Financial News for Major Energy Companies

Twenty-three major energy companies reported overall net income (excluding unusual items) of $11.2 billion on revenues of $189 billion during the first quarter of 2003 (Q103). The level of net income for Q103 was 186 percent higher than in the first quarter of 2002 (Q102) (Table 1). The overall increase in net income was due primarily to higher crude oil and natural gas prices.

Overall, the petroleum line of business registered a 233-percent increase in net income between Q102 and Q103, as the 170-percent increase in oil and gas production net income was augmented by a large increase in refining/marketing net income. However, other lines of businesses fared poorly in Q103 relative to Q102 as earnings from chemicals operations, worldwide gas and power operations, and other businesses all declined. (Note 1)

Energy Price News

Oil prices increase by more than half and natural gas prices more than double. The world oil price (as represented by the U.S. refiner average acquisition cost of imported crude oil) increased 62 percent relative to a year ago, going from $19.33 per barrel in Q102 to $31.22 per barrel in Q103 (Table 2). As indicated in the latest *Short-Term Energy Outlook* (*STEO*) of the Energy Information Administration, slight upward pressure was exerted on crude oil prices by a 2-percent expansion in the U.S. economy. Market conditions in the United States (slightly less than a 4-percent increase in petroleum demand, combined with an almost 1-percent increase in petroleum supply, and a 17-percent decline in domestic crude oil stocks relative to a year ago (Figure 1)) exerted upward pressure on crude oil prices. Further, world stock levels were relatively low and put upward pressure on world oil prices. Adding to the upward pressure exerted on prices by market fundamentals were supply-assurance fears arising from the war in Iraq and disruptions in production due to recent political events in Venezuela and Nigeria. The quarter Q103 was the third consecutive quarter in which crude oil prices increased relative to their year-earlier levels, after eight consecutive quarters of year-over-year crude oil price declines.

The average U.S. natural gas wellhead price more than doubled (increasing by 137 percent) between Q102 and Q103 (Table 2). The Q103 quarter was the third consecutive quarter that natural gas prices have increased relative to a year earlier following six consecutive quarters of year-over-year falling prices. As indicated in the latest *STEO*, there was a 4-percent increase in natural gas demand (in part due to a 6-percent increase in gas-weighted heating degree days), and a sharp reduction in working natural gas in storage (18 percent lower at the beginning of the quarter and 54 percent lower at the end of the quarter relative to Q102), contributing to higher natural gas prices.

Worldwide Petroleum News

- Earnings from worldwide oil and natural gas production operations increased 170 percent as higher foreign earnings augmented higher domestic earnings. Overall earnings for domestic oil and natural gas exploration, development, and production operations (i.e., domestic upstream operations) in Q103 more than trebled those of Q102 (Table 1), increasing by 264 percent. Domestic upstream earnings increased relative to a year ago as slightly lower crude oil production by the U.S. majors reporting crude oil production (Table 1) was more than offset by much higher crude oil prices (Table 2). Similarly, domestic natural gas prices increased while production levels fell 8 percent in Q103 relative to Q102. Various reasons were given for lower production levels, including that some production was shut-in due to storms (and it is now uneconomic to restore the production), divestitures, and naturally occurring declines in field production. All nine of the companies that reported separate net income for domestic upstream operations reported higher earnings in Q103 relative to Q102.

Net income from foreign upstream operations increased 119 percent relative to Q102, as all of the 5 companies that reported separate net income from foreign upstream operations reported an increase in Q103 relative to Q102. Higher crude oil prices (Table 2) were marginally offset by somewhat lower foreign crude oil production (Table 1). Higher natural gas production abroad in Q103 relative to Q102 further contributed to higher foreign upstream earnings. The increased natural gas production abroad was due to both acquisitions since Q102 and increased production levels relative to a year ago from previously-owned fields.

- Earnings from worldwide downstream petroleum operations increased from a loss of $473 million in Q102 to earnings of almost $2 billion in Q103 as U.S. and foreign refining margins increased. Despite higher crude oil prices, U.S. and foreign downstream petroleum operations of the U.S. majors each recorded much higher net income in Q103 than in Q102, with domestic operations recording the larger nominal increase.

