eia.doe.gov

Energy Finance

Financial News for Major Energy Companies, Second Quarter 2007

Overview

Second Quarter 2007 Key Findings	
Net Income	$30.7 billion
Revenues	$301.7 billion
Trends	4-percent increase in net income relative to second quarter of 2006
	Lower oil prices, and lower oil and gas production

Twenty-two major energy companies[a] reported overall net income (excluding unusual items) of $30.7 billion on revenues of $301.7 billion during the second quarter of 2007 (Q207). The level of net income for Q207 was 4-percent higher than in the second quarter of 2006 (Q206) (Table 1). Net income for Q207 increased as the effects of higher natural gas prices and much higher refining margins offset the effects of lower oil prices, lower worldwide production of oil and natural gas, and lower refinery throughput.

Overall, the petroleum line of business (which includes both oil and natural gas production and petroleum refining/marketing) registered a 1-percent decrease in net income between Q206 and Q207. A 13-percent decrease in oil and gas production net income more than offset a 26-percent increase in refining/marketing net income. Some lines of business reported lower earnings in Q207 relative to Q206 (both domestic and foreign oil and gas production, and chemicals) while others reported higher earnings (both domestic and foreign refining/marketing operations, and gas and power). (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.)

Energy Price News

The crude oil price for Q207 decreased two percent relative to a year earlier while the price of natural gas increased ten percent. The U.S. refiner average acquisition cost of imported crude oil decreased from $63.62 per barrel in Q206 to $62.13 per barrel in Q207 (Table 2). (See the current and recent issues of the *Short-Term Energy Outlook* for explanation of these price changes and those discussed below.) This decline relative to the year-earlier quarter came was the second straight after eighteen consecutive quarters in which crude oil prices increased relative to their year-earlier levels.

The average U.S. natural gas wellhead price increased from $6.19 per thousand cubic feet in Q206 to $6.80 in Q207 (Table 2). The increase comes on the heels of four consecutive quarters in which domestic natural gas prices fell relative to the year-earlier quarter.

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
(Number of companies reporting given in parentheses)

	Q206	Q207	Percent Change[b]	2006	2007	Percent Change
Financial Data						
	(Millions of Dollars)		(%)	(Millions of Dollars)		(%)
Corporate						
Revenue (20)[c]	294,579	301,686	2.4	571,729	561,393	-1.8
Net Income (20)	29,536	30,672	3.8	53,427	54,554	2.1
Worldwide Lines of Business Net Income						
Petroleum (22)	36,930	36,761	-0.5	66,498	63,513	-4.5
Oil and Gas Production (18)	24,933	21,706	-12.9	49,324	41,480	-15.9
Refining/Marketing (11)	11,997	15,055	25.5	17,173	22,033	28.3
Gas and Power (10)	1,270	1,462	15.1	2,982	2,782	-6.7
Chemicals (7)	1,618	1,617	-0.1	3,571	3,316	-7.1
Domestic Net Income						
Oil and Gas Production (13)	9,102	8,307	-8.7	18,465	15,355	-16.8
Refining/Marketing (11)	9,732	11,788	21.1	13,671	16,535	20.9
Foreign Net Income						
Oil and Gas Production (5)	10,631	8,949	-15.8	19,974	17,868	-10.5
Refining/Marketing (5)	2,265	3,267	44.2	3,502	5,498	57.0
Operating Data						
Oil Production	(Thousands of Barrels/Day)		(%)	(Thousands of Barrels/Day)		(%)
Domestic (16)	3,227	3,142	-2.7	3,152	3,145	-0.2
Foreign (11)	5,142	5,087	-1.1	4,887	5,026	2.8
Natural Gas Production	(Million Cubic Feet/Day)		(%)	(Million Cubic Feet/Day)		(%)
Domestic (18)	20,767	20,877	0.5	20,006	20,861	4.3
Foreign (11)	16,552	16,495	-0.3	17,296	17,303	0.0
Refinery Throughput	(Thousands of Barrels/Day)		(%)	(Thousands of Barrels/Day)		(%)
Domestic (11)	12,219	11,614	-5.0	12,010	11,739	-2.3
Foreign (5)	6,134	6,055	-1.3	6,162	6,231	1.1

[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] 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.

Note: Both the worldwide oil and natural gas production and refining/marketing lines of business include companies that reported domestic and foreign operations separately and those that do not separate 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. The same is also true for refining/marketing operations.

