

DEVON ENERGY CORP/DE

FORM 8-K (Current report filing)

Filed 11/01/06 for the Period Ending 11/01/06

Address	333 W. SHERIDAN AVENUE OKLAHOMA CITY, OK 73102
Telephone	4055528183
CIK	0001090012
Symbol	DVN
SIC Code	1311 - Crude Petroleum and Natural Gas
Fiscal Year	12/31

DEVON ENERGY CORP/DE

FORM 8-K (Current report filing)

Filed 11/1/2006 For Period Ending 11/1/2006

Address	20 N BROADWAY STE 1500 OKLAHOMA CITY, Oklahoma 73102
Telephone	405-235-3611
CIK	0001090012
Industry	Oil & Gas Operations
Sector	Energy
Fiscal Year	12/31

Powered By **EDGAR**Online

<http://www.edgar-online.com/>

© Copyright 2006. All Rights Reserved.

Distribution and use of this document restricted under EDGAR Online's Terms of Use.

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event report): November 1, 2006

DEVON ENERGY CORPORATION

(Exact Name of Registrant as Specified in its Charter)

DELAWARE

(State or Other Jurisdiction of
Incorporation or Organization)

001-32318

(Commission File Number)

73-1567067

(IRS Employer
Identification Number)

20 NORTH BROADWAY, OKLAHOMA CITY, OK

(Address of Principal Executive Offices)

73102

(Zip Code)

Registrant's telephone number, including area code: **(405) 235-3611**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-
-

TABLE OF CONTENTS

Item 2.02 Results of Operations and Financial Condition

Item 9.01 Financial Statements and Exhibits

SIGNATURES

News Release



20 North Broadway
Oklahoma City, Oklahoma 73102-8260

Telephone: (405) 235-3611
Fax: (405) 552-4667

NEWS RELEASE

Investor contact: Zack Hager
(405) 552-4526

Media contact: Brian Engel
(405) 228-7750

DEVON ENERGY EARNS \$705 MILLION AND \$1.57 PER SHARE IN THIRD QUARTER OF 2006; PRODUCTION INCREASES

OKLAHOMA CITY – November 1, 2006 – Devon Energy Corporation (NYSE:DVN) today reported net earnings for the quarter ended September 30, 2006, of \$705 million, or \$1.59 per common share (\$1.57 per diluted common share). These results compare with third-quarter 2005 net earnings of \$744 million, or \$1.66 per common share (\$1.63 per diluted common share).

For the nine months ended September 30, 2006, Devon earned \$2.3 billion, or \$5.11 per common share (\$5.05 per diluted common share). Net earnings for the nine months ended September 30, 2005, were \$2.0 billion, or \$4.22 per common share (\$4.15 per diluted common share).

Third-quarter 2006 reported net earnings of \$705 million were reduced by certain items securities analysts typically exclude from their published estimates. Adjusting for these items, Devon earned \$743 million, or \$1.66 per diluted share. The adjusting items are described in detail in this news release.

“Our third-quarter exploration results were highlighted by the successful test of the deepwater Jack #2 well and drilling our fourth significant discovery in the lower Tertiary trend,” said J. Larry Nichols, chairman and chief executive officer. “Our producing properties are also performing well. Oil and gas production in the third quarter was up both year-over-year and sequentially as we produced more than 600 thousand equivalent barrels per day.”

Lower Tertiary Achievements Lead Operations Highlights

Devon drilled 740 exploration and development wells in the third quarter of 2006. Of the total wells drilled, 731 were successful. Following are highlights of third-quarter exploration and development activity:

- Devon and its co-owners announced the results of a production test of the deepwater Jack #2 well in the Gulf of Mexico’s lower Tertiary trend. During the test, the Jack #2 flowed at a sustained rate of 6,000 barrels of oil per day from approximately 40 percent of the total net pay measured in the well. The successful production test was an important milestone in moving the Jack project toward sanctioning and development. Devon has a 25 percent working interest in the Jack prospect.

