Financial News for Major Energy Companies
Third Quarter 2005

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 fail to provide separate information for the company's U.S. operations. Twenty-one[1] major energy companies reported overall net income (excluding unusual items) of $26.0 billion on revenues of $295.1 billion during the third quarter of 2005 (Q305). The level of net income for Q305 was 69 percent higher than in the third quarter of 2004 (Q304) (Table 1). Net income for Q305 increased primarily as a result of higher crude oil and natural gas prices, higher refining margins, and slightly higher demand in the countries comprising the Organization for Economic Cooperation and Development (OECD), and higher foreign refinery throughput.

Overall, the petroleum line of business (which includes both oil and natural gas production and petroleum refining/marketing) registered a 51-percent increase in net income between Q304 and Q305. A 43-percent increase in oil and gas production net income was augmented by a 73-percent increase in refining/marketing net income. All lines of business fared better in Q305 relative to Q304 with the exception of chemicals. (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

Crude oil and natural gas prices increased by almost one-half relative to the prices of a year ago. The U.S. refiner average acquisition cost of imported crude oil increased 47 percent relative to a year ago, from $38.64 per barrel in Q304 to $56.69 per barrel in Q305 (Table 2). According to recent issues of the Energy Information Administration's *Short-Term Energy Outlook* (STEO), reduced Gulf of Mexico production due to Hurricanes Katrina and Rita added to the effects of worldwide factors that had already elevated the price of crude oil (i.e., continued and forecast growth in world oil demand, low worldwide spare production capacity, and geopolitical risks that have increased the level of uncertainty of world oil markets). Higher U.S. crude oil stocks in Q305, which were 11-percent higher than a year earlier and 7-percent higher than the Q3 average level over the 1999 through 2003 period, have provided scant relief. This was the thirteenth consecutive quarter in which crude oil prices increased relative to their year-earlier levels, after six consecutive quarters of falling or unchanged crude oil prices (relative to a year earlier).

The average U.S. natural gas wellhead price increased 50 percent between Q304 and Q305, from $5.28 per thousand cubic feet to $7.90 per thousand cubic feet (Table 2). According to recent STEOs, higher natural gas prices are due to high world oil prices, 4-percent growth in the U.S. economy, the anticipation of reduced hydroelectric generation in the Pacific Northwest, and declining domestic production (in addition to lost production due to Hurricanes Katrina and Rita). A 2-percent increase in demand and a 10-percent decline in net imports (chiefly due to liquefied

natural gas) of natural gas put additional upward pressure on domestic natural gas prices overshadowing a 9-percent increase in the opening level of working gas in storage in Q305 relative to Q304.

Worldwide Petroleum Earnings

Earnings from worldwide oil and natural gas production operations increased 43 percent between Q304 and Q305. The increase in domestic earnings augmented an even greater increase in foreign earnings.

Overall earnings for domestic oil and natural gas exploration, development, and production operations (i.e., domestic upstream operations) in Q305 were 32 percent higher than in Q304 (Table 1). Domestic upstream earnings increased relative to a year ago as the effects of higher crude oil prices and natural gas prices (Table 2) overwhelmed the effects of large U.S. production decreases. An 11-percent decline in domestic crude oil production was accompanied by a 7-percent reduction in domestic natural gas production by those U.S. majors reporting crude oil and/or natural gas production (Table 1). Financial results were consistent as 10 of the 12 companies that reported separate income for domestic upstream operations recorded higher earnings than a year ago. The companies that reported higher earnings cited higher commodity prices that were either magnified by higher production levels (due to both drilling efforts and to acquisitions), or that outweighed the effect of lower production levels, which were due to Hurricanes Katrina and Rita, natural field declines, and entitlement effects associated with production-sharing agreements. Lower production levels due to Hurricanes Katrina and Rita and higher production costs were cited in the press releases of the companies reporting lower earnings as reasons for lower earnings than a year earlier.

Net income from foreign upstream operations increased 48 percent relative to Q304, as all five companies that reported separate net income from foreign upstream operations reported an increase in Q305 relative to Q304. Foreign earnings primarily grew on the strength of higher crude oil prices (Table 2). A 1-percent decline in foreign crude oil production and a 6-percent decrease in natural gas production (Table 1) put downward pressure on earnings. Company press releases noted that higher prices for both crude oil and natural gas were offset in some cases by reduced production due to entitlement effects.

