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Devon Energy 2010 Letter to Shareholders and Form 10-K

CHANGES TO DEVON'S 2010 ANNUAL REPORT

In an effort to improve the overall value of our annual report, we have transitioned to an online format. This approach reduces printing and distribution costs, minimizes our environmental impact and provides more timely and targeted information to our investors. This document contains our Letter to Shareholders and Form 10-K. The remaining components found in past annual reports, including financial and operational data, property highlights, and corporate stewardship information, are now available on our website at www.devonenergy.com.

Dear Fellow Shareholders:

2010 was a year of significant change and achievement for Devon. With the sale of our Gulf of Mexico and international properties and the enhancement of our onshore growth portfolio, we successfully transitioned Devon into a North American onshore company. Furthermore, in the midst of this transition, Devon delivered outstanding financial and operational results. Production from our retained North American onshore business grew throughout the year, driving net earnings to a record $4.6 billion. Remarkably, in spite of selling roughly 200 million equivalent barrels of proved reserves associated with the Gulf and international operations, Devon increased proved oil and gas reserves to a record 2.9 billion barrels.

John Richels
President and
Chief Executive Officer

J. Larry Nichols
Executive Chairman

Focused on Fundamentals

Producing oil and natural gas is a capital intensive business. Significant investments are required to find, develop, produce, and ultimately, replenish a company's inventory of drilling locations. These investments are made in the face of considerable uncertainty regarding the ever-changing regulatory environment, the prices eventually received for the oil and gas, and the costs incurred to develop and produce these products. Accordingly, capital allocation decisions are fundamental.

With $13 billion of cash generated from our operations and divestitures in 2010, the importance of proper capital allocation was further intensified for Devon. As we considered the alternatives for the deployment of these proceeds, we kept our overarching goal—to optimize value per share—at the forefront of our decision-making process. While our asset base has the capacity to grow production at very high rates, maximizing top line production growth has never been our objective. Accordingly, we always assess the relative attractiveness of incremental exploration and development expenditures, incremental share repurchases and debt repayment. After careful consideration we ultimately arrived at a mix that we believe will maximize the value of Devon's shares over the long term.

With that goal in mind, we allocated roughly $1.2 billion of the divestiture proceeds to further enhance the growth potential of our go-forward North American onshore business. This included $500 million to purchase 50 percent of BP's interest in the Pike oil sands lease in Alberta, Canada. The Pike lease is located immediately adjacent to our highly successful Jackfish project, and Devon is operator of both projects. Pike substantially increases our oil sands presence. It will allow Devon to grow its low-risk thermal oil production from our current 30,000 barrels per day to more than 150,000 barrels per day by the end of this decade. In addition to Pike, we allocated approximately $700 million to capture additional leasehold in oil and liquids-rich areas including the Permian Basin, the Cana Woodford Shale and a number of prospective plays. These investments add depth and breadth to our North American onshore portfolio and secure many years of additional growth opportunities.

In May, we announced a $3.5 billion share repurchase program. Completion of the program will reduce Devon's outstanding share count by approximately 10 percent, boosting the company's reserves, production and cash flow per share. To date, we have repurchased more than $1.6 billion of our common stock at a very compelling value of roughly $10 per barrel of proved reserves. Moreover, this valuation attributes no value to our thousands of unproved locations across all of our shale plays, no value to the continued expansion of our Canadian oil

The second phase of Jackfish, shown here, will increase Devon's thermal oil sands production to more than 60,000 barrels per day by year-end 2012.

North American Onshore Proved Reserves (MMBoe)

North American Onshore Total Production (MMBoe)

sands projects and no value to the millions of prospective acres we have established across North America. We believe that Devon's common stock continues to represent a compelling use of our capital.

In 2010, we also made the decision to apply $1.8 billion of the sales proceeds to reduce debt, further strengthening our industry-leading balance sheet. We exited the year with net debt to capitalization of only 10 percent, including $3.4 billion of cash on hand. Our financial strength and flexibility places us in an enviable and extremely competitive position for the future.

As a result of our disciplined and balanced approach to capital allocation, the repositioned Devon emerges with sustainable organic growth potential, superior financial strength and enhanced per share growth.

