Financial News for Major Energy Companies, Third Quarter 2008

Third Quarter 2008 Key Findings	
Net Income	$48.0 billion
Revenues	$428.8 billion
Highlights	Major energy companies reported an 82-percent increase in net income relative to third quarter of 2007. Further, this represents a 102-percent increase relative to the third-quarter average for 2003-2007. Return on sales (net income ÷ revenue) increased from 8.8 percent in the third quarter of 2007 to 11.2 percent in the third quarter of 2008 due to the 82 percent increase in net income.
	The effects of higher refining margins, oil and natural gas prices, and worldwide natural gas production overwhelmed lower worldwide oil production and refining throughput.

Overview

Nineteen major energy companies [1] reported overall net income (excluding unusual items) of $48.0 billion on revenues of $428.8 billion during the third quarter of 2008 (Q308). The level of net income for Q208 was 82-percent higher than in the third quarter of 2007 (Q307) (Table 1) and 102-percent higher than the third-quarter average for 2003-2007 after adjusting for inflation. Further, return on sales (net income ÷ revenue) increased from 8.8 percent in Q307 to 11.2 percent in Q308 due largely to the 82-percent increase in net income. Net income for Q308 increased as the effects of higher refining margins, crude oil and natural gas prices, and worldwide natural gas production overwhelmed the effects of lower worldwide crude oil production and worldwide refining throughput.

Overall, the petroleum line of business (which includes both oil and natural gas production and petroleum refining/marketing) net income almost doubled between Q307 and Q308. A $23.2-billion (110 percent) increase in worldwide oil and natural gas production net income was augmented by a 3.7-billion (62 percent) increase in worldwide refining/marketing net income. All of the lines of business, with the exception of chemical operations (i.e., domestic and foreign oil and gas production, domestic and foreign refining/marketing, and worldwide gas and power operations), generated higher earnings in Q308 than in Q307. (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 imported average crude oil price for Q308 increased $43.20 per barrel (61 percent) relative to a year earlier (Table 2). (See the current and recent issues of the *Short-Term Energy Outlook* for an explanation of these price changes and those discussed below.) This is the twenty-third time in the past twenty-five quarters (i.e., six and one-quarter years) that the price of crude oil was higher relative to the year-earlier quarter. (The first and second quarters of 2007 were the only exceptions since the second quarter of 2002.)

The average U.S. natural gas wellhead price increased from $5.90 per thousand cubic feet (mcf) in Q307 to $8.80 per mcf in Q308, an increase of 49 percent (Table 2). Natural gas prices have generally fluctuated over the past two years, increasing six times relative to the year-earlier quarter and decreasing four times since the first quarter of 2006.

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)

