U.S. Energy Information Administration
Independent Statistics and Analysis

Financial News for Major Energy Companies, Second Quarter 2002

Twenty-two major energy companies[1] reported overall net income (excluding unusual items) of $5.5 billion on revenues of $141 billion during the second quarter of 2002 (Q202). The level of net income for Q202 was 55-percent lower than was the case in the second quarter of 2001 (Q201) (Table 1).

All lines of business registered declines in net income between Q201 and Q202 with the exception of chemicals. (Note corporate net income and the total net income of the lines of business will 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.) The majors' domestic upstream oil and natural gas production operations made the largest contribution to overall net income in Q202 at $3.2 billion (Table 1), with foreign upstream oil and natural gas production operations second at $2.7 billion, and domestic downstream refining/marketing third at $1.0 billion.

Energy Price News

Natural gas prices much lower than a year ago while oil prices unchanged. The average natural gas wellhead price dropped 34 percent in Q202 from Q201 (Table 2). Natural gas prices have been lower than a year earlier for five consecutive quarters. Working natural gas in storage (*Short-Term Energy Outlook* (*STEO*), Table 8) at the beginning of Q202 was more than double the level at the beginning of Q201, while Q202 natural gas consumption was unchanged from Q201.

The world oil price (as represented by the U.S. refiner average acquisition cost of imported crude oil) was virtually unchanged from a year ago, going from $23.86 per barrel in Q201 to $23.84 per barrel in Q202 (Table 2). Little upward pressure was exerted on crude oil prices by U.S. demand for petroleum, which was unchanged from a year earlier. Similarly, little upward pressure was exerted on prices by crude oil stocks, which were higher than in the second quarters of both 2000 and 2001. Relative to their year-earlier levels, this is the second-consecutive quarter that crude oil prices were essentially unchanged after falling for six consecutive quarters.

Worldwide Petroleum News

Earnings from worldwide oil and natural gas production operations fall by one-third due to lower prices. Overall earnings for both domestic and foreign oil and natural gas exploration, development, and production (i.e., upstream operations) during Q202 were much lower (37 percent and 15 percent, respectively) than a year earlier (Table 1). Eight of the 9 companies reporting domestic oil and natural gas earnings reported lower net income relative to Q201, with Williams Companies the exception (Note 1) Oil production rose slightly (Table 1), chiefly due to acquisitions (i.e., Devon

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

	Q201	Q202	Percent Change	Year to Date 2001	Year to Date 2002	Percent Change
Financial Information						
Corporate	(millions of			(millions of dollars)		
Revenue (22)[b]	153,866	141,441	-8.1	310,724	263,153	-15.3
Net Income (22) [c]	12,268	5,537	-54.9	25,268	9,550	-62.2
Worldwide Lines of Business Net Income						
Petroleum (24)	17,180	8,505	-50.5	35,246	13,653	-61.3
Oil and Natural Gas Production (19)[d]	10,928	7,285	-33.3	25,812	12,877	-50.1
Refining/Marketing (14)[d]	6,315	1,220	-80.7	9,434	776	-91.8
Downstream Natural Gas and Power (8)	1,457	398	-72.7	4,397	2,102	-52.2
Chemicals (9)	256	420	64.1	103	-16	-115.5
Other Businesses (6)	25	-54	-316.0	75	5	-93.3
Domestic Net Income by Function						
Oil and Natural Gas Production (9)	5,025	3,151	-37.3	12,534	4,791	-61.8
Refining/Marketing (14)	5,685	977	-82.8	7,541	468	-93.8
Foreign Net Income by Function						
Oil and Natural Gas Production (6)	3,139	2,664	-15.1	6,895	5,501	-20.2
Refining/Marketing (3)	568	243	-57.2	1,478	308	-79.2
Operating Information						
Oil Production	(thousand barrels			(thousand barrels per day)		
Domestic (17)	3,974	4,053	2.0	3,947	4,042	2.4
Foreign (15)	4,526	4,746	4.9	4,578	4,804	4.9
Natural Gas Production	(million cubic feet			(million cubic feet per day)		
Domestic (18)	22,418	21,672	-3.3	22,375	21,552	-3.7%
Foreign (15)	13,431	15,833	17.9	14,833	17,113	15.4%
Refinery Throughput	(thousand barrels			(thousand barrels per day)		
Domestic (14)	12,294	12,511	1.8	11,928	12,247	2.7
Foreign (5)	5,222	5,332	2.1	5,310	5,421	2.1

[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.