Benefits of Balance

The external environment in 2010 was unprecedented. Macro-economic forces of supply and demand led to a historically wide spread between oil and natural gas prices. As the world economy stabilized and showed signs of recovery, increasing demand for oil led to rising prices, averaging some $80 per barrel during the year. In contrast, due to high gas-drilling activity levels resulting in increased supply, North American natural gas prices remained weak, averaging less than $4.50 per thousand cubic feet in 2010. Simultaneously, rising service and supply costs squeezed profit margins for North American gas production. This phenomenon of oil and gas price divergence has significantly impacted the industry.

With economic returns challenged for those natural gas projects without accompanying natural gas liquids production, exploration and production companies are aggressively shifting their focus to oil and liquids-rich gas opportunities. This shift away from dry-gas drilling is proving to be difficult and expensive for some in our industry. However, Devon has always valued a balanced exposure to oil, natural gas and natural gas liquids. Oil and natural gas liquids account for 40 percent of our proved reserves and contributed to more than half of our sales revenue in 2010. This balance provides us with a compelling strategic advantage—the luxury of easily shifting our project mix in response to changing market conditions. In 2010, we deployed more than 80 percent of our exploration and development capital to highly profitable oil and liquids-rich gas opportunities. With a similar pricing environment expected in 2011, we plan to allocate nearly 90 percent of our upstream capital toward oil and natural gas liquids opportunities.

Although natural gas prices will likely remain challenged in the short term, we continue to be optimistic about the long-term competitive position of natural gas in North America. We strongly believe that clean-burning natural gas is the advantaged fossil fuel, and its role in domestic energy consumption will continue to increase. Inevitably, at some point in the future, gas prices will recover and properly incentivize the drilling of dry-gas plays. Since the vast majority of our properties are held by production, they do not require additional drilling to maintain ownership. Accordingly, we can easily maintain our positions and apply capital to our dry-gas opportunities when the relative attractiveness improves.

Positioned for Performance

The strength of Devon's North American onshore asset base was reflected in our 2010 results. In spite of allocating $1.2 billion of capital to new acreage acquisitions, our remaining upstream capital spending of $4.5 billion drove fourth-quarter production up 8 percent in 2010 over the year-ago quarter. Higher oil and natural gas liquids production accounted for almost all of this growth, led by outstanding performance from all of our flagship assets.

Devon's production from our single largest property, the Barnett Shale in North Texas, reached an all-time high of 1.2 billion cubic feet equivalent per day. Since Devon first pioneered horizontal drilling in shale here in 2002, the Barnett has been a reliable and consistent source of production and reserve growth for the company. The Barnett continued to exceed our expectations in 2010 with the seventh consecutive year of upward performance-related reserve revisions. With some 7,000 remaining drilling locations and nearly 18 trillion cubic feet equivalent of risked resource potential remaining, we expect to be active in the Barnett for many years to come.

The Cana Woodford Shale in western Oklahoma is rapidly emerging as another of the most economic shale plays in North America. In 2010, we more than doubled our leasehold, giving us the largest land position in the play. In addition to the high natural gas liquids content, the Cana Woodford also offers a significant condensate component that further enhances drilling economics. In 2011, we expect to roughly double our Cana production to 250 million cubic feet equivalent per day by year-end, including 14,000 barrels of natural gas liquids and condensate.

Also in 2010, our Jackfish steam-assisted gravity drainage project continued to demonstrate industry-leading performance. Higher production at Jackfish was the most significant contributor to our growth in oil production. As mentioned previously, we substantially increased our position in the Canadian oil sands through our purchase of the Pike lease. Combined with our Jackfish project, we believe Pike will allow us to grow our oil sands production five-fold, to more than 150,000 barrels per day by 2020. This highly visible, low-risk oil production growth is clearly a differentiating advantage for Devon.

In addition to the continued development of the company's key producing assets, Devon is investing in a number of emerging plays. Our recent leasing efforts supplement our historic positions in the Permian Basin of west Texas and New Mexico and the Western Canadian Sedimentary Basin. Horizontal drilling and other technological advances are being used to unlock the vast resource that still remains in these basins. We are confident that the application of current technology will yield many high-margin development opportunities on our existing acreage base for years to come.

Our current inventory of development projects and emerging opportunities underpins our confidence that we can deliver strong organic growth in oil and liquids over the next several years. However, we are continuously striving to improve our opportunity set and restock the shelves. In 2010, we acquired some 750,000 net acres to evaluate emerging plays and began testing a handful of new play concepts. These investments seed our organic growth for the long term.