The U.S. gross refining margin (the per-barrel composite wholesale product price less the composite refiner acquisition cost of crude oil) in Q103 was 56 percent higher than in Q102 (Table 2). Refined product stocks in Q103 were 12 percent lower than in Q102 (Figure 2), putting upward pressure on product prices, which increased 64 percent from a year earlier (calculated by adding the price of crude oil and the gross refining margin in Table 2).

A 2-percent decrease in domestic refinery throughput relative to Q103 by U.S. majors reporting domestic refinery throughput (Table 1) somewhat offset the benefits of the higher refining margins, but net income seemed hardly affected, increasing from a loss of $516 million in Q102 to earnings of $1,052 million relative to a year earlier. The earnings of almost all companies were higher in Q103 than in Q102 (nine of the 12 companies reported losses for the domestic refining/marketing operations in Q102).

First-quarter earnings from foreign downsteam operations increased by more than a factor of 13 relative to Q102. All three of the companies that reported separate foreign refining/marketing results reported much higher net income from these operations. Higher earnings were mainly due to the companies realizing higher refining margins despite some higher energy costs. These corporate results occurred in a favorable industry environment that recorded higher refining margins in Q103 than in Q102 (Figure 3), increasing by $2.60 per barrel in the Asia/Pacific region and by an even greater $2.74 per barrel in Europe.

Worldwide Downstream Natural Gas and Power

- **Worldwide downstream natural gas and power records a 19-percent reduction in earnings relative to a year ago.** However, asset sales may have obscured the results of ongoing worldwide downstream natural gas and power operations of these companies. After excluding El Paso, which accounted for much of the asset sales, the remaining companies reported a 50-percent increase in earnings due to customer growth and colder weather in their areas of operation. Increased demand for domestic electricity (up 5 percent) and natural gas (also up 5 percent) in Q103 relative to Q102 led to many of the companies reporting higher earnings in Q103 than in Q102.

Chemical Operations and Other Businesses

- **Earnings of majors' chemical operations fall as feedstock prices and energy costs outpaced product prices.** The majors chemical operations in Q103 were 52 percent lower than in Q102 (Table 1) as most companies reported lower earnings (or larger losses). Exxon Mobil and Kerr McGee were the exceptions as both cited higher sales as an important reason for their improved earnings from this line of business in Q103.

The majors' earnings from assorted other businesses fell from $8 million in Q102 to $1 million in Q103 (Table 1). The remaining operations are limited to Unocal's geothermal operations and Sunoco's coke operations. Both of these lines of business received scant mention in the company quarterly press releases. Consequently, the "Other" line of business will be discontinued in the *News* after this quarter.

---

1. Note: corporate net income and the total net income of the lines of business differ because (1) some items in corporate net income are nontraceable, such as interest expense, and are not allocated to lines of business, and (2) the number of companies reporting line-of-business net income varies.

Table 1. Corporate Revenue and Net Income[a], Net Income by Lines of Business and Functional Petroleum Segments, and Operating Information for Major Energy Companies

	Q102	Q103	Percent Change
Financial Information			
Corporate	(millions of dollars)		
Revenue (23)[b]	121,378	188,575	55.4
Net Income (23) [c]	3,899	11,151	186.0
Worldwide Lines of Business Net Income			
Petroleum (25)	5,187	17,293	233.4
Oil and Natural Gas Production (19)[d]	5,660	15,302	170.4
Refining/Marketing (13)[d]	-473	1,991	n.m.
Downstream Natural Gas and Power (7)	1,402	1,141	-18.6
Chemicals (9)	88	43	-51.5
Other Businesses (2)	8	1	-88.1
Domestic Net Income by Function			
Oil and Natural Gas Production (9)	1,692	6,164	264.2
Refining/Marketing (12)	-516	1,052	n.m.
Foreign Net Income by Function			
Oil and Natural Gas Production (5)	2,830	6,196	118.9
Refining/Marketing (3)	66	908	1,275.8
Operating Information			
Oil Production	(thousand barrels per day)		
Domestic (17)	3,984	3,900	-2.1
Foreign (13)	4,836	4,637	-4.1
Natural Gas Production	(million cubic feet per day)		
Domestic (19)	22,537	20,779	-7.8
Foreign (13)	18,330	19,112	4.3
Refinery Throughput	(thousand barrels per day)		
Domestic (13)	12,245	12,003	-2.0
Foreign (4)	5,512	5,549	0.7