Sources: Company press releases and financial disclosures.

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

	Q201	Q202	Percent Change
U.S. Energy Prices[a]			
Refiner Acquisition Cost of Imported Crude Oil ($/barrel)	23.86	23.84	-0.1
Natural Gas Wellhead ($/thousand cubic feet)	4.56	3.01	-34
U.S. Gross Refining Margin[b] ($/barrel)	15.88	8.6	-45.8

[a]Energy Information Administration, *Short Term Energy Outlook* , (Washington, DC, September 6, 2002), 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.

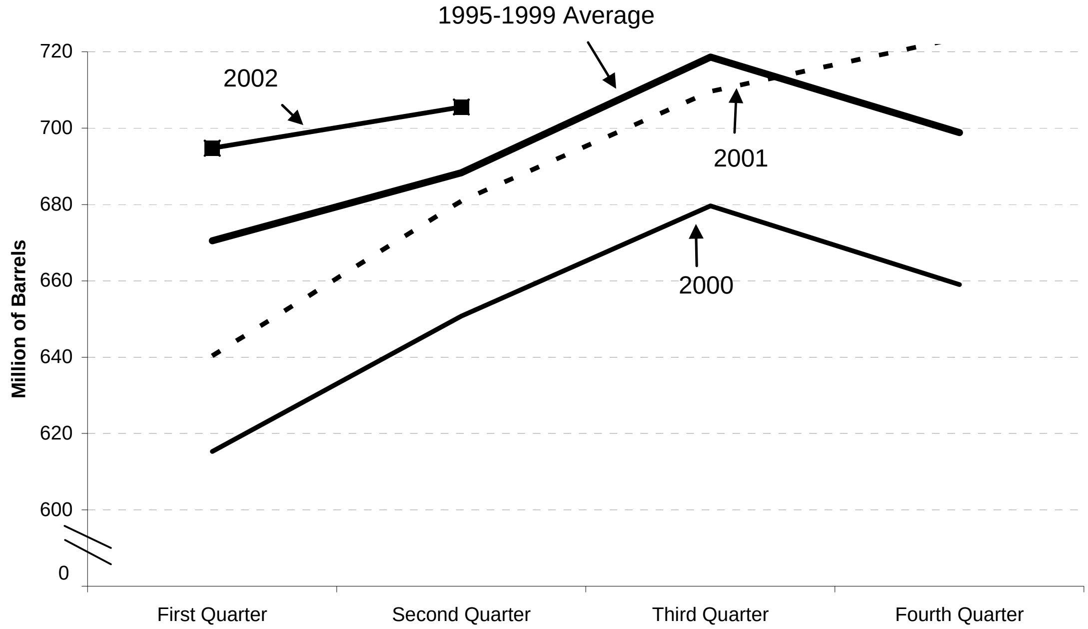
Note: The U.S. Gross Refining Margin is the difference between the composite wholesale product price and the composite refiner acquisition cost of crude oil.

Energy's acquisition of Mitchell Energy, Dominion Resources' acquisition of Louis Dreyfus, Kerr McGee's acquisition of HS Resources, and Williams' acquisition of Barrett Resources). Excluding these four companies, oil production rose 1-percent as only BP and Shell Oil among the remaining companies reported both higher domestic oil and natural gas production, in part due to new fields in the United States. Company press releases indicate that the decline in natural gas production was due to reduced development drilling, natural field declines, implied inability to sustain the production level of a year ago (in response to the historically high natural gas prices of a year ago), and asset sales.

Unocal was the only company reporting an increase in net income relative to Q201 of 6 companies that reported separate net income from foreign upstream operations. Increased overseas oil and natural gas production during Q202 relative to Q201 was generally insufficient to offset lower commodity prices. All of the companies reported production increases of crude oil, natural gas, or both, and most of the companies mentioned making acquisitions of producing properties. Excluding the five companies that made large acquisitions (i.e., Amerada Hess' acquisition of Triton Energy, and the earlier mentioned acquisitions by Devon, Dominion, Kerr McGee, and Williams), the remaining 10 companies reported a net increase of 3 percent in oil production and 14 percent in natural gas production.

