

BAKER & O'BRIEN INCORPORATED

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HAVE U.S. REFINING MARGINS FINALLY BOTTOMED OUT?

Baker & O'Brien Announces Third Quarter 2009 PRISM™ Results

Houston, November 12, 2009

The refining industry is experiencing a significant reduction in profitability, with current margins at “exit-the-business” levels for a number of refineries. Margins have contracted due to a recession-induced decline in products demand, incremental supply from new refining capacity, and the continued penetration of ethanol into the gasoline market. Ironically, sophisticated, deep-conversion refineries, usually the most resilient during such periods, have been among the hardest hit during the

Key Refining Margin Metrics, \$/B

	2009 Q3	2009 Q2	2008 Q3
LLS crude price	70.43	61.26	122.33
LLS – Maya	7.25	6.28	15.72
USGC LLS 321 crack*	5.32	7.47	11.76
USGC LLS 6321 crack**	3.22	4.40	6.00

* LLS yielding 67% conventional 87 gasoline and 33% ULSD (full conversion)

** LLS yielding 50% conventional 87 gasoline, 33% ULSD, 17% Fuel Oil (cracking)

current downturn. Heavy, sour crude oil discounts have all but vanished. Not surprisingly, the industry is operating at the lowest utilization rates experienced in almost two decades.

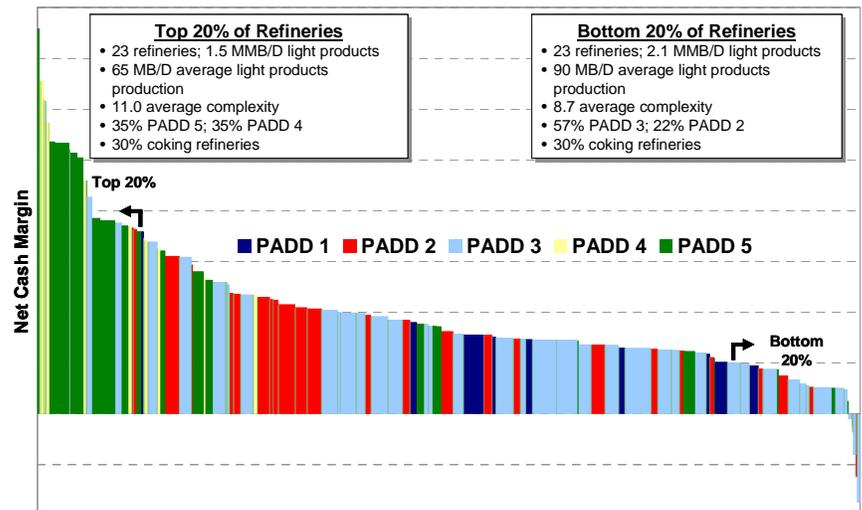
PRISM Cash Margins vs. Previous Periods, \$/B

	09Q3 vs. 09Q2	09Q3 vs. 08Q3
PADD 1	0.12	(6.27)
PADD 2	(1.20)	(9.71)
PADD 3	0.29	(6.46)
PADD 4	1.25	(8.20)
PADD 5	0.93	(1.72)
U.S. Total	0.03	(6.54)

Baker & O'Brien has just released its third

quarter (3Q) industry data service update to the company's PRISM model subscribers. The latest data highlight the continued downward pressure on refining margins across all U.S. markets. However, it also suggests that margins may have finally bottomed out. While average cash margins (EBITDA¹) declined by more than \$6.50 per barrel from 3Q 2008, they were relatively unchanged versus 2Q 2009. As has been the case historically, PADDs² 4 and 5, the Rocky Mountains and the West Coast regions, realized higher average margins than other areas, and actually showed some

U.S. Fuels Refineries' Net Cash Margin Distribution



Cumulative Production of Light Products (Gasoline, Diesel, Jet Fuel) (MMB/CD)

¹ Earnings before interest, income taxes, depreciation, and amortization

² Petroleum Administration for Defense District

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improvement from 2Q 2009. Average margins in other PADDs were essentially flat (PADDs 1 and 3 – the East Coast and the Gulf Coast) or lower (PADD 2 – the Midwest) compared to 2Q 2009.

The *PRISM* data, derived from public sources using complex refinery supply chain modeling tools, provide greater insights into the impacts on specific refineries. As the data in the above graph indicate, simplified “rules of thumb”, such as refinery size and complexity, do not necessarily provide the full story for assessing which refineries are most at risk in this environment. Other critical factors, such as regional crude oil supply advantages and the ability to meet more stringent product specifications, can mean the difference between closure and survival.

While the recent data and company financial reports may hint that refining margins have reached bottom, there are a number of looming threats facing refiners – carbon regulation, fuels regulation, and new refining capacity – which have the potential to further depress refining margins or extend the duration of the current poor environment. Given the heightened degree of uncertainty, refiners are actively working to understand and improve the competitive positioning of their assets.

About Baker & O'Brien, Inc.

Baker & O'Brien is an independent professional consulting firm specializing in technology, economics, and management practice for the international oil, gas, chemical, and related industries. With offices in Dallas, Houston, and London, the firm focuses primarily on the downstream industry to assist clients with strategic studies, mergers and acquisitions, and technology evaluations. The firm also actively provides expert services to support insurance claims and a wide range of commercial disputes in the energy industry.

About PRISM

PRISM is Baker & O'Brien's refining database system that provides detailed analysis of individual refineries as well as the full refining value chain from crude load port to truck rack. The system combines a large historical database with a robust refinery simulator to provide analytical support to competitive analysis, strategic planning, crude oil valuation, and delivered cost of supply. The *PRISM* system currently includes operational and economic performance details for refineries in the U.S., Canada, and Northwest Europe.