- Also in the lower Tertiary trend, the company increased its working interest in the Cascade project from 25 percent to 50 percent. Devon and equal-partner Petrobras plan to develop Cascade using a floating production, storage and offloading vessel. The partners anticipate first production from Cascade in late 2009.
- Elsewhere in the lower Tertiary trend, Devon and its co-owners announced an oil discovery on the Kaskida prospect. Kaskida is Devon's fourth discovery in the lower Tertiary trend and its first in the Keathley Canyon deepwater lease area. Devon has identified 12 additional exploratory prospects on its acreage in Keathley Canyon. The company believes that Kaskida is the largest of its four lower Tertiary discoveries to date.
- In the Barnett Shale in north Texas, Devon began integrating the properties of Chief Holdings LLC in the third quarter. Devon acquired Chief on June 29, 2006. The company drilled and completed 141 wells in the Barnett Shale in the third quarter bringing its total producing wells in the field to 2,607. Devon exited the third quarter producing approximately 660 million cubic feet of gas equivalent per day from the Barnett Shale.
- Devon continued its successful horizontal drilling program in the Groesbeck area in east Texas. The company's third 100 percent working interest well in the Nan-Su-Gail field flowed natural gas at an initial rate of 32 million cubic feet per day. The company also commenced drilling high working interest horizontal wells in three additional fields in the Groesbeck area in the quarter. The three wells are in various stages of drilling and completion.

Oil and Gas Production Increases; Pre-Tax Earnings at \$1 Billion

Sales of oil, gas and natural gas liquids in the third quarter of 2006 were \$2.3 billion. This was unchanged from the third quarter of 2005. After expenses, Devon's pre-tax earnings exceeded \$1 billion.

Combined oil, gas and natural gas liquids production averaged 602 thousand oil equivalent barrels (Boe) per day in the third quarter of 2006. This was one percent greater than third-quarter 2005 average production of 598 thousand Boe per day. Compared with the second quarter of 2006, daily production increased four percent in the most recent quarter. The properties acquired from Chief Holdings LLC in June of 2006 contributed nine thousand Boe per day to third-quarter production.

Crude oil and natural gas liquids prices increased in the third quarter of 2006 compared with the third quarter of 2005. Devon's third-quarter 2006 average realized oil price increased 48 percent to \$64.17 per barrel compared with \$43.45 per barrel in the third quarter of 2005. The increase in Devon's realized oil price is attributable to a higher market price for crude oil and to the expiration of oil price hedges at December 31, 2005. None of Devon's oil production is hedged in 2006. The average realized price for the company's natural gas liquids increased nine percent to \$34.98 per barrel in the third quarter of 2006 compared with \$32.23 per barrel in the third quarter of 2005.

The realized price of natural gas decreased over the same comparative period. Devon's realized price for natural gas decreased 21 percent to \$5.62 per thousand cubic feet in the third quarter of 2006 compared with \$7.13 per thousand cubic feet in third quarter of 2005.

Marketing and midstream revenues increased three percent to \$417 million while related expenses increased three percent to \$303 million. This resulted in a three percent increase in

marketing and midstream operating profit to \$114 million in the third quarter of 2006 compared with the third quarter of 2005.

Lease operating expenses (LOE) increased 20 percent to \$382 million in the third quarter of 2006. Higher ad valorem taxes and repair and maintenance costs driven by rising oil field service and supply costs contributed to the increase. Higher well workover and transportation costs also contributed to the increase in LOE.

Production taxes increased 13 percent to \$92 million in the third quarter of 2006. Higher international production tax rates, primarily in China, contributed to the increase.

Depreciation, depletion and amortization (DD&A) of oil and gas properties increased 23 percent to \$604 million in the third quarter of 2006 compared with the same quarter in 2005. Unit DD&A was \$10.91 per Boe in the third quarter of 2006.

General and administrative (G&A) expenses increased 48 percent to \$104 million compared with the third quarter of 2005. Higher employee-related costs were the largest component of the increase in G&A.

Interest expense decreased 32 percent to \$112 million in the third quarter of 2006. Interest expense of \$164 million in the third quarter of 2005 included \$51 million resulting from early redemption of long-term debt.

Income Tax Rate Declines to 31 Percent of Pre-Tax Earnings

Income tax expense was \$317 million in the third quarter of 2006, or 31 percent of pre-tax earnings. Of the total income tax expense, \$231 million was current and \$86 million was deferred. Third-quarter 2005 income tax expense was 35 percent of pre-tax earnings.

