It is the fourth largest owner of domestic gas reserves among the independents and is among the top 10 natural gas producers in the US. Furthermore, in east Texas, the company is the top producer of the tight-gas formation within its Freestone Trend play. In the Barnett Shale, in and around Fort Worth, XTO ranks as the second largest producer.

Further, the company's proved gas reserves have increased from 6,085.6 Mcf in 2005 to 9,441.1 Mcf in 2007 at a CAGR of 25%; and its natural gas liquid reserves have increased from 47.4 Bbls in 2005 to 66.8 Bbls in 2007 at a CAGR of 19%. In addition, its oil reserves increased from 208.7 Bbls in 2005 to 241.2 Bbls in 2007 at a CAGR of 8%.

Moreover, there has been a significant increase in the reserves of the company. The company had proved reserves of 11.29Tcfe at the end of 2007, a 32.1% increase over 2006. Further, the company's proved reserves grew at a CAGR of 28% during the period 2003 to 2007. The company had estimated proved reserves of 9.44 Tcf of natural gas, 67 million Bbls of natural gas liquids and 241 million Bbls of oil. Based on proved reserves at the end of 2007 and projected 2008 production from properties owned as of December 31, 2007, the average reserve-to-production index (which is defined as

annual total proved reserves divided by total production for the year) of the company's proved reserves stands at 16.3 years. Strong reserves position increases the top line growth of the company.

#### Increasing revenue and profits

XTO Energy has shown a steady financial performance in the recent years. Its revenues have increased from \$3,519 million in the financial year ended 2005 (FY2005) to \$5,513 million in the FY2007, at a CAGR of 25%. The operating profit of the company has increased from \$1,963 million in FY2005 to \$2,892 million in FY2007, at a CAGR of 21%. Steady financial performance enables the company to take advantage of scale and increase its bargaining power.

#### Strong cash position

XTO Energy has a strong cash position. Its cash from operating activities increased from \$2,094 million in FY2005 to \$3,639 million in FY2007 at a CAGR of 32%. A continuing strong cash position enables the company to manage capital expenditure to meet operational needs and environmental requirements. Sufficient cash balance also provides scope for the company to invest in future expansion plans.

### **Weaknesses**

#### Dependence on the US

XTO Energy's business is concentrated in the US. However, its competitors such as Chevron and Exxon Mobil have substantial non-US operations. In 2007, Chevron generated 43.9% of its revenues from the US market and 56.1% from the non-US market. For the same period, Exxon Mobil generated 31% of its revenues from the US market and 69% from the non-US market. XTO Energy's dependence on the US for its revenues increases its business risks. Further, it puts the company at a competitive disadvantage.

#### High debt

XTO Energy has a significant amount of debt. As of December 2007, the company had total outstanding debt of \$6,320 million. Further, the company's debt has increased from \$1,252 million in the financial year ended 2003 (FY2003) to \$6,320 million in FY2007 at a CAGR of 125%. XTO Energy's substantial debt could limit its ability to obtain additional financing to operate its business. Further, it would make it difficult for the company to satisfy its obligations including making interest payments on debt obligations.

### **Opportunities**

## Strategic plans

XTO Energy has made strategic plans under its development budget for the year 2009. In November 2008, its Board of Directors approved a 2009 capital budget for development and exploration expenditures of \$3.3 billion. An additional \$500 million had been budgeted for the construction of pipeline infrastructure and compression and processing facilities. With these expenditures, the company plans to increase 2009 production volumes by 18% over 2008 levels. Further, the company expects to average utilizing 90 drilling rigs for 2009. Activities will include drilling 1,250 new wells and conducting 800 workover events.

During the year 2009, the Eastern Region will be allocated \$1.0 billion; the Barnett Shale Region will be allocated \$800 million; and the Arkoma Basin and Mid-Continent properties will be allocated \$500 million. During the same period, the Bakken, Gulf Coast and Offshore areas will be allocated \$350 million. Programs in the Permian District are expected to utilize another \$300 million. The combined basins of San Juan, Raton, Uinta and Piceance basins would be allocated \$250 million. Finally, the company would target \$100 million for exploration events.

Thus, XTO Energy's strategic plans could help it in increasing its production growth.