	Q307	Q308	Percent Change[b]	Year to Date 2007	Year to Date 2008	Percent Change
Financial Data						
	(Millions of Dollars)		(%)	(Millions of Dollars)		(%)
Corporate						
Revenue (19)[c]	299,072	428,797	43.4	843,966	1,196,053	41.7
Net Income (19)	26,391	48,026	82.0	81,115	106,737	31.6
Worldwide Net Income						
Petroleum (21)	27,071	54,020	99.6	92,429	126,655	37.0
Oil and Natural Gas Production (18)	21,028	44,231	110.4	64,294	110,967	72.6
Refining/Marketing (11)	6,043	9,789	62.0	28,135	15,688	-44.2
Natural Gas and Power (9)	1,081	1,601	48.1	3,381	4,146	22.6
Chemicals (6)	1,632	1,304	-20.1	4,637	3,160	-31.9
Domestic Net Income						
Oil and Natural Gas Production (13)	8,145	16,926	107.8	24,635	41,515	68.5
Refining/Marketing (11)	4,118	6,147	49.3	20,989	9,654	-54.0
Foreign Net Income						
Oil and Natural Gas Production (5)	8,832	15,210	72.2	26,397	44,922	70.2
Refining/Marketing (5)	1,925	3,642	89.2	7,146	6,034	-15.6
Worldwide Capital Expenditures						
U.S. Oil and Natural Gas Production (7)	5,559	10,447	87.9	16,122	25,337	57.2
Foreign Oil and Natural Gas Production (3)	7,024	8,044	14.5	20,069	23,665	17.9
Worldwide[d] Oil and Natural Gas Production (11)	16,166	23,092	42.8	49,308	66,682	35.2
Worldwide Refining/Marketing (8)	3,463	3,634	4.9	9,537	13,322	39.7
Operating Data						
Oil Production	(Thousands of Barrels/Day)		(%)	(Thousands of Barrels/Day)		(%)
Domestic (16)	2,944	2,716	-7.8	3,036	2,914	-4.0
Foreign (10)	4,830	4,586	-5.1	5,006	4,660	-6.9
Natural Gas Production	(Million Cubic Feet/Day)		(%)	(Million Cubic Feet/Day)		(%)
Domestic (18)	21,694	22,328	2.9	21,566	22,384	3.8
Foreign (11)	16,093	16,299	1.3	16,878	17,455	3.4
Refinery Throughput	(Thousands of Barrels/Day)		(%)	(Thousands of Barrels/Day)		(%)
Domestic (11)	12,354	11,583	-6.2	11,768	11,476	-2.5
Foreign (5)	6,228	6,046	-2.9	6,247	6,041	-3.3

[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.

[d] U.S. and foreign oil and natural gas capital expenditures do not necessarily sum to the worldwide total due to the manner in which these data are disclosed (i.e., some companies fail to separate their capital spending into domestic and foreign, but simply provide a worldwide total).

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. Note that Dominion has been eliminated from the set of companies for the current and all past quarters. Further, EnCana Corporation has been added retroactively to the first quarter of 2006. The same reason underlies both changes; the companies included in this set of companies is kept as close as possible to the set of respondent companies to Form EIA-28 (Financial Reporting System (FRS)) and Dominion has left the FRS group for 2007 while EnCana has been added. For more information regarding the FRS companies, please see the Energy Finance page.

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

	Q307	Q308	Percent Change
U.S. Energy Prices[a]			
Imported Average Crude Oil Price ($/barrel)	70.38	113.58	61.4
Natural Gas Wellhead Price ($/thousand cubic feet)	5.90	8.80	49.2
U.S. Gross Refining Margin ($/barrel)[b]	18.49	20.51	10.9

[a] Energy Information Administration, *Short-Term Energy Outlook* , (November 12, 2008), Table 2.

[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 3.2.

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.

The gross refining margin (the per-barrel composite wholesale product price less the composite refiner acquisition cost of crude oil) was 11 percent higher in Q308 than in Q307 (Table 2). The $45.22 per-barrel increase in the average price for petroleum products exceeded the $43.20 per-barrel increase in the price of crude oil and resulted in a slightly larger margin.

Worldwide Petroleum Earnings

Earnings from worldwide oil and natural gas production operations (i.e., upstream operations) more than doubled between Q307 and Q308. Much higher foreign earnings magnified an even greater (in terms of the nominal change) increase in domestic earnings, resulting in an increase of more than $23.2 billion to $44.2 billion.

Earnings for domestic upstream operations in Q308 were 108 percent higher than in Q307 (Table 1). Domestic upstream earnings increased relative to a year earlier as the effects of higher crude oil prices, natural gas prices (Table 2), and natural gas production overwhelmed the effects of lower crude oil production (Table 1). The results were consistent as all 13 of the companies that reported separate net income for domestic upstream operations reported higher earnings than a year earlier. The overwhelming reason noted in company press releases for higher earnings was higher crude oil prices and, to a lesser degree, higher natural gas prices, which were somewhat offset by higher operating costs and reduced production levels (11 of the companies reported lower liquids production than a year earlier and 9 reported lower natural gas production), which were largely due to shut-ins of Gulf of Mexico production due to Hurricanes Gustav and Ike and natural field declines.