As a result of finalizing Devon's 2005 tax return in the third quarter of 2006, the company accelerated the utilization of certain deferred tax benefits. This resulted in a \$35 million reclassification of deferred tax benefits to reduce current tax expense in the third quarter of 2006.

Devon Retires \$678 million of Debt; Cash Flow Funds Capital Expenditures

Devon retired \$678 million of long-term debt in the third quarter of 2006. This contributed to a reduction in net debt to adjusted capitalization to 23 percent at September 30, 2006. The ratio was unchanged when compared to September 30, 2005, and lower when compared to the June 30, 2006, level of 26 percent.

Cash flow before balance sheet changes was \$1.5 billion in the third quarter of 2006. This allowed Devon to fund \$1.4 billion in total capital expenditures. Cash and short-term investments totaled \$1.3 billion as of September 30, 2006. Reconciliations of cash flow before balance sheet changes, net debt and adjusted capitalization, which are non-GAAP measures, are provided in this release.

Items Excluded from Published Earnings Estimates

Devon's reported net earnings include items of income and expense that are typically excluded by securities analysts in their published estimates for the company's financial results. These items and their effects upon third-quarter 2006 reported earnings were as follows:

- A change in fair value of derivative financial instruments decreased earnings by \$22 million pre-tax (\$14 million after tax).
- An unrealized gain on natural gas derivative instruments increased earnings by \$5 million pre-tax (\$3 million after tax).
- A reduction in the carrying value of oil and gas properties decreased earnings by \$51 million pre-tax (\$27 million after tax).

The following table summarizes the effects of these items on third-quarter 2006 earnings and income taxes.

Summary of Items Typically Excluded by Securities Analysts

(in millions)	Pre-tax Earnings Effect	Income Tax Effect			After-tax Earnings Effect	Cash Flow Before Balance Sheet Changes Effect
		Current	Deferred	Total		
Change in fair value of financial instruments	\$ (22)	—	(8)	(8)	(14)	—
Unrealized gain on natural gas derivative instruments	5	—	2	2	3	—
Reduction in the carrying value of properties	(51)	—	(24)	(24)	(27)	—
Income tax accrual adjustment	—	(35)	35	—	—	35
Totals	\$ (68)	(35)	5	(30)	(38)	35

In aggregate, these items decreased third-quarter 2006 net earnings by \$38 million, or nine cents per common share (nine cents per diluted share). In addition, a reclassification of deferred tax benefits increased cash flow before balance sheet changes by \$35 million.

Conference Call to be Webcast Today

Devon will discuss its third-quarter 2006 financial and operating results in a conference call webcast today. The webcast will begin at 10 a.m. Central Time (11 a.m. Eastern Time). The webcast may be accessed from Devon's internet home page at www.devonenergy.com.

This press release includes "forward-looking statements" as defined by the Securities and Exchange Commission. Such statements are those concerning strategic plans, expectations and objectives for future operations. All statements, other than statements of historical facts, included in this press release that address activities, events or developments that the company expects, believes or anticipates will or may occur in the future are forward-looking statements. Such statements are subject to a number of assumptions, risks and uncertainties, many of which are beyond the control of the company. Statements regarding future drilling and production are subject to all of the risks and uncertainties normally incident to the exploration for and development and production of oil and gas. These risks include, but are not limited to, inflation or lack of availability of goods and services, environmental risks, drilling risks and regulatory changes. Investors are cautioned that any such statements are not guarantees of future performance and that actual results or developments may differ materially from those projected in the forward-looking statements.

Devon Energy Corporation is an Oklahoma City-based independent energy company engaged in oil and gas exploration, production and property acquisitions. Devon is one of the world's leading independent oil and gas producers and is included in the S&P 500 Index. For more information about Devon, please visit our website at www.devonenergy.com.