[a] Net income excludes unusual items. Because consolidated net income includes corporate nontraceables and eliminations, it is not equal to the sum of the lines of business net income.
[b] The number of companies is reported in parentheses. Percent changes are calculated from unrounded data.
[c] The number of companies reporting net income from petroleum operations is greater than the number reporting corporate revenue and corporate net income because the U.S. operations of BP and Royal Dutch/Shell are included in the results of the U.S. lines of business, but not in the foreign or corporate results because the companies are foreign based.
[d] The companies having worldwide oil and natural gas production or refining/marketing operations includes both companies reporting domestic and foreign operations separately and those that merely report oil and natural gas operations or refining/marketing operations with no separation of domestic and foreign results. Thus, the number of companies with worldwide oil and natural gas production operations is greater than the sum of the companies reporting domestic results and those reporting foreign results. So, too, for refining/marketing operations.

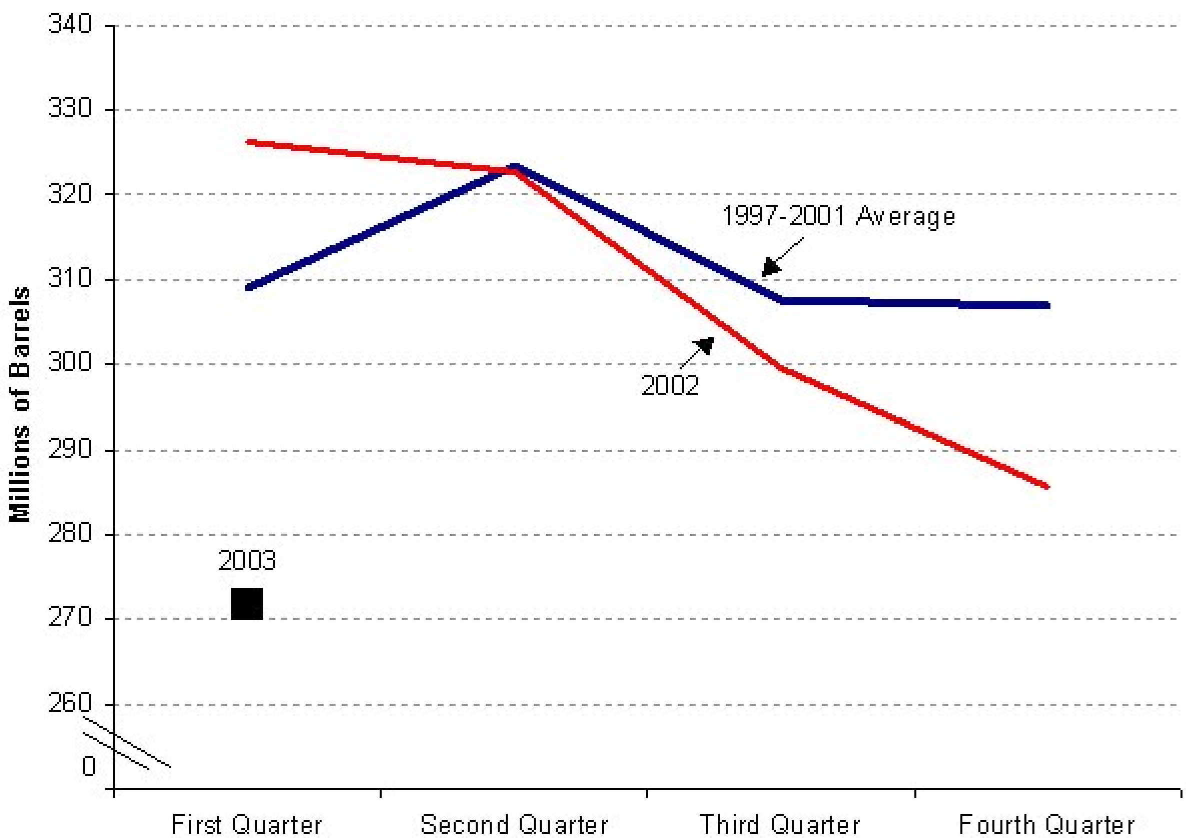
n.m.: Not meaningful.