Net income from foreign upstream operations in Q308 was much greater relative to Q307 (Table 1), as all five companies that reported separate net income from foreign upstream operations reported an increase in Q308 relative to Q307. The effects of higher crude oil and natural gas prices, and higher natural gas production put upward pressure on earnings, which more than compensated for the downward pressure from lower crude oil production (in part, because of production sharing agreements). Company press releases noted that earnings overwhelmingly increased because of higher crude oil prices.

Earnings from worldwide refining and marketing operations (i.e., downstream operations) increased 62 percent between Q307 and Q308 (Table 2) **due to generally higher refining margins.** Both domestic and foreign earnings were higher in Q308 than a year earlier and resulted in an increase of about $3.7 billion to $9.8 billion (Table 1).

Profits from domestic downstream operations in Q308 were almost 50 percent higher than in Q307. Putting upward pressure on earnings was the $2.02/per barrel (11 percent) increase in the industry-wide gross margin (Table 2). Reduced refinery throughput by the included companies put offsetting (downward) pressure on earnings. The net effect of these and other factors was that U.S. refining/marketing earnings in Q308 were about $2 billion higher than in Q307 (Table 1). The performance of the eleven companies that reported U.S. refining/marketing earnings was consistent as nine of the companies reported higher earnings in Q308 than in

Q307. Higher corporate refinery throughput and margins were noted in press releases by the companies reporting higher earnings. The two companies that reported lower earnings indicated lower West Coast and Gulf Coast margins and sales volumes among reasons for reduced profits.

Earnings from foreign downstream operations increased 89 percent between Q307 and Q308 (Table 1). Higher European refining margins, which increased $2.79 per barrel, put upward pressure on earnings while a 3-percent reduction in refinery throughput (Table 1) and lower Asia/Pacific refining margins, which fell $1.03 per barrel, put downward pressure on earnings. Against this mixed industry background, all 5 companies reported higher earnings than a year earlier. Factors leading to higher earnings, such as lower turn-around costs and higher margins, were noted in the press releases.

Worldwide Downstream Natural Gas and Power

Worldwide downstream natural gas and power earnings increased 48 percent (Table 1) due to mark-to-market gains. The results were consistent as 8 of the 9 companies that provided earnings information reported higher earnings. Higher earnings were attributed to mark-to-market gains and other factors such as higher natural gas liquids throughput and prices received, additional pipeline capacity, lower operating expenses, and higher liquefied natural gas sales. Lower crude oil marketing margins was noted by the company reporting lower earnings.

Worldwide Chemical Operations

Earnings from chemical operations decreased due to lower sales volumes and margins. Four of the six companies reporting results for this line of business recorded lower earnings, resulting in a 20-percent decline in earnings from the majors' chemical operations relative to Q307 (Table 1). The major reasons for lower earnings were lower margins on some products, including chlorine, and sales volumes. Higher earnings were due to higher margins on other products, including caustic soda

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.

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[1]The nineteen companies are Anadarko Petroleum Corporation, Apache Corporation, Chesapeake Energy Corporation, Chevron Corporation, ConocoPhillips Inc., Devon Energy Corporation, El Paso Corporation, EnCana Corporation (only U.S. operations included), EOG Resources, Inc., Equitable Resources Inc., Exxon Mobil Corporation, Hess Corporation, Marathon Oil Corporation, Occidental Petroleum Corporation, Sunoco, Inc., Tesoro Corporation, Valero Energy Corporation, The Williams Companies, and XTO Energy Inc. Additionally, the results from the U.S. lines of business (e.g., U.S. oil and gas exploration and production) of BP, plc and Royal Dutch Shell are included. Hence, the number of companies reporting petroleum operations is 21, rather than 19.

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