DEVON ENERGY CORPORATION
UNAUDITED FINANCIAL AND OPERATIONAL INFORMATION

PRODUCTION DATA

(net of royalties)	Quarter Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Total Period Production				
Natural Gas (Bcf)				
U.S. Onshore	127.2	113.9	358.0	343.5
U.S. Offshore	22.2	22.7	57.2	77.5
Total U.S.	149.4	136.6	415.2	421.0
Canada	60.9	66.7	182.7	199.8
International	1.8	2.5	6.3	7.6
Total Natural Gas	212.1	205.8	604.2	628.4
Oil (MMBbls)				
U.S. Onshore	2.8	2.9	8.4	9.2
U.S. Offshore	2.0	2.7	6.5	11.1
Total U.S.	4.8	5.6	14.9	20.3
Canada	3.2	3.1	9.4	9.9
International	6.2	6.1	16.7	19.9
Total Oil	14.2	14.8	41.0	50.1
Natural Gas Liquids (MMBbls)				
U.S. Onshore	4.5	4.2	13.4	13.0
U.S. Offshore	0.1	0.3	0.4	0.8
Total U.S.	4.6	4.5	13.8	13.8
Canada	1.2	1.3	3.6	3.9
International	—	0.1	—	0.2
Total Natural Gas Liquids	5.8	5.9	17.4	17.9
Oil Equivalent (MMBoe)				
U.S. Onshore	28.5	26.1	81.4	79.5
U.S. Offshore	5.9	6.8	16.4	24.8
Total U.S.	34.4	32.9	97.8	104.3
Canada	14.5	15.6	43.5	47.0
International	6.5	6.5	17.8	21.4
Total Oil Equivalent	55.4	55.0	159.1	172.7
Average Daily Production				
Natural Gas (MMcf)				
U.S. Onshore	1,382.8	1,238.6	1,311.3	1,258.3
U.S. Offshore	241.0	246.5	209.5	284.0
Total U.S.	1,623.8	1,485.1	1,520.8	1,542.3
Canada	662.1	725.3	669.2	731.7
International	19.5	26.8	23.0	27.9
Total Natural Gas	2,305.4	2,237.2	2,213.0	2,301.9
Oil (MBbls)				
U.S. Onshore	30.1	31.1	30.7	33.7
U.S. Offshore	22.3	29.7	23.8	40.6
Total U.S.	52.4	60.8	54.5	74.3
Canada	34.4	34.2	34.6	36.1
International	67.4	65.8	61.3	73.0
Total Oil	154.2	160.8	150.4	183.4
Natural Gas Liquids (MBbls)				
U.S. Onshore	48.9	45.7	49.0	47.7
U.S. Offshore	1.7	3.2	1.4	2.8
Total U.S.	50.6	48.9	50.4	50.5
Canada	12.7	14.2	13.2	14.2
International	—	0.9	—	0.9
Total Natural Gas Liquids	63.3	64.0	63.6	65.6
Oil Equivalent (MBoe)				
U.S. Onshore	309.4	283.2	298.3	291.2
U.S. Offshore	64.2	74.0	60.1	90.7
Total U.S.	373.6	357.2	358.4	381.9
Canada	157.4	169.3	159.3	172.2