## Acquisitions

XTO Energy follows the strategy of acquiring natural gas and oil properties. In February 2008, XTO Energy entered into definitive agreements with multiple parties to acquire producing properties located in its Eastern and San Juan Regions and to purchase acreage positions in the Woodford, Fayetteville and Barnett shales for a total of about \$1 billion. These acquisitions will add about 35 million cubic feet of natural gas equivalent per day (MMcfe/d) to XTO Energy's production base.

In July 2008, the company acquired Bakken Shale for \$1.8 billion from Headington Oil Company. The acquisition would add about 10,000 barrels of oil equivalent per day of production. Furthermore, in the same month, XTO Energy entered into definitive agreements with multiple parties to purchase producing properties located in its Eastern and San Juan Regions and acreage positions in the Marcellus. These acquisitions would add 20 MMcfe/d to the XTO Energy's production base. Further, in September 2008, XTO Energy acquired Hunt Petroleum Corporation, a privately-held company.

These acquisitions would further strengthen the company's reserves position.

## Threats

### Consolidation in the North American electricity utility industry

Increasing energy demand, higher fuel prices, constrained supplies of conventional hydrocarbons, and increasingly complex geopolitics are all driving mergers and acquisitions (M&A) activity in the North American electricity utility industry. Profitable companies with large cash reserves are acquiring

other companies and divesting non-core assets to increase their reserves and also to create economies of scale and cost savings. These drivers pushed up the North American electricity utility industry M&A deal value to about \$95.2 billion in 2007, up by 34% compared with 2006, and a 56% growth from 2005. The year 2007 witnessed a total of 133 M&A deals in North America, an increase of 16% compared with 2006. Driving the growth in deal value was the \$43.8 billion buyout of TXU, Corp. by a private equity consortium led by Kohlberg Kravis Roberts & Co (KKR), Texas Pacific Group (TPG) and Goldman Sachs Capital Partners. This transaction contributed 46% to the year's total deal value for the region and roughly 12% of global.

In February 2007, WPS Resources Corporation and Peoples Energy Corporation completed the previously announced merger to create Integrys Energy Group. The two biggest inbound investment bids in 2007 included the \$7.8 billion move by Spain's Iberdrola for Energy East; and the \$6.8 billion planned purchase of Puget Energy by a combination of Macquarie entities and other pension and investment funds.

Increasing consolidation in the North American electricity utility industry, however, will create larger entities, which would result in decreased market share and earnings growth of the company.

#### Environmental regulations

The company faces several environmental regulations in the US. For instance, Oil Pollution Act imposes a variety of requirements related to the prevention of oil spills and liability for damages resulting from such spills in the US waters. The Oil Pollution Act imposes strict joint and several liability on responsible parties for oil removal costs and a variety of public and private damages, including natural resource damages. Liability limits for offshore facilities require a responsible party to pay all removal costs, plus up to \$75 million in other damages. Compliance with these regulations forces companies, such as XTO Energy, to incur high costs. These regulations can have a potential negative impact on the company's margins.

#### Economic slowdown in the US

The US is the key market of the company. According to the IMF world economy outlook, the GDP growth in the US is expected to slowdown in 2008 and 2009. The GDP growth of the US economy is forecast to slowdown from 2% in 2007 to 1.4% in 2008 and -0.7% in 2009. A weak economic outlook for the US would put pressure on the company's revenues.

## **TOP COMPETITORS**

The following companies are the major competitors of XTO Energy Inc.

Anadarko Petroleum Corporation  
Apache Corporation  
BP Plc  
Chevron Corporation  
ExxonMobil Corporation  
Occidental Petroleum Corporation  
Abraxas Petroleum Corporation  
Noble Energy, Inc.  
Berry Petroleum Company  
ERHC Energy, Inc.

## COMPANY VIEW

A statement by Bob R. Simpson, Chairman of XTO Energy, is given below. The statement has been taken from the company's 2007 annual report.