Sources: Compiled from companies' quarterly reports to stockholders.

Worldwide Petroleum Earnings

Earnings from worldwide oil and natural gas production operations (i.e., upstream operations) decreased 13 percent between Q206 and Q207. Lower domestic earnings were accompanied by an even greater (in terms of both nominal and percentage changes) decrease in foreign earnings, resulting in a decline of more than $3.2 billion to $21.7 billion.

Overall earnings for domestic upstream operations in Q207 were 9 percent lower than in Q206 (Table 1). Domestic upstream earnings decreased relative to a year ago as the effects of higher domestic natural gas prices and production (Table 2) were overwhelmed by lower oil prices and production (Table 1). The results were mixed as six of the thirteen companies that reported separate net income for domestic upstream operations recorded lower earnings than a year ago.

Various company press releases noted several factors that collectively resulted in lower earnings. The factors include reduced production levels (due to natural field declines and asset divestitures), higher operating costs, and lower oil prices. Alternatively, the companies that reported higher earnings attributed them to asset sales, higher production, and higher realized prices.

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

	Q206	Q207	Percent Change
U.S. Energy Prices[a]			
Refiner Acquisition Cost of Imported Crude Oil ($/barrel)	63.62	62.13	-2.3
Natural Gas Wellhead Price ($/thousand cubic feet)	6.19	6.80	9.9
U.S. Gross Refining Margin ($/barrel)[b]	24.67	31.28	26.8

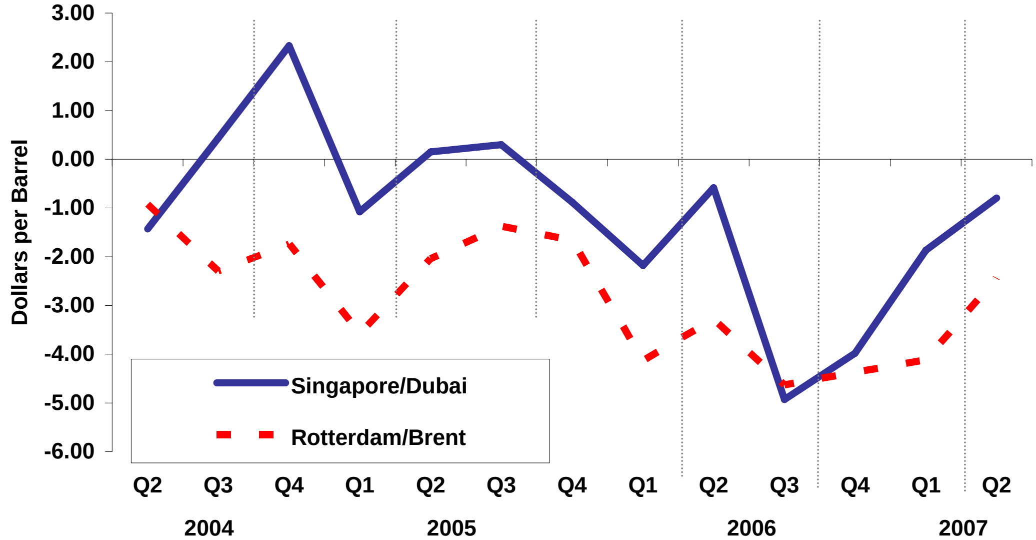
[a] Energy Information Administration, *Short-Term Energy Outlook* , (August 7, 2007), Table 4.
[b] Compiled from data in Energy Information Administration, *Petroleum Marketing Monthly* , DOE/EIA-380 (Washington, DC), Table 1, Table 4 and Table 5; and Energy Information Administration, *Monthly Energy 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.

Net income from foreign upstream operations in Q207 decreased 16 percent relative to Q206 (Table 1), as three of the five companies that reported separate net income from foreign upstream operations reported a decrease in Q207 relative to Q206. Lower crude oil prices put downward pressure on earnings as did slightly reduced crude oil and natural gas production. Company press releases noted that earnings fell due to lower crude oil and natural gas prices received by the companies, higher exploration and operating costs, higher taxes, and decreased production (due to renegotiated production-sharing contracts, entitlement effects, asset sales, and mature field declines). Higher earnings were attributed to higher prices received due to hedging, and production increases.