International	70.7	71.2	65.1	78.6
Total Oil Equivalent	601.7	597.7	582.8	632.7

DEVON ENERGY CORPORATION
UNAUDITED FINANCIAL AND OPERATIONAL INFORMATION

PRODUCTION DATA — RETAINED PROPERTIES

All periods exclude properties divested in 2005	Q3 2006	Q3 2005	Q2 2006	YOY % Change	Sequential % Change
Total Period Production					
Natural Gas (Bcf)					
U.S. Onshore	127.2	113.9	117.3	12%	8%
U.S. Offshore	22.2	22.0	18.6	1%	19%
Total U.S.	149.4	135.9	135.9	10%	10%
Canada	60.9	66.6	62.7	-8%	-3%
International	1.8	2.5	2.2	-27%	-18%
Total Natural Gas	212.1	205.0	200.8	3%	6%
Oil (MMBbls)					
U.S. Onshore	2.8	2.9	2.8	-3%	0%
U.S. Offshore	2.0	2.6	2.3	-21%	-13%
Total U.S.	4.8	5.5	5.1	-12%	-6%
Canada	3.2	3.1	3.1	1%	3%
International	6.2	6.1	5.3	2%	17%
Total Oil	14.2	14.7	13.5	-3%	5%
Natural Gas Liquids (MMBbls)					
U.S. Onshore	4.5	4.2	4.4	7%	2%
U.S. Offshore	0.1	0.3	0.1	-43%	0%
Total U.S.	4.6	4.5	4.5	4%	2%
Canada	1.2	1.3	1.2	-11%	0%
International	—	0.1	—	-100%	0%
Total Natural Gas Liquids	5.8	5.9	5.7	-1%	2%
Oil Equivalent (MMBoe)					
U.S. Onshore	28.5	26.1	26.8	9%	6%
U.S. Offshore	5.9	6.5	5.4	-10%	9%
Total U.S.	34.4	32.6	32.2	5%	7%
Canada	14.5	15.6	14.7	-7%	-1%
International	6.5	6.5	5.7	-1%	14%
Total Oil Equivalent	55.4	54.7	52.6	1%	5%
Average Daily Production					
Natural Gas (MMcf)					
U.S. Onshore	1,382.8	1,238.1	1,288.7	12%	7%
U.S. Offshore	241.0	239.8	204.0	1%	18%
Total U.S.	1,623.8	1,477.9	1,492.7	10%	9%
Canada	662.1	723.5	689.0	-8%	-4%
International	19.5	26.8	24.7	-27%	-21%
Total Natural Gas	2,305.4	2,228.2	2,206.4	3%	4%
Oil (MBbls)					
U.S. Onshore	30.1	31.1	30.8	-3%	-2%
U.S. Offshore	22.3	28.3	24.7	-21%	-10%
Total U.S.	52.4	59.4	55.5	-12%	-6%
Canada	34.4	34.2	33.6	1%	2%
International	67.4	65.8	58.7	2%	15%
Total Oil	154.2	159.4	147.8	-3%	4%
Natural Gas Liquids (MBbls)					
U.S. Onshore	48.9	45.7	48.5	7%	1%
U.S. Offshore	1.7	3.0	1.0	-43%	70%
Total U.S.	50.6	48.7	49.5	4%	2%
Canada	12.7	14.2	13.2	-11%	-4%
International	—	0.9	—	-100%	0%
Total Natural Gas Liquids	63.3	63.8	62.7	-1%	1%
Oil Equivalent (MBoe)					
U.S. Onshore	309.4	283.2	294.1	9%	5%
U.S. Offshore	64.2	71.1	59.8	-10%	7%
Total U.S.	373.6	354.3	353.9	5%	6%

Canada	157.4	169.0	161.6	-7%	-3%
International	70.7	71.2	62.8	-1%	13%
Total Oil Equivalent	601.7	594.5	578.3	1%	4%

DEVON ENERGY CORPORATION
UNAUDITED FINANCIAL AND OPERATIONAL INFORMATION

REALIZED PRICE DATA

(average realized prices)	Quarter Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Realized Prices				
Natural Gas (\$/Mcf)				
U.S. Onshore	\$ 5.53	\$ 6.98	\$ 6.01	\$ 6.03
U.S. Offshore	\$ 6.86	\$ 8.59	\$ 7.44	\$ 7.33
Total U.S.	\$ 5.73	\$ 7.25	\$ 6.21	\$ 6.27
Canada	\$ 5.40	\$ 6.97	\$ 6.14	\$ 6.21
International	\$ 3.60	\$ 4.65	\$ 4.20	\$ 4.18
Total Natural Gas	\$ 5.62	\$ 7.13	\$ 6.17	\$ 6.23
Oil (\$/Bbl)				
U.S. Onshore	\$65.83	\$58.82	\$62.74	\$49.86
U.S. Offshore	\$71.56	\$33.54	\$66.30	\$33.35
Total U.S.	\$68.27	\$46.48	\$64.30	\$40.85
Canada	\$54.85	\$33.89	\$49.06	\$27.15
International	\$65.75	\$45.62	\$63.53	\$40.72
Total Oil	\$64.17	\$43.45	\$60.48	\$38.10
Natural Gas Liquids (\$/Bbl)				
U.S. Onshore	\$32.41	\$29.70	\$29.85	\$24.95
U.S. Offshore	\$32.39	\$33.10	\$37.52	\$29.88
Total U.S.	\$32.41	\$29.93	\$30.06	\$25.23
Canada	\$45.23	\$40.86	\$44.20	\$35.76
International	\$ —	\$21.07	\$ —	\$23.36
Total Natural Gas Liquids	\$34.98	\$32.23	\$32.99	\$27.48
Oil Equivalent (\$/Boe)				
U.S. Onshore	\$36.25	\$41.78	\$37.79	\$35.94
U.S. Offshore	\$51.49	\$43.50	\$53.03	\$38.80
Total U.S.	\$38.86	\$42.14	\$40.34	\$36.61
Canada	\$38.34	\$40.12	\$40.11	\$35.02
International	\$63.72	\$44.20	\$61.27	\$39.60
Total Oil Equivalent	\$41.65	\$41.81	\$42.62	\$36.55