Sources: Company press releases and financial disclosures.

Table 2. U.S. Energy Prices and the U.S. Gross Refining Margin

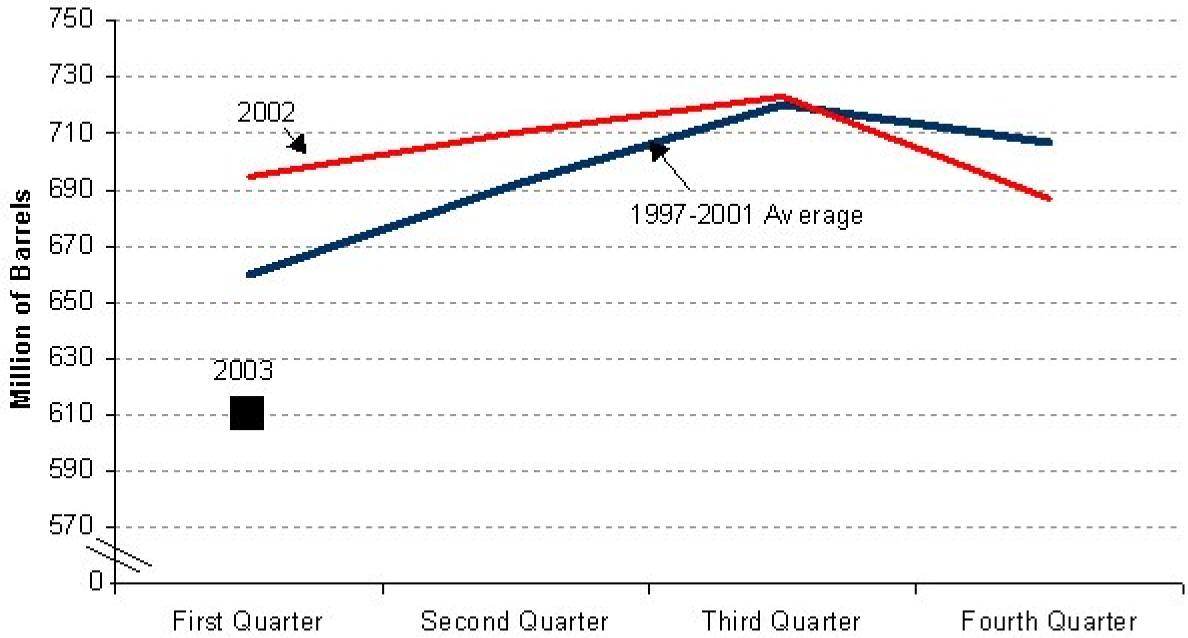
	Q102	Q103	Percent Change
U.S. Energy Prices[a]			
Refiner Acquisition Cost of Imported Crude Oil ($/barrel)	19.33	31.22	61.5
Natural Gas Wellhead ($/thousand cubic feet)	2.34	5.54	136.8
U.S. Gross Refining Margin[b] ($/barrel)	6.85	10.68	55.9
[a]Energy Information Administration, *Short Term Energy Outlook* (STEO), (Washington, DC, May 8, 2003), Table 4.			
[b]Compiled from data in Energy Information Administration, *Petroleum Marketing Monthly,* DOE/EIA-380 (Washington, DC), Table 1, Table 4 and Table 5; and Energy Information Administration, *Monthly Energy Review*, DOE/EIA-0035, (Washington, DC) Table 3.2b.			
Note: The U.S. Gross Refining Margin is the difference between the composite wholesale product price and the composite refiner acquisition cost of crude oil.			