Worldwide downstream petroleum operations record lower net income as crude oil prices are stable and product prices decline. The gross U.S. refining margin (the per-barrel composite wholesale product price less the composite refiner acquisition cost of crude oil) in Q202 was 46 percent lower than in Q201 (Table 2). Refined product stocks in Q202 were higher than in the second quarters of 2001 and 2000, putting downward pressure on product prices and lowering the industry-wide refining margin by more than $7 per barrel (Figure 1). The decrease in the refining margin was somewhat offset by a small increase in domestic refinery throughput relative to Q201 by U.S. majors reporting domestic refinery throughput (Table 1). However, such efforts by the U.S. majors were insufficient to prevent an 83-percent reduction in earnings from domestic refining/marketing operations, relative to Q201 (Table 1). All 14 refiners reported lower earnings than a year ago and 4 reported losses. According to company press releases, reduced profits from this line of business were partially due to lower

Figure 1. Quarterly U.S. Petroleum Product Stocks, 1995-2002



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

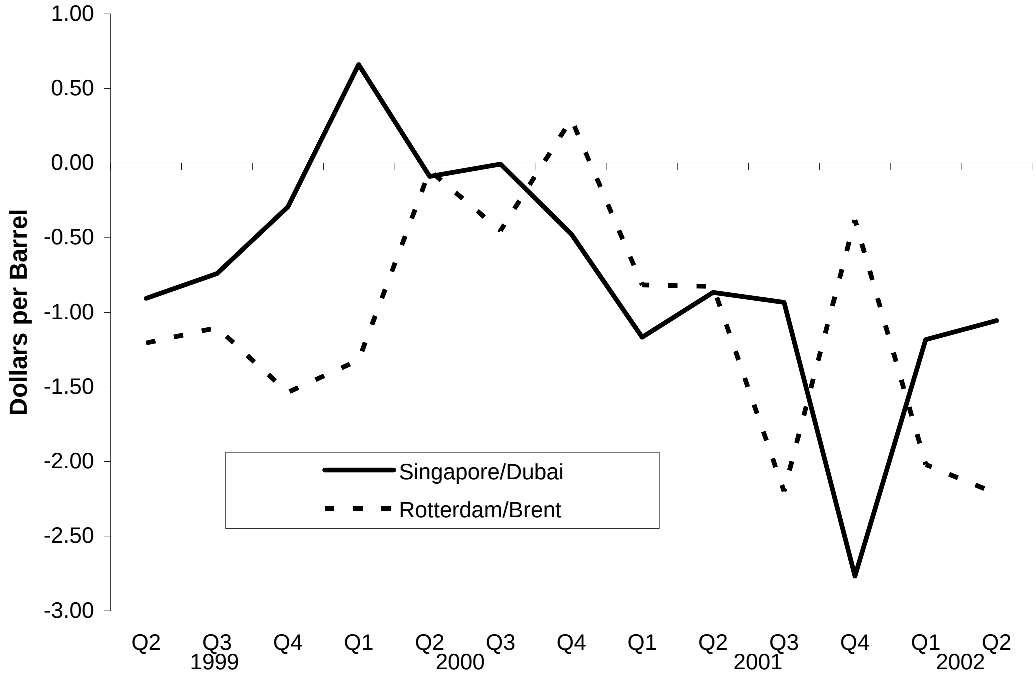
retailing gasoline and refining margins, higher heavy/sour oil costs relative to light/sweet oil, and reduced demand for aviation fuel.

First-quarter earnings from foreign refining/marketing operations declined by 57 percent relative to Q201 (Table 1), with two of the three companies that reported separate foreign refining/marketing results reporting lower net income. The lower earnings were partially due to lower industry-wide refining margins, which were 2 cents per barrel lower in the Asia/Pacific region and $1.20 per barrel lower in Europe compared to a year earlier (Figure 2). Slightly higher refinery throughput (Table 1) was insufficient to overcome the effects of the lower refining margins for the companies reporting foreign refining/marketing results. Only Conoco reported higher net income, noting that higher refining volumes magnified the benefits of higher retailing motor gasoline margins.