BENCHMARK PRICES

(average prices)	Quarter Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Benchmark Prices				
Natural Gas (\$/Mcf) – Henry Hub	\$ 6.58	\$ 8.53	\$ 7.47	\$ 7.18
Oil (\$/Bbl) – West Texas Intermediate (Cushing)	\$70.62	\$63.16	\$68.22	\$55.43

PRICE DIFFERENTIALS, EXCLUDING EFFECTS OF HEDGES

(average floating price differentials from benchmark prices)	Quarter Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Price Differentials				
Natural Gas (\$/Mcf)				
U.S. Onshore	\$ (1.08)	\$ (1.52)	\$ (1.47)	\$ (1.13)
U.S. Offshore	\$ 0.28	\$ 0.25	\$ (0.03)	\$ 0.22
Total U.S.	\$ (0.88)	\$ (1.23)	\$ (1.27)	\$ (0.88)
Canada	\$ (1.05)	\$ (1.34)	\$ (1.16)	\$ (0.80)
International	\$ (0.87)	\$ (2.01)	\$ (1.12)	\$ (1.63)
Total Natural Gas	\$ (0.93)	\$ (1.27)	\$ (1.24)	\$ (0.86)
Oil (\$/Bbl)				
U.S. Onshore	\$ (4.79)	\$ (4.34)	\$ (5.49)	\$ (4.93)
U.S. Offshore	\$ 0.94	\$ (2.31)	\$ (1.93)	\$ (5.14)
Total U.S.	\$ (2.35)	\$ (3.35)	\$ (3.93)	\$ (5.05)

Canada	\$(15.77)	\$(12.88)	\$(19.17)	\$(14.10)
International	\$ (4.87)	\$ (6.45)	\$ (4.70)	\$ (6.99)
Total Oil	\$ (6.45)	\$ (6.65)	\$ (7.75)	\$ (7.60)

DEVON ENERGY CORPORATION
UNAUDITED FINANCIAL AND OPERATIONAL INFORMATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share data)	Quarter Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Revenues				
Oil sales	\$ 910	\$ 643	\$2,482	\$1,908
Gas sales	1,191	1,466	3,725	3,913
Natural gas liquids sales	204	190	573	492
Marketing & midstream revenues	417	405	1,276	1,210
Total revenues	2,722	2,704	8,056	7,523
Expenses and Other Income, net				
Lease operating expenses	382	319	1,093	1,005
Production taxes	92	81	261	234
Marketing & midstream operating costs and expenses	303	294	930	921
Depreciation, depletion and amortization of oil and gas properties	604	493	1,667	1,528
Depreciation and amortization of non-oil and gas properties	44	40	129	119
Accretion of asset retirement obligation	13	12	37	35
General & administrative expenses	104	70	284	206
Interest expense	112	164	315	428
Effects of changes in foreign currency exchange rates	—	(15)	(1)	(4)
Change in fair value of derivative financial instruments	22	134	81	168
Reduction of carrying value of oil and gas properties	51	—	152	—
Other income, net	(27)	(27)	(85)	(179)
Total expenses and other income, net	1,700	1,565	4,863	4,461
Earnings before income tax expense	1,022	1,139	3,193	3,062
Income Tax Expense				
Current	231	203	733	832
Deferred	86	192	196	270
Total income tax expense	317	395	929	1,102
Net earnings	705	744	2,264	1,960
Preferred stock dividends	2	2	7	7
Net earnings applicable to common stockholders	\$ 703	\$ 742	\$2,257	\$1,953
Net earnings per weighted average common shares outstanding				
Basic	\$ 1.59	\$ 1.66	\$ 5.11	\$ 4.22
Diluted	\$ 1.57	\$ 1.63	\$ 5.05	\$ 4.15
Basic weighted average shares outstanding	441	446	441	463
Diluted weighted average shares outstanding	447	454	447	471