Earnings from worldwide refining and marketing operations increased by 73 percent between Q304 and Q305 as higher U.S. and European margins and increased foreign throughput offset lower Asia/Pacific margins and lower U.S. throughput. Higher revenues from even higher petroleum product prices in the U.S. offset higher costs due to higher crude oil prices, but the story abroad was mixed. The U.S. majors achieved higher earnings from their worldwide petroleum refining and marketing operations (i.e., worldwide downstream operations), which rose from $5.2 billion in Q304 to $9.1 billion in Q305, mainly due to their U.S. operations.

Higher U.S. gross refining margins (the per-barrel composite wholesale product price less the composite refiner acquisition cost of crude oil) were undercut somewhat by higher petroleum product stock levels, which increased 6 percent between Q304 and Q305. Further, Hurricanes Katrina and Rita reduced domestic refinery throughput relative to Q304 by those U.S. majors reporting domestic refinery throughput (Table 1), which offset the effects of higher U.S. gross refining margins. The net effect was a 90-percent increase in U.S. refining/marketing earnings from $3.7 billion in Q304 to $7.0 billion in Q305 (Table 1). The performance of the 11 companies that reported U.S. refining/marketing earnings was almost uniform. Ten of the companies reported higher earnings in Q305 than in Q304, citing higher refining margins, higher

refinery throughput, large light/heavy and sweet/sour crude oil price differentials, and increased product sales. The company that reported lower earnings cited higher energy costs and reduced throughput due to Hurricane Rita.

Earnings from foreign downstream operations increased 32 percent between Q304 and Q305 (Table 1). Refinery throughput increased by 4 percent between Q304 and Q305 (Table 1). Also affecting earnings were refining margins in Europe and Asia/Pacific (Figure 1). Higher refining margins in Europe (increased by $1.38/barrel) put upward pressure on earnings, but lower margins in the Asia/Pacific region (decreased by $0.30/barrel) put downward pressure on earnings. Despite the mixed effects of industry-wide refining margins, all four companies separately reporting foreign downstream earnings reported higher earnings. The company press releases cited factors such as higher margins, greater throughput, and greater product sales.

Worldwide Downstream Natural Gas and Power

Worldwide downstream natural gas and power earnings increased 13 percent (Table 1) due to a variety of factors. Weather in Q305 that was warmer than in Q304 (48 percent fewer U.S. gas-weighted heating degree days and 28 percent more cooling degree days) contributed to higher earnings, seven of the eight companies that reported downstream natural gas and power results recorded higher earnings in Q305 than in Q304 after adjusting for unusual items. The seven companies that reported higher earnings cited higher NGL prices, reduced operational costs, and warmer than normal weather in electric service areas in their press releases. The company that reported lower earnings cited higher natural gas prices (which adversely affected its power-generation operations, trading losses) and adverse effects of Hurricanes Katrina and Rita as reasons for reduced earnings.

Chemical Operations

Higher feedstock costs and effects of hurricanes decreased earnings from the majors' chemical operations. Earnings from the majors' chemical operations were 56 percent lower in Q305 than in Q304 (Table 1) as 8 of the 9 companies reporting results for this line of business recorded lower earnings. The company reporting higher earnings cited higher margins despite diminished volumes as the major reason for the increase. The companies that reported lower earnings overwhelmingly cited lower margins/higher feedstock costs, higher utility costs, reduced sales volumes, and outages due to Hurricanes Katrina and Rita as reasons for the reductions.

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

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)

	Q304	Q305	Percent Change[b]	Year-to-Date 2004	Year-to-Date 2005	Percent Change[b]
Financial Information						
Corporate	(millions of dollars)		(%)	(millions of dollars)		(%)
Revenue (21)	219,442	295,064	34.5	631,837	819,898	29.8
Net Income (21)	15,456	26,038	68.5	45,888	69,295	51.0
Worldwide Lines of Business Net Income						
Petroleum (23) [c]	20,066	30,241	50.7	61,102	83,356	36.4
Oil and Natural Gas Production (19)	14,830	21,188	42.9	44,526	60,569	36.0
Refining/Marketing (11)	5,237	9,053	72.9	16,614	22,870	37.7
Downstream Natural Gas and Power (8)	1,023	1,157	13.1	2,995	3,532	17.9
Chemicals (9)	1,697	746	-56.0	3,749	5,366	43.1
Domestic Net Income by Function						
Oil and Natural Gas Production (12)	6,463	8,545	32.2	20,223	25,467	25.9
Refining/Marketing (11)	3,685	7,011	90.3	12,600	17,815	41.4
Foreign Net Income by Function						
Oil and Natural Gas Production (5)	5,175	7,642	47.7	15,365	21,853	42.2
Refining/Marketing (4)	1,552	2,042	31.6	4,089	5,058	23.7
Operating Information						
Oil Production	(thousand barrels per day)		(%)	(thousand barrels per day)		(%)
Domestic (18)	3,452	3,076	-10.9	3,580	3,403	-4.9
Foreign (13)	4,844	4,779	-1.4	4,907	4,853	-1.1
Natural Gas Production	(million cubic feet per day)		(%)	(million cubic feet per day)		(%)
Domestic (20)	20,433	18,994	-7.0	20,514	19,864	-3.2
Foreign (15)	15,488	14,613	-5.6	16,963	17,074	0.7
Refinery Throughput	(thousand barrels per day)		(%)	(thousand barrels per day)		(%)
Domestic (13)	12,963	12,005	-7.4	12,723	12,777	0.4
Foreign (4)	5,768	6,007	4.1	5,639	5,787	2.6