Worldwide Downstream Natural Gas and Power[2]

Weak demands for electricity and natural gas lead to 73-percent reduction in worldwide downstream natural gas and power earnings (Table 1). Residential and commercial demands for electricity and natural gas increased by 1 percent and 6 percent, respectively. However, electricity demand and natural gas demand by industrial users declined 6 percent and 1 percent, respectively, resulting in an overall decline in domestic electricity demand and a flat demand for natural gas. Six of the 8 companies reporting separate natural gas and power operations reported lower net income than a year earlier, with lower processing margins, asset sales, lower NGL prices, and higher operating costs. Warmer weather and increased sales were given credit for the higher earnings by one of the 2 companies reporting higher net income in Q202 relative to Q201.

Figure 2. Quarterly Foreign Refining Margins, 1999 - 2002



Source: Energy Intelligence Group, *Oil Market Intelligence* (January 2000 and 2001, June 1999 and 2000, and April 2002), p. 12

Chemical Operations and Other Businesses

Majors' chemical operations generate higher net income. The majors reported a 64-percent increase in net income from chemical operations (Table 1). However, the results were mixed as four of the companies reporting separate net income for chemicals reported higher net income while five reported lower net income or losses relative to Q201. Higher sales volume and product margins were among the reasons cited for higher income. Reasons noted for lower net income (or losses) include higher feedstock costs relative to product prices, and lower product prices.

The majors' earnings from assorted other businesses fell from $25 million in Q201 to a net loss of $54 million in Q202 (Table 1) as all seven of the companies reported lower earnings and three reported losses for a variety of businesses, including coal (Sunoco), copper mining (ExxonMobil), and global trade (Unocal). Several reasons for the lower results were given, including ExxonMobil's sale of its Colombian coal assets, Sunoco's reduced coal sales and lower realized prices, and Williams' recognition of the impairment of an asset, but most companies failed to disclose the reasons for their declines.

[1]Historically the companies included in the *Financial News for Major Energy Companies* (the *News for Majors*) have been vertically-integrated oil and natural gas companies with both oil and natural gas exploration, development, and production operations (i.e., upstream petroleum) and petroleum refining and motor gasoline marketing (i.e., downstream petroleum). However, as the energy industry has changed, this selection criteria led to differences between the set of companies included in the *News for Majors* and those included in the Financial Reporting System (FRS) of the Energy Information Administration (EIA) (i.e., those respondents to Form EIA-28

(Financial Reporting System)). Because FRS respondents are considered U.S. major energy companies by EIA, it became necessary to recast the set of companies included in the *News for Majors* so that they would be identical to the FRS respondents (lessening the appearance that EIA had more than one definition for U.S. major). Consequently, just as the FRS respondents now include vertically-integrated oil and natural gas companies (e.g., Amerada Hess), oil and natural gas producers (e.g., Devon Energy), petroleum refiners (e.g., Premcor), petroleum refiners and motor gasoline marketers (e.g., Tesoro), and energy companies (e.g., El Paso), so, too, does the *News for Majors*.

The twenty-two companies included are Anadarko Petroleum, Apache Corporation, BP (only U.S. operations included), Burlington Resources, ChevronTexaco, Conoco Inc., Devon Energy, Dominion Resources, El Paso Energy, EOG Resources, Exxon Mobil Corporation, Kerr McGee Corporation, Lyondell Chemical Company, Marathon Oil, Occidental Petroleum, Phillips Petroleum, Premcor Inc., Royal Dutch/Shell (only U.S. operations included), Sunoco Inc., Tesoro Petroleum, Unocal Corporation, Valero Energy Corporation, and Williams Companies.

[2]The addition over the last several months by the reporting companies of lines of business that fit a category here termed "worldwide downstream gas and power" indicates both that the downstream natural gas and power generation operations of the traditional U.S. major energy producers are growing in importance. The activities that fall within the category "worldwide downstream gas and power" include gathering, field processing, transportation, marketing of both natural gas liquids and dry natural gas, electricity generation, transmission, and distribution.

Note 1. Eight of the 9 companies that reported net income from domestic oil and natural gas production also reported domestic oil and natural gas production volumes as did 9 other companies that did not report net income attributable to those activities.

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