DEVON ENERGY CORPORATION
UNAUDITED FINANCIAL AND OPERATIONAL INFORMATION

CONSOLIDATED BALANCE SHEETS

(in millions)	September 30, 2006	December 31, 2005 (Audited)
Assets		
Current assets		
Cash and cash equivalents	\$ 1,196	\$ 1,606
Short-term investments	124	680
Accounts receivable	1,317	1,601
Deferred income taxes	71	158
Other current assets	228	161
Total current assets	2,936	4,206
Property and equipment, at cost, based on the full cost method of accounting for oil and gas properties (\$3,862 and \$2,747 excluded from amortization in 2006 and 2005, respectively)	41,247	34,246
Less accumulated depreciation, depletion and amortization	17,150	15,114
Net property and equipment	24,097	19,132
Investment in Chevron Corporation common stock, at fair value	920	805
Goodwill	5,822	5,705
Other assets	457	425
Total Assets	\$34,232	\$30,273
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable:		
Trade	\$ 1,133	\$ 947
Revenues and royalties due to others	524	666
Income taxes payable	278	293
Short-term debt	1,439	662
Accrued interest payable	79	127
Current portion of asset retirement obligation	45	50
Accrued expenses and other current liabilities	328	189
Total current liabilities	3,826	2,934
Debentures exchangeable into shares of Chevron Corporation common stock	723	709
Other long-term debt	5,239	5,248
Fair value of derivative financial instruments	204	125
Asset retirement obligation, long-term	864	618
Other liabilities	534	372
Deferred income taxes	5,625	5,405
Stockholders' equity		
Preferred stock	1	1
Common stock	44	44
Additional paid-in capital	6,791	6,928
Retained earnings	8,586	6,477
Accumulated other comprehensive income	1,796	1,414
Treasury stock	(1)	(2)
Stockholders' Equity	17,217	14,862
Total Liabilities & Stockholders' Equity	\$34,232	\$30,273
Common Shares Outstanding	442	443

DEVON ENERGY CORPORATION
UNAUDITED FINANCIAL AND OPERATIONAL INFORMATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)	Nine Months Ended September 30,	
	2006	2005
Cash Flows From Operating Activities		
Net earnings	\$ 2,264	\$ 1,960
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation, depletion and amortization	1,796	1,647
Deferred income tax expense	196	270
Net gain on sales of non-oil and gas property and equipment	(5)	(145)
Reduction of carrying value of oil and gas properties	152	—
Other non-cash charges to net earnings	165	224
	4,568	3,956
Changes in assets and liabilities, net of effects of acquisitions of businesses:		
(Increase) decrease in:		
Accounts receivable	341	(164)
Other current assets	(55)	(33)
Long-term other assets	(56)	28
Increase (decrease) in:		
Accounts payable	(79)	133
Income taxes payable	(32)	(116)
Debt, including current maturities	—	(67)
Accrued interest and expenses	55	(53)
Long-term other liabilities	140	(32)
Net cash provided by operating activities	\$ 4,882	\$ 3,652
Cash Flows From Investing Activities		
Proceeds from sales of property and equipment	\$ 36	\$ 2,150
Capital expenditures	(6,146)	(2,923)
Purchases of short-term investments	(1,868)	(3,501)
Sales of short-term investments	2,424	3,677
Net cash used in investing activities	\$(5,554)	\$ (597)
Cash Flows From Financing Activities		
Proceeds from borrowings of debt, net of issuance costs	\$ 1,439	\$ —
Principal payments on debt, including current maturities	(860)	(1,023)
Proceeds from exercise of stock options	53	117
Repurchase of common stock	(253)	(2,129)
Excess tax benefits related to share-based compensation	14	—
Dividends paid on common stock	(148)	(103)
Dividends paid on preferred stock	(7)	(7)
Net cash provided by (used in) financing activities	\$ 238	\$(3,145)
Effect of exchange rate changes on cash	\$ 24	\$ 33
Net decrease in cash and cash equivalents	(410)	(57)
Cash and cash equivalents at beginning of period	1,606	1,152
Cash and cash equivalents at end of period	\$ 1,196	\$ 1,095