Earnings from worldwide refining and marketing operations (i.e., downstream operations) increased 26 percent between Q206 and Q207 (Table 2) on the strength of higher domestic and European refining margins. Higher foreign earnings were magnified by much higher domestic earnings, resulting in an increase of slightly more than $3.0 billion, from $12.0 billion in Q206 to $15.1 billion in Q207 (Table 1).

Profits from domestic downstream operations increased by more than 20 percent in Q207 relative to Q206 as a slight decrease (1.4 percent) in petroleum product stock levels and higher gross refining margins (the per-barrel composite wholesale product price less the composite refiner acquisition cost of crude oil), which increased by 27 percent between Q206 and Q207 (Table 2), put upward pressure on earnings. Meanwhile, lower refinery output put downward pressure on earnings. The net effect of these and other factors was that U.S. refining/marketing earnings in Q207, which were $11.8 billion (Table 1), were more than $2.0 billion higher than in Q206. The performance of the eleven companies that reported U.S. refining/marketing earnings was generally consistent as almost all (ten) reported higher earnings. Higher refining (due in part to increased crude oil differentials) and marketing margins, trading gains, and higher merchandise sales were noted in press releases by some of the companies reporting higher earnings. The company that reported lower earnings cited operational problems and scheduled refinery outages in its press release.

Figure 1. Quarterly Foreign Refining Margins, 2004 - 2007



Source: Energy Intelligence Group, *Oil Market Intelligence* , (June 2004, 2005, and 2006; January 2005 and 2006, and July 2007), page 12.

Earnings from foreign downstream operations increased 44 percent between Q206 and Q207 (Table 1). Refinery throughput decreased 1 percent between Q206 and Q207 (Table 1), putting downward pressure on earnings. However, industry-wide margins were mixed, increasing (Figure 1) in Europe (by $0.84/barrel), but falling in Asia/Pacific (by $0.21/barrel). The company results were consistent for those companies separately reporting foreign downstream earnings as four of the five reported higher earnings. The companies reporting higher earnings noted higher margins and refinery throughput in their press releases. The company reporting lower earnings noted that diminished throughput occurred due to maintenance shutdowns of refinery capacity.

Worldwide Downstream Natural Gas and Power

Worldwide downstream natural gas and power earnings increased 15 percent (Table 1) primarily due to greater sales, prices, and margins. Five of the ten companies reported higher earnings than a year earlier and their results overwhelmed the results of the five companies that reported lower earnings. Higher earnings were due to a variety of reasons, including higher electricity and natural gas sales due to cooler weather than a year earlier, increased LNG sales, and increased pipeline rates. Lower earnings were attributed to trading losses, lower sales volumes, increased research and development costs, and higher taxes.

Worldwide Chemical Operations

Earnings from chemical operations negligibly decreased due to lower margins for some products, and higher margins for others. Four of the seven companies reporting results for this line of business recorded higher earnings, but the reduction in the earnings of the remaining companies offset them entirely and resulted in a 0.1-percent decline in earnings from the majors' chemical operations in Q207 relative to Q206 (Table 1). The lower earnings occurred despite Exxon Mobil (which accounted for 63 percent of Q207 chemical net income and 52 percent of Q206 net income). The foremost reason for lower earnings was lower margins coupled with higher operating costs. Alternatively, Exxon Mobil and other companies cited higher margins and increased sales volumes as reasons for higher earnings.

About this Report

The "Financial News for Major Energy Companies" is issued quarterly to report recent trends in the financial performance of the major energy companies. These include the respondents to Form EIA-28 (Financial Reporting System (FRS)), with the exception of the FRS companies that do not issue quarterly earnings releases or do not provide separate information for the company's U.S. operations.

To be automatically notified via e-mail of updates to this report and to other Energy Finance products, **click here**, next click on the button "Join fia," enter your e-mail address, and then choose "Save." You will then be notified within an hour of any updates.

[a]The twenty companies are Amerada Hess Corporation, Anadarko Petroleum Corporation, Apache Corporation, BP p.l.c. (only U.S. operations included), Chesapeake Energy Corporation, Chevron Corporation, ConocoPhillips Inc., Devon Energy Corporation, Dominion Resources, Inc., El Paso, Corporation, EOG Resources, Inc., Equitable Resources Inc., Exxon Mobil Corporation, Lyondell Chemical Company, Marathon Oil Corporation, Occidental Petroleum Corporation, Royal Dutch Shell (only U.S. operations included), Sunoco, Inc., Tesoro Corporation, Valero Energy Corporation, Williams Companies, and XTO Energy Inc.

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