As Devon embarks upon the next stage of its journey, we could not be more excited about our future. We have captured a deep inventory of high-margin oil and gas growth opportunities. We have an industry-leading balance sheet that provides the financial strength and flexibility to fund these opportunities. We have a talented and dedicated workforce focused on value creation. And we have an unyielding commitment to capital discipline. Regardless of the challenges presented to our industry in the future, Devon is positioned as a formidable competitor.

John Richels
President and Chief Executive Officer

J. Larry Nichols
Executive Chairman

March 25, 2011

TRANSITION OF LEADERSHIP

In June, we announced the appointment of John Richels to the position of chief executive officer. John has served as president of the company since 2004 and has been a valuable member of Devon's senior management team since 1998. The process of transitioning responsibilities of the CEO role to John has been under way for the last several years. His keen business acumen, proven track record and extraordinary leadership skills make him the obvious choice as my successor. John has also proven to be an excellent cultural fit for Devon as he shares the company's core values and leadership attributes. In my new role as Devon's executive chairman, I will continue to assist in the formulation of the company's strategic direction and to be involved in Devon's public affairs efforts.

J. Larry Nichols, Executive Chairman

Directors

J. Larry Nichols
Executive Chairman, Devon Energy Corporation

John A. Hill (2)
Lead Director
Vice Chairman and Managing Director, First Reserve Corporation, an oil and gas investment management company

Robert H. Henry (1) (3)
President, Oklahoma City University and former U.S. Judge for the Tenth Circuit Court of Appeals

Michael M. Kanovsky (1) (4)
President, Sky Energy Corporation and Co-founder, Northstar Energy Corporation

Robert A. Mosbacher Jr. (2) (3)
Chairman, Mosbacher Energy Company, an independent oil and gas exploration and production company

Duane C. Radtke (2) (4)
Owner, President and Chief Executive Officer, Valiant Exploration LLC and non-executive Chairman, NFR Energy LLC

John Richels
President and Chief Executive Officer, Devon Energy Corporation

Mary P. Ricciardello (1) (3)
Former Senior Vice President and Chief Accounting Officer, Reliant Energy, Inc.

(1) Audit Committee
(2) Compensation Committee
(3) Governance Committee
(4) Reserves Committee

Senior Officers

J. Larry Nichols
Executive Chairman

John Richels
President and Chief Executive Officer

Jeff A. Agosta
Executive Vice President and Chief Financial Officer

David A. Hager
Executive Vice President, Exploration and Production

R. Alan Marcum
Executive Vice President, Administration

Frank W. Rudolph
Executive Vice President, Human Resources

Darryl G. Smette
Executive Vice President, Marketing and Midstream

Lyndon C. Taylor
Executive Vice President and General Counsel

William F. Whitsitt
Executive Vice President, Public Affairs

Common Stock Trading Data

	PRICE RANGE OF COMMON STOCK HIGH	LOW	DIVIDENDS PER SHARE
2010			
Quarter Ended March 31	$76.79	$62.38	$0.16
Quarter Ended June 30	$70.80	$58.58	$0.16
Quarter Ended September 30	$66.21	$59.07	$0.16
Quarter Ended December 31	$78.86	$63.76	$0.16
2009			
Quarter Ended March 31	$73.11	$38.55	$0.16
Quarter Ended June 30	$67.40	$43.35	$0.16
Quarter Ended September 30	$72.91	$48.74	$0.16
Quarter Ended December 31	$75.05	$62.60	$0.16

Other Information

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For information about transfer or exchange of shares, dividends, address changes, account consolidation, multiple mailings, lost certificates and Form 1099, contact:

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Toll free: (877) 860-5820
E-mail: web.queries@computershare.com

Royalty Owner Assistance
Telephone: (405) 228-4800
E-mail: DevonRevenueHotline@dvn.com

Annual Meeting
Our annual shareholders’ meeting will be held at 8 a.m. Central Time on Wednesday, June 8, 2011, at the Skirvin Hotel, Continental Room, 1 Park Avenue, Oklahoma City, OK.

Independent Auditors
KPMG LLP
Oklahoma City, OK

Stock Trading Data
Devon Energy Corporation’s common stock is traded on the New York Stock Exchange (symbol: DVN). There are approximately 12,300 shareholders of record.

Additional Information
This report and Devon’s Corporate Social Responsibility Report are available at www.devonenergy.com. Print versions of these publications are also available upon request to:

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