DEVON ENERGY CORPORATION
UNAUDITED FINANCIAL AND OPERATIONAL INFORMATION

DRILLING ACTIVITY

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Exploration Wells Drilled				
U.S.	23	14	62	35
Canada	13	33	109	185
International	—	1	8	8
Total	36	48	179	228
Exploration Wells Success Rate				
U.S.	83%	64%	87%	71%
Canada	100%	79%	99%	91%
International	—	0%	13%	38%
Total	89%	73%	91%	86%
Development Wells Drilled				
U.S.	458	321	1,113	918
Canada	237	277	619	659
International	9	13	31	32
Total	704	611	1,763	1,609
Development Wells Success Rate				
U.S.	100%	100%	99%	99%
Canada	99%	100%	99%	99%
International	100%	100%	97%	100%
Total	99%	100%	99%	99%
Total Wells Drilled				
U.S.	481	335	1,175	953
Canada	250	310	728	844
International	9	14	39	40
Total	740	659	1,942	1,837
Total Wells Success Rate				
U.S.	99%	98%	98%	98%
Canada	99%	97%	99%	97%
International	100%	93%	80%	88%
Total	99%	98%	98%	97%

COMPANY OPERATED RIGS

	September 30,	
	2006	2005
Number of Company Operated Rigs Running		
U.S.	60	52
Canada	7	19
International	—	2
Total	67	73

CAPITAL EXPENDITURES DATA

(in millions)	Quarter Ended September 30, 2006	Nine Months Ended September 30, 2006
Capital Expenditures		
U.S. Onshore	\$ 682	\$ 1,772
U.S. Offshore	115	445
Total U.S.	797	2,217
Canada	279	1,113
International	113	312
Chief acquisition	(15)	2,208
Marketing & midstream	91	247
Capitalized general & administrative costs	67	185

Capitalized interest costs		18	51
Other		52	123
Total	\$	1,402	\$ 6,456

DEVON ENERGY CORPORATION
UNAUDITED FINANCIAL AND OPERATIONAL INFORMATION

Non-GAAP Financial Measures

The United States Securities and Exchange Commission has adopted disclosure requirements for public companies such as Devon concerning Non-GAAP financial measures. (GAAP refers to generally accepted accounting principles.) The company must reconcile the Non-GAAP financial measure to related GAAP information. Cash flow before balance sheet changes is a Non-GAAP financial measure. Devon believes cash flow before balance sheet changes is relevant because it is a measure of cash available to fund the company's capital expenditures, dividends and to service its debt. Cash flow before balance sheet changes is also used by certain securities analysts as a measure of Devon's financial results.

RECONCILIATION TO GAAP INFORMATION

(in millions)	Quarter Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Net Cash Provided By Operating Activities (GAAP)	\$2,064	\$1,267	\$4,882	\$3,652
Changes in assets and liabilities, net of effects of acquisitions of businesses	(521)	336	(314)	304
Cash flow before balance sheet changes (Non-GAAP)	\$1,543	\$1,603	\$4,568	\$3,956

Devon believes that using net debt, defined as debt less cash, short-term investments, and the market value of Chevron common stock, for the calculation of "net debt to adjusted capitalization" provides a better measure than using debt. Devon believes that because cash and short-term investments can be used to repay indebtedness, netting cash and short-term investments against debt provides a clearer picture of the future demands on cash to repay debt. Included in Devon's indebtedness are \$723 million of debentures exchangeable into 14.2 million shares of Chevron common stock owned outright by Devon. As of September 30, 2006, the market value of the shares (\$920 million) exceeded the related debt obligation. Devon believes deducting the market value of the stock provides a clearer picture of future demands on cash to repay debt. This methodology is also utilized by various lenders, rating agencies and securities analysts as a measure of Devon's indebtedness.

RECONCILIATION TO GAAP INFORMATION

(in millions)	September 30,	
	2006	2005
Total debt (GAAP)	\$ 7,401	6,857
Adjustments:		
Cash and short-term investments	(1,320)	(1,886)
Market value of Chevron Corporation common stock	(920)	(918)
Net Debt (Non-GAAP)	\$ 5,161	4,053

Total Capitalization

Total debt	\$ 7,401	6,857
Stockholders' equity	17,217	13,944
Total Capitalization (GAAP)	\$24,618	20,801

Adjusted Capitalization

Net debt	\$ 5,161	4,053
Stockholders' equity	17,217	13,944
Adjusted Capitalization (Non-GAAP)	\$22,378	17,997