Figure 1. Quarterly U.S. Crude Oil Stocks, 1997-2001, 2002, and 2003



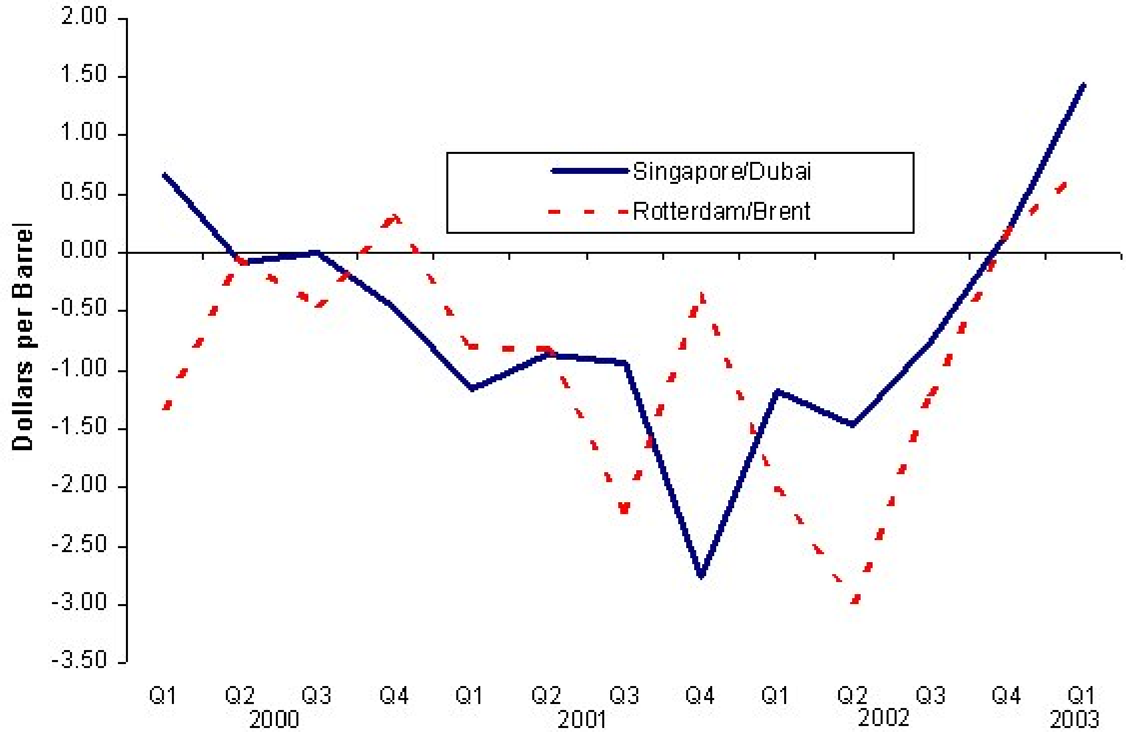
Source: Energy Information Administration, *Petroleum Supply Monthly*, DOE/EIA-0109 (Washington, DC), Table 51.

Figure 2. Quarterly U.S. Petroleum Product Stocks, 1997-2001, 2002, and 2003



Source: Energy Information Administration, *Petroleum Supply Monthly*, DOE/EIA-0109 (Washington, DC), Table 51.

Figure 3. Quarterly Foreign Gross Refining Margins,[a] 2000 - 2003



[a] A gross refining margin refers to the difference between the weighted average petroleum product price and the cost of raw materials (largely crude oil) on a per barrel basis.
Note: The gross refining margin for Dubai crude oil refined in Singapore is used a proxy for Asia/Pacific gross refining margins. Similarly, the gross refining margin for Brent crude oil refined in Rotterdam is used as a proxy for European gross refining margins.
Source: Energy Intelligence Group, *Oil Market Intelligence*, (June 2001, and 2002; January 2001, 2002, and 2003; and May 2003), page 12.

File originally loaded: May 27, 2003.

File updated: June 4, 2003 (gross refining margin updated).

Contact:

Neal Davis
neal.davis@eia.doe.gov
Fax: (202) 586-9753

URL: http://www.eia.doe.gov/emeu/perfpro/news_m/q103.pdf