### FELLOW SHAREHOLDERS

We enjoyed another exceptional year of performance in 2007 and, as always, it was earned through conviction, determination and hardwork. With record activity, our team delivered production growth of 19% and an increase in proved reserves of 32%. The Company achieved record operating cash flow of \$3.7 billion, which enabled both a flourishing development campaign and record acquisitions. Along the way, we maintained our discipline in economic efficiency. Simply put, our profit margins remained high, with net income at 31% of revenues, and our costs stayed low, with the drill bit cost to find reserves at \$1.64 per Mcfe. As a result, the investment community rewarded our accomplishments by increasing the stock price by 36%. Perhaps even more important to me, as a founder and long-term investor, is that these achievements for the year expanded our potential and added visibility for the future. By sticking to the elements of our core strategy, we did what I believe we do best — create value.

Our value creation process begins with owning the “best rock.” These are the most prolific and expansive hydrocarbon reservoirs in the United States. With high-quality, long-lived properties comes upsides in reserve potential, production stability and strong economic margins. This is the basis for our enduring success. For more than 20 years, we have acquired the right assets to build the foundation of XTO Energy; seizing the opportunities as they came available. In 2007, we extended that commitment by purchasing more than \$4.0 billion in premier properties that expanded our operating footprint in multiple regions. The marquee acquisition, from Dominion Resources, added about 1 Tcfe of reserves to the Company for \$2.5 billion. These properties substantially increased our holdings in the Rocky Mountains and interior South Texas and contain abundant upsides. By applying our tight-gas and coal bed methane expertise, our teams are planning long-term growth platforms from both areas. Also, we significantly increased our positions in the Barnett, Fayetteville and Woodford shale plays, along with securing “bolt on” properties in East Texas and our legacy fields of the San Juan and Permian basins. These resource-rich assets provide a fresh opportunity for our team to discover new production and reserves.

Given the hand-picked acquisitions and our development efforts, the Company's growth regions continue to expand at a fast pace. As depicted in the pie chart, proved reserves now total 11.29 Tcfe, but captured potential is twice as large. Of this potential, our engineers have nominated 11.3 Tcfe of upsides for visible future growth. The East Texas region, where XTO is the leading natural gas producer, will continue to lead the charge. After a decade of volume increases, the Freestone Trend still contains thousands of new well locations, representing 4.3 Tcfe of potential. Advanced drilling and completion techniques continue to unlock more resource. The burgeoning shale plays have now arrived as a powerful component of our future plans. In the Barnett Shale, where XTO has grown net daily production from about 100 MMcf to 500 MMcf in just two years, we recognize another 4.2 Tcfe of potential to exploit. In the Fayetteville and Woodford shale plays, our teams have

expanded the leasehold positions to 240,000 and 120,000 net acres, respectively. Our drilling inventory in these plays reflects 3.6 Tcfe of potential. In total, the captured resource for the Company improved by more than 37% over the past year and represent more than five years of drilling inventory.

By understanding the productive characteristics of this inventory and our overall production profile, we can schedule future growth with confidence.

Understanding the commodity price environment is critical to realizing the extraordinary value which is captured in XTO. From our perspective, the outlook for oil and natural gas appears to be entrenched in the “stronger for longer” cycle, which we correctly identified in 2003. In spite of a slowing global economy, the challenge to supply the world’s growing appetite for crude remains difficult. New production sources are struggling to overcome the natural declines of the giant old fields. Thus, high oil prices are a necessity to moderate consumption. In the domestic natural gas arena, doubling the drilling rig count in the last five years has only modestly grown production. When combined with the trend of warmer winters, this clean-burning commodity has been priced at a discount relative to its inherent value. However, the ambition to grow natural gas production, with only minimal effect, has forced a steep underlying production decline that will become more difficult to overcome. At the same time, new power generation is driving additional demand. In our view, the pressure on natural gas prices is biased towards the upside. As a result, companies with increasing reserves and production, like XTO, should be well positioned for prosperity.

Moving ahead, our Company is poised for another record year in 2008. Plans already target 20% production growth. With about 65% of our production hedged, record cash flow should be available to fund our development growth and “bolt on” acquisitions. Even as we get bigger, we are maintaining the same discipline that has delivered growth and created value since inception. Our dedicated team is forging ahead, executing with passion and pursuing the best performance ... that’s our core culture at XTO Energy.

## **LOCATIONS AND SUBSIDIARIES**

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