[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.

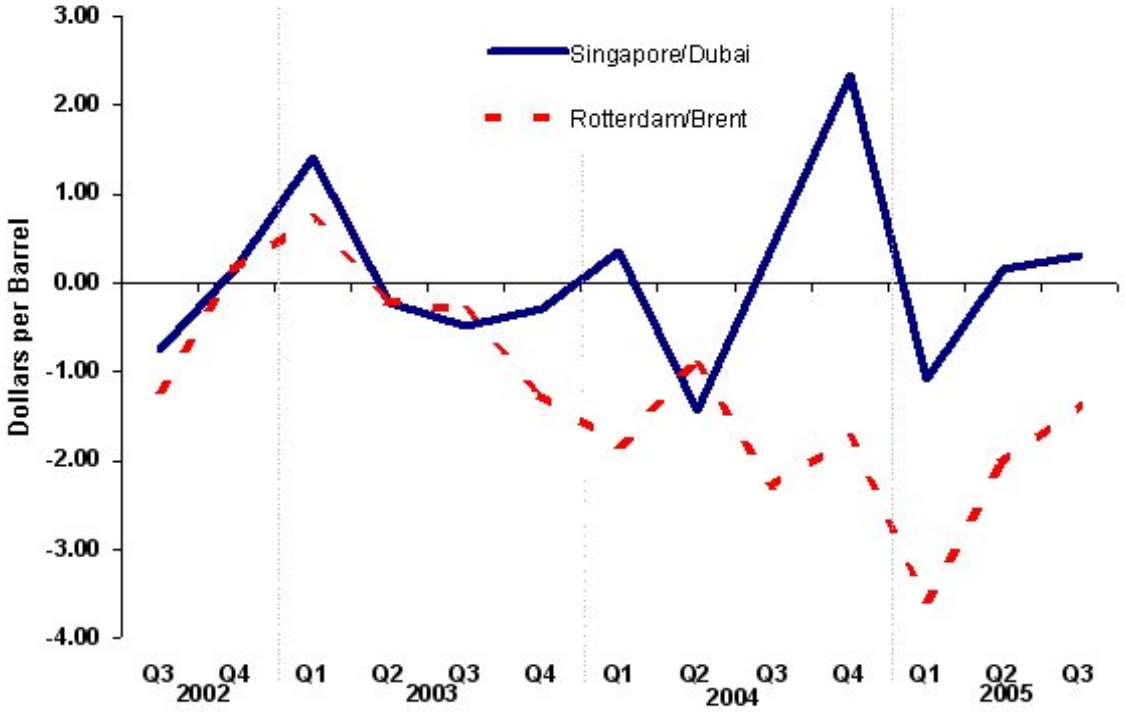
Sources: Compiled from companies' quarterly reports to stockholders.

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

	Q304	Q305	Percent Change
U.S. Energy Prices[a]			
Refiner Acquisition Cost of Imported Crude Oil ($/barrel)	38.64	56.69	46.7
Natural Gas Wellhead ($/thousand cubic feet)	5.28	7.90	49.6
U.S. Gross Refining Margin[b] ($/barrel)	13.46	21.30	58.3

[a] Energy Information Administration, *Short-Term Energy Outlook*, (Washington, DC, December 7, 2005), 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 Foreign Gross Refining Margins,[a] 2002 - 2005



[a] Gross refining margin is defined as netback crude oil price less spot crude oil price. The netback price is calculated by multiplying the spot price of each refined product by the percentage share in the yield of a barrel of crude oil. Transport and out-of-pocket refining costs are then subtracted to arrive at netback price.
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 2003, 2004, and 2005; January 2003, 2004, and 2005; and October 2005), page 12.

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